OJSC Cherkizovo Group

Independent Accountants' Review Report

Condensed Consolidated Interim Financial Statements
For the Six Months Ended June 30, 2007 and 2006
(UNAUDITED)

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Statement of management's responsibilities for the preparation and approval of the condensed consolidated interim financial statements

For the six months ended 30 June 2007 and 2006 (UNAUDITED)

The following statement, which should be read in conjunction with the independent accountants' responsibilities stated in the independent accountants' review report set out on page 3, is made with a view to distinguishing the respective responsibilities of management and those of the independent accountants in relation to the condensed consolidated interim financial statements of OJSC Cherkizovo Group ("the Group").

Management is responsible for the preparation of the condensed consolidated interim financial statements that present fairly the financial position of the Group at 30 June 2007 and 31 December 2006 and the results of its operations, cash flows and changes in equity for the six months ended 30 June 2007 and 2006, in compliance with accounting standards generally accepted in the United States of America ("US GAAP").

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

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and fairly represent the most likely outcome of uncertainties;
- Stating whether US GAAP has been followed, subject to any material departures disclosed and explained in the condensed consolidated interim financial statements; and
- Preparing the condensed consolidated interim financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the condensed consolidated interim financial statements of the Group comply with US GAAP;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- 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 for the six months ended 30 June 2007 and 2006 were approved on behalf of the Board of Directors on 21 September 2007 by:

Mr. Sergei I. Mikhailov Chief Executive Officer	Mr. Arthur M. Minosyants Chief Operating Officer	Mrs. Ludmila I. Mikhailova Chief Financial Officer

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Shareholders of OJSC Cherkizovo Group:

We have reviewed the condensed consolidated interim balance sheet of OJSC Cherkizovo Group and subsidiaries (together "the Group") as of 30 June 2007, and the related condensed consolidated interim statements of income, cash flows and changes in shareholders' equity and comprehensive income for the six-month periods ended 30 June 2007 and 2006 ("the Financial Statements"). These Financial Statements are the responsibility of the Group's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on information furnished to us by management, we understand that the Group did not maintain historical cost records for property, plant and equipment acquired prior to December 31, 2001. The Group established the carrying value of property, plant and equipment based on their estimated fair values as of such date. In our opinion, accounting principles generally accepted in the United States of America require that property, plant and equipment be stated at historical cost. The information needed to quantify the effects of these items on the financial position, results of operations, and cash flows of the Group is not reasonably determinable from the accounts and records.

Based on our review, with the exception of the matter described in the preceding paragraph, we are not aware of any material modifications that should be made to the Financial Statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of 31 December 2006, and the related consolidated statements of income, cash flows and changes in shareholders' equity and comprehensive income (not presented herein) for the year then ended; and in our report dated 16 April 2007, we expressed a qualified opinion on those consolidated financial statements in relation to the use of fair value in establishing the carrying values of property, plant and equipment. In our opinion, the information set forth in the accompanying condensed consolidated interim balance sheet as of December 31, 2006, and the condensed consolidated interim statements of operations and cash flows for the year then ended is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

Deloitte & Touche CIS

September 21, 2007

Condensed consolidated interim balance sheets

As of 30 June 2007 (UNAUDITED) and 31 December 2006
(In US$000)

	Notes	30 June 2007 US$000	31 December 2006 US$000
ASSETS			
Current assets :			
Cash and cash equivalents	3	99 921	106 988
Trade receivables, net of allowance for doubtful accounts of 3 134 and 2 208 as of 30 June 2007 and 31 December 2006, respectively		59 184	62 783
Advances paid, net of allowance for doubtful accounts of 550 and of 320 as of 30 June 2007 and 31 December 2006, respectively		19 533	17 851
Inventory	4	95 419	87 249
Loans receivable		3 287	2 628
Deferred tax assets		4 517	4 672
Other receivables, net of allowance for doubtful accounts of 588 and of 208 as of 30 June 2007 and 31 December 2006, respectively		17 135	9 216
Other assets	5	25 606	27 837
Total current assets		**324 602**	**319 224**
Non-current assets:			
Property, plant and equipment, net	6	425 050	353 505
Goodwill	7	9 728	9 538
Other intangible assets, net	7	18 609	17 993
Loans to affiliated companies		103	1 553
Deferred tax assets		2 566	1 927
Notes receivable, net	8	7 795	6 904
VAT receivable		19 220	13 353
Total non-current assets		**483 071**	**404 773**
Total assets		**807 673**	**723 997**

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

Condensed consolidated interim balance sheets
continued

As of 30 June 2007 (UNAUDITED) and 31 December 2006
(In US$000)

