OJSC Cherkizovo Group

Unaudited Condensed Consolidated Interim Financial Statements
For the Six Months Ended 30 June 2013

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OJSC CHERKIZOVO GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

Management is responsible for the preparation of condensed consolidated interim financial statements that present fairly the financial position of OJSC Cherkizovo Group and its subsidiaries (together "the Group") as of 30 June 2013, and the results of the Group's operations, cash flows and changes in equity for the six months then ended, in compliance with accounting principles generally accepted in the United States of America ("US GAAP").

In preparing the condensed consolidated interim financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in US GAAP are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and,
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with US GAAP;
- maintaining statutory accounting records in compliance with Russian legislation and accounting standards;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The condensed consolidated interim financial statements of the Group for the six months ended 30 June 2013 were approved by management on 29 August 2013.

On behalf of the Management:

Sergei Mikhailov	**Ludmila Mikhailova**
Chief Executive Officer	Chief Financial Officer
29 August 2013	29 August 2013

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INDEPENDENT AUDITOR'S REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the Board of Directors and Shareholders of OJSC Cherkizovo Group:

Introduction

We have reviewed the accompanying condensed consolidated interim balance sheet of OJSC Cherkizovo Group and subsidiaries (together "the Group") as of 30 June 2013 and the related condensed consolidated interim income statement, statement of comprehensive income, cash flow statement, and statement of changes in equity for the six months then ended, and a summary of significant accounting policies and other explanatory information (together, the "Interim Financial Statements"). Management is responsible for the preparation and presentation of these Interim Financial Statements in accordance with accounting principles generally accepted in the United States of America. Our responsibility is to express a conclusion on these Interim Financial Statements based on our review.

Scope of Review

We conducted our review in accordance with International Standards on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

29 August 2013

Deloitte & Touche

Moscow, Russia

Unaudited condensed consolidated interim balance sheet

As of 30 June 2013

		30 June 2013 US$000	31 December 2012 US$000
ASSETS			
Current assets:			
Cash and cash equivalents		34 816	41 180
Trade receivables, net of allowance for doubtful accounts of 7 005 and of 7 986 as of 30 June 2013 and 31 December 2012, respectively		83 055	90 978
Advances paid, net of allowance for doubtful accounts of 2 706 and of 1 695 as of 30 June 2013 and 31 December 2012, respectively		46 063	35 064
Inventory	3	274 596	308 670
Short-term deposits in banks		45 859	-
Deferred tax assets		4 449	4 791
Other receivables, net of allowance for doubtful accounts of 1 335 and of 2 041 as of 30 June 2013 and 31 December 2012, respectively		56 468	32 342
Other current assets		41 568	51 851
Total current assets		**586 874**	**564 876**
Non-current assets:			
Property, plant and equipment, net	4	1 360 175	1 434 263
Goodwill		17 378	18 452
Other intangible assets, net		40 667	43 828
Deferred tax assets		3 851	4 147
Notes receivable, net		-	1 681
Investments in joint venture		9 048	9 744
Long-term deposits in banks		20 534	22 114
Other non-current receivables		3 518	3 195
Total non-current assets		**1 455 171**	**1 537 424**
Total assets		**2 042 045**	**2 102 300**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Unaudited condensed consolidated interim balance sheet continued

As of 30 June 2013

		30 June 2013 US$000	31 December 2012 US$000
LIABILITIES AND SHAREHOLDERS’ EQUITY			
Current liabilities:			
Trade accounts payable		93 318	108 894
Short-term borrowings	5	374 136	367 055
Tax related liabilities		14 393	19 407
Deferred tax liabilities		196	211
Payroll related liabilities		27 761	22 340
Advances received		20 592	24 096
Payables for non-current assets		11 714	13 660
Interest payable		4 540	2 745
Other payables and accruals		5 611	6 294
Total current liabilities		**552 261**	**564 702**
Non-current liabilities:			
Long-term borrowings	5	550 472	532 697
Deferred tax liabilities		9 575	11 506
Tax related liabilities		2 523	2 728
Payables to shareholders		333	406
Other liabilities		1 580	1 895
Total non-current liabilities		**564 483**	**549 232**
Equity:			
Share capital		15	15
Additional paid-in capital		240 183	231 402
Treasury shares		(2 550)	(2 550)
Other accumulated comprehensive loss		(142 691)	(72 812)
Retained earnings		803 933	794 908
Total shareholders' equity		**898 890**	**950 963**
Non-controlling interests		26 411	37 403
Total equity		**925 301**	**988 366**
Total liabilities and equity		**2 042 045**	**2 102 300**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Unaudited condensed consolidated interim income statement

For the six months ended 30 June 2013

		Six months ended 30 June 2013 US$000	Six months ended 30 June 2012 US$000 (as restated)*	Year ended 31 December 2012 US$000 (as adjusted)**
Sales	7	779 560	745 970	1 570 319
Cost of sales	8	(628 952)	(533 400)	(1 117 470)
Gross profit		**150 608**	**212 570**	**452 849**
Selling, general and administrative expense	9	(123 616)	(102 175)	(219 334)
Other operating expense, net		(1 871)	(1 117)	(1 376)
Operating income		**25 121**	**109 278**	**232 139**
Other income (expense), net		(78)	736	3 503
Financial expense, net		(12 364)	(9 121)	(18 947)
Income before income tax		**12 679**	**100 893**	**216 695**
Income tax		(3 855)	(2 401)	14 281
Net income		**8 824**	**98 492**	**230 976**
Less: Net loss (income) attributable to non-controlling interests		201	(3 033)	(5 761)
Net income attributable to Cherkizovo Group		**9 025**	**95 459**	**225 215**

Weighted average number of shares outstanding – basic		43 839 590	43 086 874	43 367 512
Net income attributable to Cherkizovo Group per share – basic:		0.21	2.21	5.19

Weighted average number of shares outstanding – diluted	6	43 844 188	43 099 115	43 374 108
Net income attributable to Cherkizovo Group per share – diluted:		0.21	2.21	5.19

* As required by US GAAP, comparative information for the six months ended 30 June 2012 has been retrospectively adjusted for a change in accounting principles (Note 2) and to include acquired entities under common control (Note 1).