	Notes	30 June 2007 US$000	31 December 2006 US$000
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade accounts payable		43 437	37 523
Payroll related liability		10 821	10 015
Loans and finance leases	9	98 959	104 005
Payables for non-current assets		8 802	2 831
Tax related payables	10	7 552	8 134
Interest payable		2 164	2 316
Advances received		1 769	1 965
Deferred tax liabilities		80	46
Other payables		6 064	5 761
Total current liabilities		**179 648**	**172 596**
Non-current liabilities:			
Notes payable		–	190
Loans and finance leases	9	312 230	262 466
Deferred tax liabilities		20 010	19 843
Tax related payables	10	2 016	392
Payables to shareholders	20	1 133	1 133
Other liabilities		33	11
Total non-current liabilities		**335 422**	**284 035**
Commitments and contingencies	24	–	–
Minority interest		19 215	18 696
Equity:			
Share capital	11	14	14
Additional paid-in capital	11	209 861	209 861
Other accumulated comprehensive income (loss)	11	4 486	(1 031)
Retained earnings		59 027	39 826
Total equity		**273 388**	**248 670**
Total liabilities and equity		**807 673**	**723 997**

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

Condensed consolidated interim income statements

For the six months ended 30 June 2007 and 2006 (UNAUDITED)
and for the year ended 31 December 2006
(In US$000)

	Notes	Six months ended 30 June 2007 US$000	Six months ended 30 June 2006 US$000	Year ended 31 December 2006 US$000
Sales	12	343 063	282 719	629 985
Cost of sales	13	(248 560)	(219 977)	(481 742)
Gross profit		**94 503**	**62 742**	**148 243**
Selling, general and administrative expenses	14	(64 169)	(45 883)	(98 349)
Other operating income (expense)	15	459	(521)	(1 717)
Operating income		**30 793**	**16 338**	**48 177**
Other income, net	16	1 771	2 009	6 488
Interest expense	17	(7 231)	(12 267)	(17 538)
Income before income tax and minority interest		**25 333**	**6 080**	**37 127**
Income tax		(2 949)	(1 426)	(2 419)
Minority interest		(519)	(852)	(2 270)
Income from continuing operations		**21 865**	**3 802**	**32 438**
Loss from discontinued operations, net of income tax benefit (expense) of 0, 32 and (96), respectively	22	–	(103)	(199)
Net loss on disposal of discontinued operations		–	–	(2 813)
Net income		**21 865**	**3 699**	**29 426**
Weighted average number of shares outstanding		39 564 300	34 132 700	36 878 334

	US$	US$	US$
Earnings per share – basic and diluted (Note 2):			
Income from continuing operations	0.55	0.11	0.88
Loss from discontinued operations	–	–	(0.01)
Net loss on disposal of discontinued operations	–	–	(0.08)
Net income	0.55	0.11	0.79

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

Condensed consolidated interim cash flow statements

For the six months ended 30 June 2007 and 2006 (UNAUDITED)
and for the year ended 31 December 2006

	Six months ended 30 June 2007 US$000	Six months ended 30 June 2006 US$000	Year ended 31 December 2006 US$000
Cash flows from (used in) operating activities:			
Income from continuing operations	21 865	3 802	32 438
Adjustments to reconcile income from continuing operations to net cash from (used in) operating activities:			
Amortisation of discount on loans from third parties	7	11	18
Depreciation	13 632	12 597	24 524
Bad debt expense (recovery)	1 851	(548)	(206)
Gain from debt forgiveness (Note 16)	(103)	(65)	(801)
(Gain) loss on disposal of property, plant and equipment	(459)	521	1 717
Minority interest	519	852	2 270
Foreign exchange loss (gain)	520	(4 140)	(4 567)
Deferred tax benefit	(542)	(1 503)	(4 284)
Penalties accrued on Interpretation 48 tax liabilities (Note 2)	103	–	–
Other adjustments	–	–	(185)
Changes in operating assets and liabilities			
(Increase) decrease in inventories, other than livestock	(3 316)	1 717	(13 300)
Decrease (increase) in trade receivables	3 636	(6 347)	(27 441)
Increase in livestock	(2 613)	(3 018)	(13 023)
Increase in advances paid	(1 627)	(2 658)	(7 354)
Increase in VAT for property, plant and equipment	(5 543)	(316)	(4 351)
(Increase) decrease in other assets	(6 013)	6 003	(2 571)
Increase (decrease) in trade accounts payable	5 215	(14 572)	(14 867)
Decrease in taxes payable	(2 175)	(8 848)	(6 598)
Increase in other payables	677	1 141	5 438
Net cash from (used in) operating activities associated with continuing operations	**25 634**	**(15 371)**	**(33 143)**
Cash flows used in discontinued operating activities:			
Loss from discontinued operations	–	(103)	(199)
Adjustments to reconcile loss from discontinued operations to net cash used in operating activities associated with discontinued operations:			
Bad debt expense	–	(28)	(45)
Minority interest in net losses of discontinued operations	–	(34)	(29)
Deferred tax expense	–	31	119
Depreciation	–	183	257
Loss (gain) on disposal of property, plant and equipment	–	(1)	8
Net change in operating assets and liabilities	–	(577)	(2 218)
Net cash used in operating activities associated with discontinued operations	**–**	**(529)**	**(2 107)**
Total net cash from (used in) operating activities	**25 634**	**(15 900)**	**(35 250)**