** As required by US GAAP, comparative information for the year ended 31 December 2012 has been retrospectively adjusted for a change in accounting principle (Note 2).

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Unaudited condensed consolidated interim statement of comprehensive income

For the six months ended 30 June 2013

	Six months ended 30 June 2013 US$000	Six months ended 30 June 2012 US$000 (as restated)*	Year ended 31 December 2012 US$000 (as adjusted)**
Net income	**8 824**	**98 492**	**230 976**
Other comprehensive income			
Translation adjustment to presentation currency	(71 007)	(19 860)	49 214
Other comprehensive (loss) income	**(71 007)**	**(19 860)**	**49 214**
Comprehensive (loss) income	**(62 183)**	**78 632**	**280 190**
Less: Comprehensive loss (income) attributable to non-controlling interests	2 419	(1 644)	(7 046)
Comprehensive (loss) income attributable to Cherkizovo Group	**(59 764)**	**76 988**	**273 144**

* As required by US GAAP, comparative information for the six months ended 30 June 2012 has been retrospectively adjusted for a change in accounting principles (Note 2) and to include acquired entities under common control (Note 1).

** As required by US GAAP, comparative information for the year ended 31 December 2012 has been retrospectively adjusted for a change in accounting principle (Note 2).

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Unaudited condensed consolidated interim cash flow statement

For the six months ended 30 June 2013

	Six months ended 30 June 2013 US$000	Six months ended 30 June 2012 US$000 (as restated)*	Year ended 31 December 2012 US$000 (as adjusted)**
Cash flows from (used in) operating activities:			
Net income	8 824	98 492	230 976
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortisation	44 134	39 199	81 109
Bad debt expense	1 103	1 248	5 340
Foreign exchange loss	2 168	225	(129)
Deferred tax benefit	(1 300)	(1 633)	(25 396)
Other adjustments, net	1 948	1 189	(560)
Changes in operating assets and liabilities			
Decrease (increase) in trade receivables	1 292	(6 766)	(20 140)
(Increase) decrease in advances paid	(15 433)	8 522	(3 350)
Decrease (increase) in inventory	17 114	5 090	(75 431)
(Increase) decrease in other receivables and other current assets	(20 343)	4 307	(5 752)
Decrease in other non-current receivables	1 626	893	936
(Decrease) increase in trade accounts payable	(11 053)	(9 989)	17 694
(Decrease) increase in tax related liabilities	(5 418)	4 055	7 580
Increase (decrease) in other current payables	8 314	(356)	19 933
Total net cash from operating activities	**32 976**	**144 476**	**232 810**
Cash flows from (used in) investing activities:			
Purchases of long-lived assets	(81 745)	(95 054)	(183 891)
Proceeds from sale of property, plant and equipment	4 831	6 965	11 645
Acquisitions of subsidiaries, net of cash acquired (Note 12)	(1 130)	-	-
Investments in joint venture	-	(4 581)	(9 326)
Issuance of long-term loans and placing of long-term deposits	-	(326)	(20 796)
Repayment on long-term loans issued	1 289	78	718
Issuance of short-term loans and placing of deposits	(50 726)	-	(564)
Repayment of short-term loans issued and redemption of deposits	407	1 922	2 383
Total net cash used in investing activities	**(127 074)**	**(90 996)**	**(199 831)**

* As required by US GAAP, comparative information for the six months ended 30 June 2012 has been retrospectively adjusted for a change in accounting principles (Note 2) and to include acquired entities under common control (Note 1).

** As required by US GAAP, comparative information for the year ended 31 December 2012 has been retrospectively adjusted for a change in accounting principle (Note 2).

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Unaudited condensed consolidated interim cash flow statement continued

For the six months ended 30 June 2013

	Six months ended 30 June 2013 US$000	Six months ended 30 June 2012 US$000 (as restated)*	Year ended 31 December 2012 US$000 (as adjusted)**
Cash flows from (used in) financing activities:			
Proceeds from long-term loans	105 408	47 158	91 711
Repayment of long-term loans	(62 930)	(59 898)	(131 099)
Proceeds from long-term loans from related parties	-	4 959	4 886
Repayment of long-term loans from related parties	(5 755)	(4 103)	(7 709)
Proceeds from short-term loans	126 633	47 021	198 440
Repayment of short-term loans	(71 824)	(77 453)	(153 987)
Purchase of treasury stock	-	(2 523)	(2 523)
Acquisitions of entities under common control and non-controlling interests	(1 030)	(4 409)	(22 092)
Total net cash from (used in) financing activities	**90 502**	**(49 248)**	**(22 373)**
Total cash from (used in) operating, investing and financing activities	**(3 596)**	**4 232**	**10 606**
Impact of exchange rate difference on cash and cash equivalents	(2 768)	(1 660)	1 859
Net (decrease) increase in cash and cash equivalents	**(6 364)**	**2 572**	**12 465**
Cash and cash equivalents at the beginning of the period	41 180	28 715	28 715
Cash and cash equivalents at the end of the period	**34 816**	**31 287**	**41 180**
Supplemental Information:			
Income taxes paid	4 505	4 531	10 017
Interest paid	50 218	45 723	86 964
Subsidies for compensation of interest expense received	32 589	34 624	66 548
Non cash transactions:			
Property, plant and equipment acquired through vendor financing	11 714	11 615	13 660
Settlement of acquisition of entities under common control with treasury shares	-	-	12 828

* As required by US GAAP, comparative information for the six months ended 30 June 2012 has been retrospectively adjusted for a change in accounting principles (Note 2) and to include acquired entities under common control (Note 1).

** As required by US GAAP, comparative information for the year ended 31 December 2012 has been retrospectively adjusted for a change in accounting principle (Note 2).