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

Condensed consolidated interim cash flow statements
continued

For the six months ended 30 June 2007 and 2006 (UNAUDITED) and for the year ended 31 December 2006

	Six months ended 30 June 2007 US$000	Six months ended 30 June 2006 US$000	Year ended 31 December 2006 US$000
Cash flows used in investing activities:			
Purchases of property, plant and equipment	(70 534)	(55 477)	(112 895)
Proceeds from sale of property, plant and equipment	1 790	164	337
Acquisition of minority interest in combining entities	–	–	(137)
Proceeds from sale of consolidated entities net of cash disposed	–	–	47
Purchases of notes receivable	–	–	(6 690)
Proceeds from sale of investments	–	–	184
Long term loans granted	(52)	(2 601)	(4 874)
Repayment on long-term loans granted	1 520	2 204	2 508
Short-term loans granted	(786)	(3 850)	(3 662)
Repayments on short term loans granted	187	3 623	3 186
Net cash used in investing activities associated with continuing operations	**(67 875)**	**(55 937)**	**(121 996)**
Cash flows used in discontinued operations' investing activities			
Purchases of property, plant and equipment	–	(283)	(180)
Proceeds from sale of property, plant and equipment	–	7	10
Net cash used in investing activities associated with discontinued operations	**–**	**(276)**	**(170)**
Total net cash used in investing activities	**(67 875)**	**(56 213)**	**(122 166)**
Cash flows from financing activities:			
Proceeds from long-term loans	59 312	148 442	187 793
Repayment of long-term loans	(7 348)	(105 412)	(79 955)
Proceeds from long-term loans to related parties	–	21	163
Repayment of long-term loans to related parties	(53)	(262)	(1 870)
Repayment of notes payables	(192)	–	(2 482)
Proceeds from short-term loans	99 814	136 863	289 901
Repayment of short-term loans	(118 368)	(152 742)	(281 858)
Proceeds from shares issued	–	146 249	146 249
Cash distributed to shareholders	(22)	(870)	(951)
Net cash from financing activities associated with continuing operations	**33 143**	**172 289**	**256 990**
Proceeds from long-term loans to related parties	–	63	63
Repayment of short-term loans	–	(361)	(782)
Net cash used in financing activities associated with discontinued operations	**–**	**(298)**	**(719)**
Total net cash from financing activities	**33 143**	**171 991**	**256 271**

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

Condensed consolidated interim cash flow statements continued

For the six months ended 30 June 2007 and 2006 (UNAUDITED)
and for the year ended 31 December 2006

	Six months ended 30 June 2007 US$000	Six months ended 30 June 2006 US$000	Year ended 31 December 2006 US$000
Total cash (used in) from operating, investing and financing activities	**(9 098)**	**99 878**	**98 855**
Impact of exchange rate difference on cash and cash equivalents	2 031	(888)	2 933
Net (decrease) increase in cash and cash equivalents:	**(7 067)**	**98 990**	**101 788**
Cash and cash equivalents associated with continuing operations, at the beginning of the period	106 988	5 191	5 191
Cash and cash equivalents associated with discontinued operations, at the beginning of the period	–	9	9
Cash and cash equivalents associated with continuing operations, at the end of the period	99 921	104 168	106 988
Cash and cash equivalents associated with discontinued operations, at the end of the period	–	22	–
Supplemental Information:			
Income taxes paid	4 094	2 973	5 407
Interest paid	19 456	12 457	33 890
Property, plant and equipment acquired under finance leases	3 078	1 009	1 237
Repayment of loan issued with notes receivable	–	–	1 529

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

Condensed consolidated interim statements of changes in shareholders' equity and comprehensive income

For the six months ended 30 June 2007 and 2006 (UNAUDITED)
(In US$000)

	Share capital US$000	Additional paid-in capital US$000	Retained earnings US$000	Other accumulated comprehensive income (loss) US$000	Total shareholders' equity US$000	Total comprehensive income US$000
Balances at 1 January 2006	**12**	**63 614**	**11 171**	**(13 098)**	**61 699**	
Net income for the six months ended 30 June 2006	–	–	3 699	–	3 699	3 699
New share issue	2	146 247	–	–	146 249	
Distributions to shareholders	–	–	(764)	–	(764)	
Translation effect	–	–	–	4 648	4 648	4 648
Balances at 30 June 2006	**14**	**209 861**	**14 106**	**(8 450)**	**215 531**	
For the six months ended 30 June 2006						**8 347**
Balances at 1 January 2007	**14**	**209 861**	**39 826**	**(1 031)**	**248 670**	
Cumulative effect adjustment upon adoption of Interpretation 48 (Note 2)	–	–	(2 664)	–	(2 664)	
Net income for the six months ended 30 June 2007	–	–	21 865	–	21 865	21 865
Translation effect	–	–	–	5 517	5 517	5 517
Balances at 30 June 2007	**14**	**209 861**	**59 027**	**4 486**	**273 388**	
For the six months ended 30 June 2007						**27 382**

No dividends were declared or paid for the six months ended 30 June 2007 and 2006.

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

1 Business and environment

Business

Incorporation and history

OJSC Cherkizovo Group and subsidiaries (together "the Group") 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 Group evolved with continuing acquisitions, two distinctive operating structures emerged made up of meat processing (APK Cherkizovsky) and agricultural entities (APK Mikhailovsky). The structure of the Group is presented in Note 22.

The business of the Group

Cherkizovo Group is a holding company which was formed in 2005 as a combination of two separate groups of companies – Cherkizovsky agro-industrial group and Mikhailovsky agro-industrial group. Cherkizovo is a leading Russian vertically integrated agro-industrial company. Its operations are spread over the full production cycle from feed production and breeding to meat processing and distribution. The operational facilities of the Group include 8 meat processing plants, 4 pig production complexes, 2 poultry production complexes as well as one combined fodder production plant. It also operates two trading houses with subsidiaries in 13 major Russian cities.

The Group's geographical reach covers Moscow and the Moscow region, the regions of Saint Petersburg, Penza, Lipetsk, Vologorod, Belgorod, Ulianovsk, Rostov, Tver, Chelyabinsk, Tambov, Voronezh, Krasnodar, Ufa, Saratov, Samara, Ekaterinburgh, Perm and Kazan. The Group is well represented in the European part of Russia through its own distribution network; the logistical reach of this network is further aided by its own fleet of over 870 trucks.

The Group owns locally recognised brands which include «Черкизовский» (Cherkizovsky), "Петелинка" (Petelinka) and «Империя вкуса» (Imperia vkusa).

At 30 June 2007 and 31 December 2006, the number of staff employed by the Group was 12 247 and 12 511, respectively.

Environment

General

The principal business activities of the Group are within the Russian Federation. The Russian Federation's legal system and legislation are in a development stage. Weaknesses in the legal system could affect the Group's ability to enforce its rights, or to defend itself against claims by others.

Recently, the Russian Federation's economy has experienced positive trends, such as an increase in the gross domestic product, a relatively stable national currency, strong domestic demand, rising real wages and a reduced rate of inflation. However, the Group's assets and operations could be at risk should are any adverse changes materialise in the political and business environment.

(In US$000)

1 Business and environment continued

Currency exchange and control
Foreign currencies, in particular the US dollar, play a significant role in the underlying economics of many business transactions in Russia. The following table summarizes the exchange rates of the rouble to 1 US dollar at 30 June 2007, 31 December 2006 and 30 June 2006.

	Exchange rate
30 June 2007	25.8162
31 December 2006	26.3311
30 June 2006	27.0789

Management has not entered into any transactions designed to hedge against foreign currency risk. The Group's future operating cash flows will be generated in Russian roubles. Future movements in the exchange rate between the rouble and the US dollar will affect the carrying value of the Group's rouble denominated monetary assets and liabilities and the US dollar amounts of revenues and expenses. Such changes may also affect the Group's ability to realize assets as represented in terms of US dollars in the accompanying condensed consolidated interim financial statements.

Interest rates
The APK Cherkizovsky sub-group's principal interest rate risks relate to the fact that interest rates on certain loans are fixed at 3% for Euro loans and in the range of 3.67% to 16.0% for rouble loans. Management has not entered into any transactions designed to hedge against such interest rate risks.

The APK Mikhailovsky sub-group's principal interest rate risks relate to the fact that interest rates on certain loans are fixed at 0% to 16% for rouble loans. Management has not entered into transactions designed to hedge against interest rate risk.

2 Summary of significant accounting policies

Accounting principles
The Group's companies maintain their accounting books and records in Russian roubles in accordance with Russian statutory accounting regulations. The accompanying condensed consolidated interim financial statements have been prepared in order to present the consolidated interim financial position and consolidated interim results of operations and cash flows of the Group in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and expressed in terms of US dollars (see paragraph "Translation Methodology" below). The accompanying condensed consolidated interim financial statements differ from the financial statements prepared for statutory purposes in Russia in that they reflect certain adjustments that are appropriate to present the interim financial position, results of operations and cash flows in accordance with US GAAP.

These interim consolidated financial statements are unaudited but include all adjustments, consisting of normal recurring adjustments, which the Group's management considers necessary for a fair presentation of the financial position as of interim dates, operating results and cash flows for the interim periods. The results of operations for the interim periods shown are not necessarily indicative of the results for any future interim period or for the entire fiscal year.

Basis of consolidation of subsidiaries
The condensed consolidated interim financial statements of the Group include subsidiaries controlled through direct ownership of the majority of the voting interests as described in Note 22 Acquisitions, divestitures, investments in affiliates.