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Unaudited condensed consolidated interim statement of changes in equity

For the six months ended 30 June 2013

	Share capital		Treasury shares							
	US$000	number of shares	US$000	number of shares	Additional paid-in capital US$000	Retained earnings US$000	Other accumulated compre-hensive loss US$000	Total shareholders' equity US$000	Non-controlling interests US$000	Total equity US$000
Balances at 1 January 2012	**15**	**43 963 773**	**(16 195)**	**(796 449)**	**269 408**	**569 693**	**(120 741)**	**702 180**	**30 964**	**733 144**
Net income	-	-	-	-	-	95 459	-	95 459	3 033	98 492
Other comprehensive loss	-	-	-	-	-	-	(18 471)	(18 471)	(1 389)	(19 860)
Share-based compensation	-	-	-	-	159	-	-	159	-	159
Purchase of treasury shares	-	-	(2 523)	(130 000)	-	-	-	(2 523)	-	(2 523)
Disposal of subsidiaries	-	-	-	-	-	-	-	-	(507)	(507)
Purchase of non-controlling interests	-	-	-	-	(35)	-	-	(35)	(79)	(114)
Effect of acquisitions under common control (Note 1)	-	-	-	-	(4 608)	-	-	(4 608)	-	(4 608)
Balances at 30 June 2012 (as restated)*	**15**	**43 963 773**	**(18 718)**	**(926 449)**	**264 924**	**665 152**	**(139 212)**	**772 161**	**32 022**	**804 183**
Balances at 1 January 2013	**15**	**43 963 773**	**(2 550)**	**(124 183)**	**231 402**	**794 908**	**(72 812)**	**950 963**	**37 403**	**988 366**
Net income	-	-	-	-	-	9 025	-	9 025	(201)	8 824
Other comprehensive loss	-	-	-	-	-	-	(68 789)	(68 789)	(2 218)	(71 007)
Share-based compensation	-	-	-	-	75	-	-	75	-	75
Purchase of subsidiaries	-	-	-	-	-	-	-	-	52	52
Purchase of non-controlling interests and effect of legal restructuring (Note 12)	-	-	-	-	8 706	-	(1 090)	7 616	(8 625)	(1 009)
Balances at 30 June 2013	**15**	**43 963 773**	**(2 550)**	**(124 183)**	**240 183**	**803 933**	**(142 691)**	**898 890**	**26 411**	**925 301**

* As required by US GAAP, comparative information for the six months ended 30 June 2012 has been retrospectively adjusted for a change in accounting principles (Note 2) and to include acquired entities under common control (Note 1).

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Notes to the unaudited condensed consolidated interim financial statements

For the six months ended 30 June 2013

(in thousand USD, unless noted otherwise)

1 Business and environment

Incorporation and history

OJSC Cherkizovo Group (the "Company") and its subsidiaries (together "the Group" or "Cherkizovo") trace their origins back to the transformation of a formerly state owned enterprise, Cherkizovsky Meat Processing Plant (Moscow), into a limited liability partnership and subsequent privatisation in the early 1990's. At the time of privatisation, one individual became the majority shareholder in the enterprise. Over the next decade, this individual continued to acquire other meat processing and agricultural entities in the Russian Federation registering shareholding amounts personally as well as in the name of other immediate family members or friends of the family, (collectively "the Control Group"). As the Control Group evolved with continuing acquisitions, two distinctive operating structures emerged consisting of meat processing and agricultural entities.

Common control acquisition

As previously reported, during the third quarter of 2012, the Group acquired LLC Voronezhmyasoprom ("VMP") and LLC Voronezhmyaso ("Voronezhmyaso"), entities under common control. For purposes of these condensed consolidated interim financial statements, all prior periods (including the information disclosed in the Notes) have been retrospectively restated as though the acquisition was completed at the beginning of the earliest period presented. The Group's transactions with VMP and Voronezhmyaso have been eliminated upon consolidation.

In accordance with the Group's accounting policy for common control transactions, assets and liabilities of the acquired companies were retrospectively reflected based on the carrying values at which they were recognised by the majority shareholder. Consideration paid was recorded as a decrease in additional paid-in capital.

The following table presents the significant effects of this restatement:

As of 30 June 2012:	As previously reported	Entities acquired under common control	Eliminations	As restated
Total current assets	389 512	22 213	(9 211)	402 514
Property, plant and equipment, net	1 238 026	62 700	(6 135)	1 294 591
Other intangible assets, net	40 925	-	-	40 925
Other non-current assets	33 480	949	(2 404)	32 025
Total assets	**1 701 943**	**85 862**	**(17 750)**	**1 770 055**
Total current liabilities	338 965	48 560	(8 860)	378 665
Total non-current liabilities	529 778	57 649	(220)	587 207
Total liabilities	**868 743**	**106 209**	**(9 080)**	**965 872**
Total shareholders' equity	801 320	(20 489)	(8 670)	772 161
Non-controlling interest	31 880	142	-	32 022
Total equity	**833 200**	**(20 347)**	**(8 670)**	**804 183**
Total liabilities and equity	**1 701 943**	**85 862**	**(17 750)**	**1 770 055**
For the six months ended 30 June 2012:				
Sales	749 255	12 517	(11 376)	750 396
Cost of sales	(540 631)	(8 990)	11 011	(538 610)
Gross profit	208 624	3 527	(365)	211 786
Operating income	107 794	4 562	(3 078)	109 278
Income before tax	101 778	2 225	(3 110)	100 893
Net income	99 377	2 225	(3 110)	98 492
Net income attributable to Group Cherkizovo	96 345	2 225	(3 111)	95 459
EPS, basic and diluted ($US)	2,24			2,21

2 Summary of significant accounting policies

Basis of preparation

The condensed consolidated interim financial statements of the Group include the accounts of the Company and subsidiaries controlled through direct ownership of the majority of the voting interests. Subsidiaries acquired or disposed of during the periods presented are included in the condensed consolidated interim financial statements from the date of acquisition to the date of disposal.

The condensed consolidated interim financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for the preparation of interim financial information. They do not include all information and notes required by U.S. GAAP in the preparation of annual consolidated financial statements. The accounting policies used in the preparation of the condensed consolidated interim financial statements are the same as those described in the Group's audited consolidated financial statements prepared in accordance with U.S. GAAP for the year ended 31 December 2012, with the exception of the change in accounting policy noted below. The condensed consolidated balance sheet as of 31 December 2012 is derived from the 31 December 2012 audited consolidated financial statements.

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the unaudited condensed consolidated interim financial statements. Actual results may differ from those estimates. The principal management estimates underlying these financial statements include estimation of discounted future cash flows used in assessing assets for impairment, allowances for bad debts, the calculation of deferred taxes, valuation allowances for deferred tax assets and assets and liabilities acquired in business combinations.