The Group's consolidation policy includes consolidation of any variable interest entities where management determines the Group to be the primary beneficiary. As of 30 June 2007, management believes that no variable interest entities exist where the Group is the primary beneficiary.

2 Summary of significant accounting policies continued

The purchase method of accounting is used for acquired businesses. Companies acquired or disposed of during the periods presented are included in the condensed consolidated interim financial statements from the date of acquisition or to the date of disposal.

All significant inter-company balances and transactions are eliminated on consolidation.

Investments in certain companies that are not material to the consolidated interim financial position and results of operations are stated at cost.

Change in accounting policy

On 1 January 2007 the Group elected to change the method of expense allocation of laying hens to more accurately reflect the cost of sales of certain products in the poultry segment. Before 2007 the Group expensed the full cost of laying hens at the time of their sale at the end of their productive life. After 1 January 2007, their cost is allocated evenly on the eggs they lay over their productive life. For details on the impact of this change in accounting policy, see Note 23.

Fiscal year

The Group's fiscal year end is the last day of each calendar year.

Translation methodology

The Group follows a translation policy in accordance with SFAS No. 52, "Foreign Currency Translation" and has determined the rouble to be its functional currency.

The Group has selected the U.S. Dollar as its reporting currency and translates its functional currency financial statements into U.S. Dollars. Assets and liabilities are translated at reporting period-end exchange rates, equity, other than retained earnings, at the rate effective on the later of 1 January 2003 (date of change in functional currency due to cessation of hyperinflation) or the date when the transaction occurred, while income and expense items are translated at average rates of exchange prevailing during the reporting period. The resulting translation adjustment is recorded as a separate component of other comprehensive income.

Management estimates

The preparation of the condensed consolidated interim financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The principal management estimates underlying these financial statements include estimation of discounted future cash flows used in assessing the existence of impairment of goodwill, investments, allowances for bad debts, calculation of deferred taxes, valuation allowances for deferred tax assets and valuation of intangible assets determined to have an indefinite life.

Reclassifications

Certain comparative information, presented in the condensed consolidated interim financial statements for the six months ended 30 June 2006, has been reclassified in order to achieve comparability with the presentation used in the condensed consolidated interim financial statements for the six months ended 30 June 2007. The most significant reclassifications relate to the discontinued operations of the Group which were sold in 2006 and where financial position and results of operations have been separately disclosed as of and for the six months ended 30 June 2007 and 2006. The Group has also reclassified certain segmental disclosures relating to trade houses. Prior to December 31, 2006, the Group classified results of operations and assets from trade houses in the segment to which each legal entity belonged. Beginning with annual reporting for the year ended 31 December 2006, the Group began classifying such sales and cost of sales according to the type of product sold and remaining expense and balance sheet items in proportion to respective trade house operating margins. The Group believes that such treatment better reflects the distribution of business activities across segments. Please see Note 21 for further disclosure of the impact of this change on reported segment profit and loss.

Cash and cash equivalents

Cash and cash equivalents represent cash on hand and in bank accounts and short-term highly liquid investments having original maturities of less than three months.

(In US$000)

2 Summary of significant accounting policies continued

Accounts receivable and allowance for doubtful accounts

Accounts receivable are stated at their net realizable value, which approximates their fair value.

Group companies provide an allowance for doubtful accounts based on management's periodic review of accounts, including the aging of account balances. Accounts receivable are written off when evidence exists that they will not be collectible.

Inventory

Inventories, including work-in-process, are valued at the lower of cost or market value. Cost is the price paid or the consideration given to acquire the asset. Cost is determined on the basis of weighted average cost. For processed inventories, cost is the sum of the expenditures and charges, direct and indirect, in bringing goods to their existing condition or location. It includes the applicable allocation of fixed production and variable overhead costs. Market value is the current replacement cost, whether by purchase or by reproduction, limited to the estimated selling price less any costs of completion and disposal (net realizable value) at the maximum level, and net realizable value, less an allowance for normal profit at the minimum level. Net realizable value is the selling price in the ordinary course of business, less costs to complete, market and distribute. Write downs are made for unrealizable inventory in full.

Livestock

Animals with short productive lives, such as poultry and pigs are classified as inventory on the balance sheet. Full cost absorption is used in determining the asset value of livestock.

Newborn cattle, pigs and other immature animals purchased for breeding are initially accounted for as inventory. Immature cattle and pigs are not considered to be in service until they reach maturity, at which time their accumulated cost becomes subject to depreciation. The Group treats breeding animals as fixed assets with costs to be depreciated over their useful lives, as follows:

	Age of transfer into main herd, years	Depreciation, years
Sows	0.5	2
Cattle	2	7

Value Added Tax

Value Added Tax ("VAT") related to sales is payable based upon invoices issued to customers. Input VAT incurred on purchases may be offset, subject to certain restrictions, against VAT related to sales.

Input VAT related to purchase transactions that are subject to offset against taxes payable after the financial statement date are recognized on the statement of financial position, gross.