The financial results for the six months ended 30 June 2013 are not necessarily indicative of the financial results for the full year. The unaudited condensed consolidated interim financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2012.

Change in accounting policy

The Group has changed its accounting policy in relation to the presentation of revenues and costs associated with sales of sows. Pursuant to the Group's revised accounting policy, the Group now presents the profit arising on the sale of sows within Other operating expense, net. Prior to this change, sales proceeds were presented in Sales and the associated cost was included in Cost of sales as sows were classified as Inventory (having been reclassified from Property, Plant and Equipment) at the point of sale. Management believes that the new policy is preferable to the previous policy, because the nature of a sows sale transaction is closer to a sale of fixed assets rather than inventory sale.

The Group has retrospectively applied the new accounting policy and, therefore, comparative information has been retrospectively adjusted.

The following table presents the significant effects of the retrospective adjustment on the condensed consolidated interim income statement for the six months ended 30 June 2012:

	Six months ended 30 June 2012 US$000 (as previously reported)*	**Effect of the change in accounting policy**	**Six months ended 30 June 2012 US$000 (as adjusted)**
Sales	750 396	(4 426)	745 970
Cost of sales	(538 610)	5 210	(533 400)
Gross profit	**211 786**	**784**	**212 570**
Other operating expense, net	(333)	(784)	(1 117)
Operating income	**109 278**	-	**109 278**

2 Summary of significant accounting policies continued

The following table presents the significant effects of the retrospective adjustment on the condensed consolidated interim cash flow statement for the six months ended 30 June 2012:

	Six months ended 30 June 2012 US$000 (as previously reported)*	Effect of the change in accounting policy	Six months ended 30 June 2012 US$000 (as adjusted)
Decrease in inventory	10 300	(5 210)	5 090
Other adjustments, net	405	784	1 189
Total net cash from operating activities	**148 902**	**(4 426)**	**144 476**
Proceeds from sale of property, plant and equipment	2 539	4 426	6 965
Total net cash used in investing activities	**(95 422)**	**4 426**	**(90 996)**

* As previously reported represents the comparative information for the six months ended 30 June 2012 as included in the Group's prior year condensed consolidated interim financial statements, after the effect of acquisition of entities under common control (Note 1).

The following table presents the significant effects of the retrospective adjustment on the consolidated income statement for the year ended 31 December 2012:

	Year ended 31 December 2012 US$000 (as previously reported)	Effect of the change in accounting policy	Year ended 31 December 2012 US$000 (as adjusted)
Sales	1 581 685	(11 366)	1 570 319
Cost of sales	(1 129 633)	12 163	(1 117 470)
Gross profit	**452 052**	**797**	**452 849**
Other operating expense, net	(579)	(797)	(1 376)
Operating income	**232 139**	**-**	**232 139**

The following table presents the significant effects of the retrospective adjustment on the consolidated cash flow statement for the year ended 31 December 2012:

	Year ended 31 December 2012 US$000 (as previously reported)	Effect of the change in accounting policy	Year ended 31 December 2012 US$000 (as adjusted)
Increase in inventory	(63 268)	(12 163)	(75 431)
Other adjustments, net	(1 357)	797	(560)
Total net cash from operating activities	**244 176**	**(11 366)**	**232 810**
Proceeds from sale of property, plant and equipment	279	11 366	11 645
Total net cash used in investing activities	**(211 197)**	**11 366**	**(199 831)**

(in thousand USD, unless noted otherwise)

2 Summary of significant accounting policies continued

Taxation

The Group's effective tax rate for the six months ended 30 June 2013 was 30% and was calculated based on the expected effective tax rate for the full year. The gross effective tax rate differs from the statutory rate of 20% largely due to deferred tax assets on tax losses carry forwards not recognized by corporate segment companies.

Foreign currency translation

The functional currency of the Company, and each of its subsidiaries, is the Russian rouble.

Management has selected the US Dollar as the Group's reporting currency and translates the consolidated financial statements into US Dollars. Assets and liabilities are translated at reporting period end exchange rates. Equity items are translated at historical exchange rates. Income and expense items are translated at weighted average rates of exchange prevailing during the reporting period. The resulting translation adjustment is recorded as a separate component of other comprehensive income.

The following table summarizes the exchange rates of the Russian rouble to 1 US dollar as of the indicated dates / periods.

	Exchange rate
30 June 2013	32.7090
31 December 2012	30.3727
30 June 2012	32.8169
Average exchange rate for the six months ended 30 June 2013	31.0169
Average exchange rate for the year ended 31 December 2012	31.0930
Average exchange rate for the six months ended 30 June 2012	30.6390

Effect of accounting pronouncements adopted

In December 2011, the FASB issued ASU No. 2011-11, "Disclosures about Offsetting Assets and Liabilities," which amends Topic 210 of the Codification. This ASU enhances disclosures by requiring improved information about financial instruments and derivative instruments that are either (1) offset by a debtor having a valid right of setoff or allowed to do so under other defined circumstances or (2) subject to an enforceable master netting arrangement or similar agreement. This guidance requires disclosure of both gross and net information about both instruments and transactions eligible for offset in the balance sheet and transactions subject to an agreement similar to a master netting agreement. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this ASU. ASU No. 2011-11 is effective for fiscal years and interim periods within those years, beginning on or after 1 January 2013 and should be applied retrospectively. In January 2013, the FASB amended this guidance to reduce the scope of assets and liabilities covered by the disclosure requirements. The Group adopted the requirements of ASU No. 2011-11 from 1 January 2013.This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

In July 2012, the FASB issued ASU No. 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment", which amends Topic 350 of the Codification. This ASU reduces complexity and costs by allowing an entity the option of performing a qualitative assessment before calculating the fair value of the asset. There will no longer be a requirement to perform an annual indefinite-lived intangible asset impairment quantitative test if, based on a qualitative assessment, it is determined to be more likely than not (more than 50 percent) that the fair value of the indefinite-lived intangible asset is greater than its carrying amount. The amendments also enhance the consistency of impairment testing guidance among long-lived asset categories. ASU No. 2012-02 is effective for fiscal years, and interim periods within those years, beginning after 15 September 2012 and should be applied prospectively. The Group adopted the requirements of ASU No. 2012-02 from 1 January 2013. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

2 Summary of significant accounting policies continued

In February 2013, the FASB issued ASU No. 2013-02, "Comprehensive Income (Topic 220)," that requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. An entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under US GAAP to be reclassified to net income in its entirety in the same reporting period. ASU No. 2013-02 is effective for reporting periods beginning after 15 December 2012. The Group adopted the requirements of ASU No. 2013-02 from 1 January 2013. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

New accounting pronouncements

In July 2013, the FASB issued the authoritative guidance on presentation of unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The update provides that a liability related to an unrecognized tax benefit should be offset against a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. In that case, the liability associated with the unrecognized tax benefit is presented in the financial statements as a reduction to the related deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward. In situations in which a net operating loss carryforward, a similar tax loss or a tax credit carryforward is not available at the reporting date under the tax law of the jurisdiction or the tax law of the jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This amendment is effective prospectively for fiscal years, and interim periods within those years, beginning after 15 December 2013. Retrospective application is permitted. The adoption of this guidance is not expected to have a material impact on the Group's consolidated financial statements.

Notes to the unaudited condensed consolidated interim financial statements continued

For the six months ended 30 June 2013
(in thousand USD, unless noted otherwise)

3 Inventory

Inventory as of 30 June 2013 and 31 December 2012 comprised:

	30 June 2013 US$000	31 December 2012 US$000
Raw materials	84 610	122 296
Livestock	138 086	144 966
Work in-process	28 318	18 346
Finished goods	23 582	23 062
Total inventory	**274 596**	**308 670**

4 Property, plant and equipment, net

The carrying amounts of property, plant and equipment as of 30 June 2013 and 31 December 2012 comprised:

	30 June 2013 US$000	31 December 2012 US$000
Land	29 460	30 428
Buildings, infrastructure and leasehold improvements	798 108	858 481
Machinery and equipment	269 289	297 777
Vehicles	52 011	57 199
Sows	24 989	30 933
Cattle	391	390
Other	1 832	1 229
Construction in-progress and equipment for installation	134 520	120 351
Advances paid for property, plant and equipment	49 575	37 475
Total property, plant and equipment, net	**1 360 175**	**1 434 263**

Accumulated depreciation amounted to 384 524 and 374 478 as of 30 June 2013 and 31 December 2012, respectively. Depreciation expense amounted to 43 600 and 39 199 for the six months ended 30 June 2013 and 2012, respectively, which includes depreciation of leased equipment.

Notes to the unaudited condensed consolidated interim financial statements continued

For the six months ended 30 June 2013
(in thousand USD, unless noted otherwise)

5 Borrowings

Borrowings of the Group as of 30 June 2013 and 31 December 2012 comprised:

				30 June 2013 US$000		31 December 2012 US$000	
	Interest rates	**WAIR***	**EIR****	**Current**	**Non-current**	**Current**	**Non-current**
Capital leases	10.91% -15.30%	13.51%	13.51%	825	7 501	558	6 467
Bonds	8.25% - 9.75%	9.19%	9.19%	45 859	76 432	49 386	-
Bank loans	8.00% - 15.00%	10.78%	3.08%	18 162	5 926	17 559	9 439
Lines of credit	8.00% - 15.00%	10.95%	2.08%	307 781	457 736	291 203	514 550
Other borrowings	0.00% - 11.55%	0.86%	0.86%	1 509	2 877	8 349	2 241
				374 136	**550 472**	**367 055**	**532 697**
Total borrowings					**924 608**		**899 752**

* WAIR represents the weighted average interest rate on outstanding loans.
** EIR represents the effective rate on borrowings at period end, adjusted by government subsidies for certain qualifying debt. Since approvals for subsidies are submitted annually by the Group as required by law, the existence of such subsidies in any given year is not necessarily indicative of their existence in future periods.

The contractual maturity of long-term borrowings (excluding finance leases) for the six years ending 30 June 2019 and thereafter is as follows:

Maturity of non-current borrowings	Year ending 01.07.2014 US$000	Year ending 01.07.2015 US$000	Year ending 01.07.2016 US$000	Year ending 01.07.2017 US$000	Year ending 01.07.2018 US$000	Year ending 01.07.2019 US$000	>01.07.2019 US$000	Total US$000
Total borrowings	164 649	142 319	214 548	95 595	45 167	37 901	7 447	**707 626***

* Calculated as total non-current borrowings less non-current finance leases plus current portion of long-term borrowings (excluding finance leases)

As of 30 June 2013, the Group’s borrowings are denominated in the following currencies: 916 795 in Russian roubles, 3 823 in Euro and 3 989 in USD. As of 31 December 2012, the Group’s borrowings were denominated in the following currencies: 890 153 in Russian roubles, 5 202 in Euro and 4 397 in USD.

Interest on the majority of borrowings is paid on a monthly or quarterly basis, with the exception of bonds, for which the interest is paid on a semi-annual basis.

Bonds

Bonds due in November 2013
In November 2010, the Group placed 3 000 000 bonds in roubles (99 000) at par value (1 000 roubles or 33 USD at the issuance date) with a maturity date in November 2013. The Group accounts for these instruments at amortized cost. 1 500 000 (49 500) of these bonds were purchased by a Group company upon issuance, for the purpose of selling on the market when funds are required; such bonds have not, to date, been sold on the market; such bonds have not, to date, been sold on the market.

The remaining 1 500 000 bonds (45 859 using the 30 June 2013 exchange rate) held by third parties are presented as current debt as of 30 June 2013 (31 December 2012: 49 386). The coupon rate on the bonds, payable semi-annually, was set at 8.25% per annum.

Bonds due in April 2016
In April 2013, the Group placed 3 000 000 bonds (94 875) at par value (1 000 roubles or 31.62 USD at the issuance date) with a maturity date in April 2016. The Group accounted for these instruments at amortized cost. 500 000 (15 812) of these bonds were purchased by a Group company upon issuance, for the purpose of selling on the market when funds are required; such bonds have not, to date, been sold on the market.