Property, plant and equipment

Due to the state of the records relating to the construction and acquisition of a significant portion of the assets of the Group companies, their carrying amounts as of 31 December 2001 were determined through valuation and are stated based on estimated fair value. For companies acquired through business combinations, estimated fair value of property, plant and equipment was retrospectively applied to determine the fair value of acquired net assets. Certain fixed assets were adjusted for the excess of the value of net assets acquired over the purchase price paid in business combinations or adjusted to fair value as of the date of such combinations occurring subsequent to 31 December 2001. Assets acquired subsequent to 31 December 2001 are stated at historical cost.

Depreciation is calculated on a straight-line basis over the estimated remaining useful lives of the related assets, as follows:

Buildings and infrastructure	10-39 years
Machinery and equipment	3-22 years
Vehicles	3-7 years
Cattle	7 years
Sows	2 years
Other	3-10 years

2 Summary of significant accounting policies continued

Impairment of long-lived assets
When events and circumstances occur indicating that the carrying amount of a long-lived asset (group) may not be recoverable, the Group estimates the future undiscounted cash flows expected to be derived from the use and eventual disposition of the asset (group). If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the long-lived asset (group), the Group then calculates impairment as the excess of the carrying value of the asset (group) over the estimate of its fair market value.

Goodwill and other intangible assets
Goodwill represents the purchase price for businesses acquired in excess of the fair value of identifiable net assets acquired.

Goodwill and intangible assets deemed to have indefinite lives are subject to annual impairment tests at fiscal year end in accordance with SFAS No. 142. Other intangible assets with determinable useful life are amortized over their useful lives.

In the Group's assessment of goodwill, management makes assumptions regarding estimates of future cash flows and other factors to determine the fair value of the respective assets. Other intangible assets principally represent trademarks acquired that have been determined to have an indefinite life. Management evaluates a number of factors to determine whether an indefinite life is appropriate, including product sales history, operating plans and the macroeconomic environment.

The fair value of the Group's trademarks is determined using a royalty rate method based on expected revenues by trademark.

Investments
The Group holds equity interests in certain companies, which are not readily marketable securities and are valued at cost. Management periodically assesses the ability of the Group to realize the carrying values of investments and records any impairment as required.

The equity accounting method is used when the Group has the ability to exercise significant influence over the investee.

Notes receivable purchased by the Group are classified as held to maturity. Such notes are valued at cost upon acquisition with any discounts or premiums arising on purchase reported in the balance sheet as direct deductions / additions to the face value. Amortization of such discounts / premiums is recorded as additions / reductions to interest income.

Product guarantees
The Group offers product guarantees to its customers, providing them with an option to return damaged and non conforming goods and goods of initial improper quality. The period that goods may be returned is set to a maximum of one month from the date of shipment. Returns are accounted for as deductions to sales (Note 12).

Revenue recognition
Revenue is recognised when it is probable that the economic benefits associated with a transaction will flow to the Group, delivery has occurred or services have been rendered, the amount of the revenue can be measured reliably and the collectibility of the revenue is reasonably assured.

Sales are recognised, net of VAT and discounts, when goods are shipped to customers. At the time of shipment, in accordance with the Group's standard sales terms, title is transferred and the customer assumes the risks and rewards of ownership.
In contracts with certain large retail chains, title transfers upon acceptance of goods by the customer at delivery. Sales made under these contracts are recognized upon acceptance.

The Group grants discounts to customers primarily based on the volume of goods purchased. Such discounts range up to 11% of the sales amount and are graduated to increase with purchases made. Discounts are accrued against sales and accounts receivable in the month earned. Other strategically targeted discounts are immaterial.

Any consideration given to direct or indirect customers of the Group in the form of cash, such as listing fees, are included in the consolidated income statement as deductions from sales.

2 Summary of significant accounting policies continued

Shipping and handling costs
Shipping and handling costs incurred by the Group are reflected in selling and distribution expenses in the accompanying consolidated statements of operations.

Marketing expenses
Marketing costs are expensed as incurred. Marketing expenses are reflected in selling and distribution expenses in the accompanying consolidated statements of operations.

Interest expense
The Group capitalizes interest costs on qualifying property, plant, and equipment in accordance with the provisions of SFAS No. 34 “Capitalization of Interest Costs.” Interest capitalized in the six months ended 30 June 2007 and 2006 was 2 328 and 208, respectively.

Taxation
Deferred tax assets and liabilities are recognized for the expected future tax consequences of existing differences between the financial and tax reporting basis of assets and liabilities, as well as loss carry forwards, using enacted tax rates expected to be in effect at the time these differences are realized. Valuation allowances are recorded for deferred tax assets where it is more likely than not that such assets will not be realized.

Earnings per share
Earnings per share for the six months ended 30 June 2007 and 2006 have been determined using the weighted average number of Group shares outstanding over the period.