The remaining 2 500 000 bonds (76 432 using the 30 June 2013 exchange rate) held by third parties are presented as non-current debt as of 30 June 2013. The coupon rate on the bonds, payable semi-annually, was set at 9.75% per annum.

5 Borrowings continued

Lines of credit

Savings Bank of Russia
Borrowings from the Savings Bank of Russia consist of thirty-two rouble denominated lines of credit with interest ranging from 8.70% to 13.50% per annum. Several of these instruments are guaranteed by related parties. Some of these facilities are guaranteed by municipal authorities. Principal payments are due from 2013 to 2020. The amount outstanding was 396 263 and 436 874 as of 30 June 2013 and 31 December 2012, respectively.

Gazprombank
Borrowings from Gazprombank consist of seventeen rouble denominated lines of credit with interest ranging from 9.37% to 13.0% per annum. Some of these facilities are guaranteed by related parties. Principal payments are due from 2013 to 2020. Amount outstanding was 143 730 and 119 164 as of 30 June 2013 and 31 December 2012, respectively.

Bank Zenith
Borrowings from Bank Zenith consist of five long-term rouble denominated lines of credit with an interest rate of 13% per annum. Some of these facilities are guaranteed by related parties. Principal is due upon maturity from 2013 to 2016. The amount outstanding was 48 928 and 55 031 as of 30 June 2013 and 31 December 2012, respectively.

Raiffeisenbank
Borrowings from Raiffeisenbank consist of three short-term rouble denominated loan facilities with interest ranging from 9.28% to 9.39% per annum. The amount outstanding was 15 165 and 9 881 as of 30 June 2013 and 31 December 2012, respectively.

Rosselhozbank
Borrowings from Rosselhozbank consist of thirty-one rouble and four euro denominated lines of credit with fixed interest rates ranging from 8% to 15% per annum. Some of these seven facilities are guaranteed by related parties. Principal payments are due from 2013 to 2020. The amount outstanding was 157 937 and 180 132 for rouble denominated and 3 494 and 4 701 for euro denominated lines of credit as of 30 June 2013 and 31 December 2012, respectively.

The total amount of unused credit on lines of credit as of 30 June 2013 is 594 845. The unused credit can be utilized by 30 June 2014.

Major covenants

Certain significant loan agreements contain covenants requiring the maintenance of minimum revenue turnover through accounts at the respective banks. The Group is in compliance with these covenants as of 30 June 2013. Certain significant loan agreements with Savings Bank of Russia contain financial covenants requiring maintenance of specific debt to EBITDA ratios. Compliance with these covenants was waived as of 30 June 2013.

6 Shareholders' equity

Earnings per share

Earnings per share for the six months ended 30 June 2013 and 2012 and for the year ended 31 December 2012 have been determined using the weighted average number of Group shares outstanding over the period.

The calculation of weighted average number of shares outstanding after dilution for the reporting periods was as follows:

	Six months ended 30 June 2013	Six months ended 30 June 2012	Year ended 31 December 2012
Weighted average number of shares outstanding - basic	43 839 590	43 086 874	43 367 512
Add back incremental treasury shares in respect of share options	4 598	12 241	6 596
Weighted average number of shares outstanding - diluted	**43 844 188**	**43 099 115**	**43 374 108**

7 Sales

Sales for the six months ended 30 June 2013 and 2012 and for the year ended 31 December 2012 comprised:

	Six months ended 30 June 2013 US$000	Six months ended 30 June 2012 US$000	Year ended 31 December 2012 US$000
Produced goods and goods for resale	818 851	775 249	1 640 313
Other sales	7 022	8 158	14 555
Sales volume discounts	(38 810)	(30 453)	(70 338)
Sales returns	(7 503)	(6 984)	(14 211)
Total sales	**779 560**	**745 970**	**1 570 319**

8 Cost of sales

Cost of sales for the six months ended 30 June 2013 and 2012 and for the year ended 31 December 2012 comprised:

	Six months ended 30 June 2013 US$000	Six months ended 30 June 2012 US$000	Year ended 31 December 2012 US$000
Raw materials and goods for resale	448 686	380 136	806 441
Personnel (excluding pension costs)	77 884	65 093	131 611
Depreciation	40 683	35 946	73 467
Utilities	36 409	31 912	63 790
Pension costs	14 313	10 361	20 773
Other	10 977	9 952	21 388
Total cost of sales	**628 952**	**533 400**	**1 117 470**

Raw materials and goods for resale are offset by subsidies received from local governments in the amount of 25 717, 5 953 and 7 626 for the six months ended 30 June 2013 and 2012 and for the year ended 31 December 2012, respectively. These targeted subsidies are received based on the amount of meat and eggs produced.

9 Selling, general and administrative expense

Selling, general and administrative expense for the six months ended 30 June 2013 and 2012 and for the year ended 31 December 2012 comprised:

	Six months ended 30 June 2013 US$000	Six months ended 30 June 2012 US$000	Year ended 31 December 2012 US$000
Personnel (excluding pension costs)	51 615	42 245	86 334
Transportation	13 115	11 761	26 190
Pension costs	9 075	7 170	13 613
Security services	6 710	5 982	12 151
Materials and supplies	6 768	5 250	11 419
Taxes (other than income tax)	7 126	5 259	12 376
Depreciation and amortization	3 451	3 253	7 642
Audit, consulting and legal fees	1 992	2 179	4 793
Utilities	1 624	2 010	3 692
Veterinary services	1 643	1 311	2 740
Bad debt expense	1 103	1 248	5 340
Information technology and communication services	1 055	1 060	2 099
Bank charges	872	972	2 075
Repairs and maintenance	827	782	1 959
Advertising and marketing	1 948	583	2 917
Insurance	597	732	1 540
Other	14 095	10 378	22 454
Total selling, general and administrative expense	**123 616**	**102 175**	**219 334**

10 Related parties

Related parties include shareholders, entities under common ownership and control with the Group, members of key management personnel and affiliated companies. The Company and its subsidiaries enter into various transactions with related parties such as the sale and purchase of inventory.

Trading transactions

During the six months ended 30 June 2013 trading transactions with related parties comprise mostly of rent services and purchases of grain crops from Group “NAPKO”. All those related parties are entities under common ownership and control with the Group.

Trade receivables, trade payables and advances issued are associated with such transactions. The Group expects to settle such balances in the normal course of business.

During the year ended 31 December 2012 the Group also received an advance from its joint venture (Tambovskaya Indeika) for future supply of machinery and equipment to be purchased by the Group and resold to the joint venture.

Financing transactions

During the six months ended 30 June 2013 and 2012 and for the year ended 31 December 2012, certain shareholders issued loans to the Group and, as of 30 June 2013, have personally guaranteed certain of the bank loans and lines of credit for a total amount of 72 435 (Note 5).

10 Related parties continued

As of 30 June 2013 and 31 December 2012, balances with related parties are summarized as follows:

Balances	30 June 2013 US$000	31 December 2012 US$000
Short-term loans receivable	1 048	228
Trade receivables	1 409	1 370
Other non-current receivables	2 140	2 551
Advances paid	5 459	2 591
Other receivables	240	448
Trade payables	730	1 138
Advances received	14 675	15 804
Other payables	115	200
Short-term borrowings	1 385	7 490
Long-term borrowings	650	579
Long-term payables to shareholders	333	406

For the six months ended 30 June 2013 and 2012, and for the year ended 31 December 2012, transactions with related parties are summarized as follows:

Transactions	Six months ended 30 June 2013 US$000	Six months ended 30 June 2012 US$000	Year ended 31 December 2012 US$000
Sales	224	514	1 555
Rent income	298	389	905
Purchases of security services	199	217	416
Purchases of property, plant and equipment	171	3	1 246
Purchases of goods and other services	2 300	6 476	23 312

11 Segment reporting

The Group’s operations are divided into four segments by types of products produced: meat processing, poultry, pork and grain. Substantially all of the Group’s operations are located within the Russian Federation. All segments have different segment managers responsible for the segments’ operations. The chief operating decision maker (the Chief Executive Officer) is the individual responsible for allocating resources to and assessing the performance of each segment of the business.

The meat processing segment is involved in the production of a wide range of meat products, including sausages, ham and raw meat. The pork and poultry segments produce and offer distinctive products, such as semi-finished poultry products, raw meat, eggs and other poultry meat products in the poultry segment and raw pork meat in the pork segment. The grain segment was acquired by the Group in May 2011 together with Mosselprom and is involved in the farming of wheat and other crops. The grain segment was enlarged with the acquisition of Voronezhmysoprom and Voronezhmyso in the third quarter of 2012. All four segments are involved in other business activities, including production of dairy and other services, which are non-core business activities.

The Group evaluates segment performance based on income before income tax. The Group accounts for inter-segment sales and transfers as if the sales or transfers were to third parties.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

Notes to the unaudited condensed consolidated interim financial statements continued

For the six months ended 30 June 2013
(in thousand USD, unless noted otherwise)

11 Segment reporting continued

Segment information for the six months ended 30 June 2013:

	Meat-Processing US$000	Poultry US$000	Pork US$000	Grain US$000	Corporate and other US$000	Intersegment US$000	Combined US$000
Total sales	272 128	419 924	137 167	4 700	5 043	(59 402)	779 560
including other sales	743	26 176	3 319	-	-	-	30 238
including sales volume discounts	(24 680)	(14 130)	-	-	-	-	(38 810)
Intersegment sales	(14)	(9 864)	(41 762)	(3 012)	(4 750)	59 402	-
Sales to external customers	272 114	410 060	95 405	1 688	293	-	779 560
Cost of sales	(203 777)	(348 325)	(127 580)	(3 593)	(3)	54 326	(628 952)
Gross profit	**68 351**	**71 599**	**9 587**	**1 107**	**5 040**	**(5 076)**	**150 608**
Operating expenses	(42 907)	(55 365)	(16 985)	(976)	(14 330)	5 076	(125 487)
Operating income	**25 444**	**16 234**	**(7 398)**	**131**	**(9 290)**	**-**	**25 121**
Other income (expense), net	(402)	5 581	(258)	1	4 481	(9 481)	(78)
Financial expense, net	(5 168)	(3 774)	(6 451)	(534)	(5 918)	9 481	(12 364)
Segment profit	**19 874**	**18 041**	**(14 107)**	**(402)**	**(10 727)**	**-**	**12 679**
Supplemental information:							
Expenditure for segment property, plant and equipment	16 943	42 900	19 925	-	1 253	-	81 021
Depreciation and amortisation expense	5 450	22 114	15 726	468	376	-	44 134
Income tax expense (benefit)	3 975	63	(179)	(4)	-	-	3 855

Segment information for the six months ended 30 June 2012:

	Meat-Processing US$000	Poultry US$000	Pork US$000	Grain US$000	Corporate and other US$000	Intersegment US$000	Combined US$000
Total sales	274 868	400 474	123 177	7 823	2 920	(63 292)	745 970
including other sales	1 795	30 279	5 288	-	-	-	37 362
including sales volume discounts	(20 229)	(10 224)	-	-	-	-	(30 453)
Intersegment sales	(523)	(16 828)	(40 432)	(2 601)	(2 908)	63 292	-
Sales to external customers	274 345	383 646	82 745	5 222	12	-	745 970
Cost of sales	(223 037)	(292 211)	(71 055)	(7 150)	(4)	60 057	(533 400)
Gross profit	**51 831**	**108 263**	**52 122**	**673**	**2 916**	**(3 235)**	**212 570**
Operating expenses	(36 112)	(45 967)	(11 883)	(974)	(11 591)	3 235	(103 292)
Operating income	**15 719**	**62 296**	**40 239**	**(301)**	**(8 675)**	**-**	**109 278**
Other income (expense), net	462	3 007	115	20	5 116	(7 984)	736
Financial expense, net	(4 782)	(2 827)	(5 132)	(33)	(4 331)	7 984	(9 121)
Segment profit	**11 399**	**62 476**	**35 222**	**(314)**	**(7 890)**	**-**	**100 893**
Supplemental information:							
Expenditure for segment property, plant and equipment	6 868	47 393	40 878	5	654	-	95 798
Depreciation and amortisation expense	5 849	20 980	11 454	613	303	-	39 199
Income tax expense (benefit)	2 623	(175)	(47)	11	(11)	-	2 401