On 10 July 2007, the number of shares was increased through a share split (Note 25). In accordance with SFAS No. 128 “Earnings per share” earnings per share figures were adjusted retrospectively to reflect the change in the number of shares.

There are no securities to consider for dilution.

Fair value of financial instruments
The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and short-term notes and loans receivable and payable reported in the consolidated balance sheets approximate fair value due to the short maturity of those instruments.

The fair values of notes and loans were estimated by discounting future cash flows using a discount rate that reflects the estimated market borrowing rates. Market borrowing rates on locally sourced funds available to the Group at 30 June 2007 and 31 December 2006 were estimated at 11% at both period ends for rouble, US dollar and EURO denominated loans.

As of 30 June 2007	Book value US$000	Fair value US$000
Credit lines	275 257	279 072
Bonds	77 471	77 471
Loans from government agencies	40 776	37 882
Bank loans	13 337	13 337
Other borrowings	1 767	1 767

2 Summary of significant accounting policies continued

As of 31 December 2006	Book value US$000	Fair value US$000
Credit lines	227 822	233 014
Bonds	75 956	75 956
Loans from government agencies	46 183	43 144
Bank loans	14 196	14 196
Other borrowings	1 471	1 471

Further disclosures of long-term notes payable and loans are contained in Note 9.

Concentration of credit risk

Financial instruments that potentially expose the Group to concentration of credit risk consist primarily of cash and cash equivalents, accounts receivable from customers and advances paid to vendors.

As of 30 June 2007, 94% of the total cash balance was held in two financial institutions.

As of 30 June 2007, the Group's risk associated with external customers is diversified due to a large customer base with approximately 12% of the Group's accounts receivable balance due from one customer. No other single customer or customer group represents greater than 10% of accounts receivable.

As of 30 June 2007, approximately 13% and 18% of advances paid were outstanding with two vendors, respectively. No other single vendor or vendor group represents greater than 10% of advances paid.

The maximum amount of loss due to credit risk, based on the fair value of financial instruments that the Group would incur if affiliated companies failed to perform according to the terms of contracts, is 14 400.

Minority interest

Minority interest is accounted for at historical value, which is the minority's share in the book value of a subsidiary's net assets on the date, when the control over a subsidiary was established by the Group. If control over a subsidiary is lost and subsequently re-established, the minority interest is accounted for at the historical value determined at the time the company was first consolidated.

New accounting pronouncements

As of 1 January 2007, the Group implemented Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," ("FIN 48"), which clarifies the accounting for uncertain tax positions stated in SFAS No. 109. FIN 48 applies to all tax positions that are within the scope of FAS No. 109 and requires a two-step approach for recognizing and measuring tax benefits. FIN 48 establishes a "more-likely-than-not" recognition threshold that must be met before a tax benefit can be recognized in the financial statements. To meet this threshold, the enterprise must determine that upon examination by the taxing authority, the tax position is more likely to be sustained than not, based on the technical merits of the position. Once the recognition threshold has been met, enterprises are required to recognize the largest amount of tax benefit that is greater than fifty percent likely of being realized upon ultimate settlement with the taxing authority. In both steps, enterprises must presume that the taxing authority has full knowledge of all relevant information.

The adoption of FIN 48 resulted in a cumulative effect adjustment to the opening balance of retained earnings as of 1 January 2007, of 2 664. As of 30 June 2007, the Group included accruals for unrecognized income tax benefits totalling approximately 2 821 as a component of short and long-term tax related payables.

2 Summary of significant accounting policies continued

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	US$000
Balance at 1 January 2007	2 664
Additions based on tax positions related to the current year	–
Additions to tax positions from prior years	103
Reductions of tax positions from prior years	–
Translation effect	54
Balance at 30 June 2007	2 821

The Group considers it reasonably possible that approximately 1 199 of the unrecognized income tax benefit (including interest and penalties) will be reversed within the next six months, due to expiration of the statute of limitations.

The Group recognizes accrued interest related to unrecognized tax benefits and penalties in income tax expenses. During the six months ended 30 June 2007, the Group recognized approximately 103 in interest and penalties. At 1 January 2007 and 30 June 2007, the Group had accrued approximately 616 and 732, respectively, for the payment of interest and penalties.

As of the adoption of FIN 48, the tax years ended 31 December 2004, 2005 and 2006 remained subject to examination by the Russian tax authorities.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurement” (“FAS 157”). FAS 157 provides a single definition of fair value, along with a framework for measurement and requires additional disclosure about using fair value to measure assets and liabilities. FAS 157 emphasizes that fair value measurement is market-based, not entity-specific, and establishes a fair value hierarchy in which the highest priority is quoted prices in active markets. Under FAS 157, fair value measurements are disclosed according to their level within this hierarchy. While the statement does not add any new fair value measurements, it does change practice as follows: requiring entities to include their own credit standing when measuring their liabilities, modifying the transaction price assumption, prohibiting broker-dealers and investment companies from using block discounts when valuing large blocks of securities and requiring entities to adjust the value of restricted stock for the effect of the restriction even when the restriction lapses within one year. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Group is currently assessing the impact of adopting the statement.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities”, (“FAS 159”). FAS 159 permits an entity to measure certain financial assets and liabilities at fair value. Entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis, with a few exceptions, as long as it is applied to the instrument in its entirety. The fair value option is irrevocable, unless a new election date occurs. FAS 159 is effective as of the beginning of the first fiscal year that begins after 15 November 2007. The statement requires prospective application. If an entity chooses to elect the fair value option for existing items at the date of adoption, the difference between their carrying amount and fair value should be included in a cumulative-effect adjustment to the opening balance of retained earnings. The Group is currently assessing the impact of adopting the statement.