11 Segment reporting continued

Segment information for the year ended 31 December 2012 comprised:

	Meat-Processing US$000	Poultry US$000	Pork US$000	Grain US$000	Corporate US$000	Intersegment US$000	Combined US$000
Total sales	568 505	842 075	251 848	35 773	7 838	(135 720)	1 570 319
including other sales	2 656	58 617	7 579	-	-		68 852
including sales volume discounts	(46 712)	(23 626)	-	-	-		(70 338)
Intersegment sales	(574)	(33 125)	(75 985)	(18 357)	(7 679)	135 720	-
Sales to external customers	567 931	808 950	175 863	17 416	159		1 570 319
Cost of sales	(451 251)	(609 186)	(159 457)	(21 739)	(11)	124 174	(1 117 470)
Gross profit	**117 254**	**232 889**	**92 391**	**14 034**	**7 827**	**(11 546)**	**452 849**
Operating expense	(75 440)	(101 970)	(24 103)	(4 483)	(23 642)	8 928	(220 710)
Operating income	**41 814**	**130 919**	**68 288**	**9 551**	**(15 815)**	**(2 618)**	**232 139**
Other income (expense), net	1 412	2 931	1 134	175	14 089	(16 238)	3 503
Financial expense, net	(9 597)	(6 530)	(8 057)	(2 507)	(8 494)	16 238	(18 947)
Segment profit	**33 629**	**127 320**	**61 365**	**7 219**	**(10 220)**	**(2 618)**	**216 695**
Supplemental information							
Expenditure for segment property, plant and equipment	14 923	105 437	64 870	17	1 276	-	186 253
Depreciation and amortisation expense	11 297	42 441	22 708	4 018	645	-	81 109
Income tax expense (benefit)	6 665	(15 162)	(4 964)	(353)	(467)	-	(14 281)

The reconciliation between segment assets and total assets per the consolidated balance sheets as of 30 June 2013 and 31 December 2012 is as follows:

	30 June 2013 US$000	31 December 2012 US$000
Meat processing	264 787	279 768
Poultry	873 333	960 857
Pork	764 457	740 620
Grain	49 917	72 958
Total for reportable segments	**1 952 494**	**2 054 203**
Corporate assets	397 758	334 878
Intersegment	(308 207)	(286 781)
Total assets	**2 042 045**	**2 102 300**

12 Subsidiaries, acquisitions, divestitures

Acquisition of "Dankovskiy Combinat"

On 14 April 2013, the Group completed an acquisition of 95% of the share capital of Dankovskiy Combinat for cash consideration of 1 130.

The meat processing plant is located in Dankov city - Lipetsk region, close to the Group's existing pig breading farms. The company, founded in 1936, is specialized in the slaughtering, boning and freezing of cattle and pigs, as well as in the production of sausages. Slaughter capacity of the plant is about 600 pigs per shift, the production capacity for finished products is about 3,5 tons per day. The plant has a cold room for 500 tons of storage. The Group plans to increase the acquiree's slaughter capacity.

Legal restructuring in meat processing segment

In April 2013, 8 companies of the meat processing segment were transferred to JSC Cherkizovsky Meat Processing Plant (JSC CMPP) by the means of exchange of additionally issued shares of JSC CMPP for shares of the aforementioned 8 companies. The Group paid 1 009 in cash to certain holders of non-controlling interests in these 8 companies, who executed their right to sell shares to the Group during the reorganization. As a result of the reorganization, non-controlling interests decreased by 8 625. The 7 616 excess of the adjustment to the carrying amount of the non-controlling interest (8 625) over the cash paid (1 009) was recognized as an increase in additional paid-in capital. In addition, the Group's share of accumulated other comprehensive loss was increased by 1 090 through a corresponding increase in additional paid-in capital.

13 Contingencies

Legal

As of 30 June 2013 and 31 December 2012, several Group companies reported negative net assets in their statutory financial statements. In accordance with the Civil Code of the Russian Federation, a liquidation process may be initiated against a company reporting negative net assets. Management believes that it is remote that the liquidation process will be initiated against those companies.

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time. Management believes that the resolution of all such outstanding matters will not have a material impact on the Group's financial position or results of operations.

Taxation

Laws and regulations affecting businesses in the Russian Federation continue to change rapidly. These changes are characterized by different interpretations and arbitrary application by the authorities. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. The tax authorities in the Russian Federation frequently take an assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Under certain circumstances reviews may cover longer periods. Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects could be significant.

Russian transfer pricing legislation was amended starting from 1 January 2012 to introduce additional reporting and documentation requirements. The new legislation allows the tax authorities to impose additional tax liabilities in respect of certain transactions, including but not limited to transactions with related parties, if they consider transaction to be priced not at arm's length. As the practice of implementation of the new transfer pricing rules has not yet developed and wording of some clauses of the rules is unclear, the impact of challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated.

Environmental remediation costs

The Group's management believes that the Group is in compliance with applicable legislation and is not aware of any potential environmental claims; therefore, no liabilities associated with such costs are recorded as of 30 June 2013.

14 Fair value of financial instruments

The carrying values and fair values of the Group's loans and notes receivable and borrowings with the exception of finance leases, as of 30 June 2013 and 31 December 2012 are as follows:

	30 June 2013 US$000		31 December 2012 US$000	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Loans receivable*	571	535	870	790
Notes receivable, net	-	-	1 681	1 381
Borrowings other than finance leases **	916 281	890 381	892 727	872 378

* Loans receivable include both the long-term loans to affiliates and short-term loans receivable
** Cost of debt of 9.94% was applied, which did not include the effect of subsidies for interest expense

Fair value of long-term deposits in banks and other noncurrent receivables approximately equals to carrying value as of 30 June 2013. Solely for the purpose of presentation, the Group has estimated fair value of loans and notes receivable and borrowings (Level 3) based on expected discounted cash flows incorporating the Group's weighted average cost of capital.

15 Subsequent events

The Group obtained 102 045 and repaid 95 713 on lines of credit, bank loans and other loans for the period from 1 July through 29 August 2013.

The Group has evaluated subsequent events through 29 August 2013, the date on which the consolidated financial statements are available to be issued.