3 Cash and cash equivalents

	30 June 2007 US$000	31 December 2006 US$000
Rouble cash	197	222
Rouble bank accounts	99 724	106 766
Total cash and cash equivalents	**99 921**	**106 988**

4 Inventory

Inventory as of 30 June 2007 and 31 December 2006 comprised:

	30 June 2007 US$000	31 December 2006 US$000
Raw materials and goods for resale	54 766	49 931
Work in-process	6 981	6 623
Finished goods	3 629	3 827
Livestock	30 043	26 868
Total inventory	**95 419**	**87 249**

Finished goods intended for use by other Group companies are classified as raw materials. Inventory pledged under loan agreements (Note 9) totalled 14 591 and 15 139 as of 30 June 2007 and 31 December 2006, respectively. On 30 June 2007, the pledged amount consisted of raw materials in the amount of 5 957, finished goods of 203 and livestock of 8 431.

5 Other assets

Other assets as of 30 June 2007 and 31 December 2006 comprised:

	30 June 2007 US$000	31 December 2006 US$000
VAT and other taxes receivable	16 933	18 570
Notes receivable (effective annual interest rate of 5.86%)	3 505	3 456
Spare parts	3 130	3 518
Prepaid expenses	2 038	2 293
Total other assets	**25 606**	**27 837**

6 Property, plant and equipment, net

The carrying amounts of property, plant and equipment, net as of 30 June 2007 and 31 December 2006 comprised:

	30 June 2007 US$000	31 December 2006 US$000
Buildings and infrastructure	179 807	172 573
Machinery and equipment	83 881	78 953
Vehicles	18 877	14 594
Cattle	637	567
Sows	9 065	4 879
Other	1 236	1 824
Advances paid for property, plant and equipment	42 760	22 120
Construction in progress and equipment for installation	88 787	57 995
Total property, plant and equipment, net	**425 050**	**353 505**

Accumulated depreciation amounted to 114 047 and 98 403 as of 30 June 2007 and 31 December 2006, respectively. Depreciation expense amounted to 13 632 and 12 596 for the six months ended 30 June 2007 and 2006, respectively, and includes depreciation of leased equipment.

Property, plant and equipment includes 5 601 and 3 965 of leased equipment as of 30 June 2007 and 31 December 2006. Accumulated depreciation of leased equipment amounted to 741 and 835 as of 30 June 2007 and 31 December 2006, respectively.

6 Property, plant and equipment, net continued

Property, plant and equipment pledged under loan agreements totalled 52 554 and 49 947 as of 30 June 2007 and 31 December 2006, respectively.

7 Goodwill and other intangible assets, net

Goodwill arose on the purchase by the Group of its controlling stake in JSC BMPP and relates to the meat processing segment of the business.

Other intangibles include the "Cherkizovsky" («Черкизовский») and "Biruliovsky" («Бирюлевский») trademarks acquired by the Group and computer software with a net book value of 1 038 and 774 as of 30 June 2007 and 31 December 2006, respectively. Management has determined that the trademarks have indefinite useful lives and are, therefore, not subject to amortization. Software is amortized over its useful life of 2 years.

Management is in the process of evaluating operational plans for future use of the "Biruliovsky" («Бирюлевский») trademark. The results of this evaluation could impact both the fair value of the trademark and management's estimate regarding its useful life. Management expects that a decision regarding the future of the trademark will be made by 31 December 2007. As of 30 June 2007, the net book value of the "Biruliovsky" («Бирюлевский») trademark is 684.

8 Notes receivable, net

During June 2006, the Group purchased notes receivable from Gazprombank with a maturity date in June 2014.

As of 30 June 2007, the balance comprised:

	Book Value US$000	Discount US$000	Face Value US$000	Effective %
Gazprombank notes receivable	7 795	(5 589)	13 384	8.36%

As of 31 December 2006, the balance comprised:

	Book Value US$000	Discount US$000	Face Value US$000	Effective %
Gazprombank notes receivable	6 904	(6 219)	13 123	8.36%

9 Borrowings

Borrowings of the Group as of 30 June 2007 and 31 December 2006 comprised:

	30 June 2007 US$000		31 December 2006 US$000	
	Current	Non-current	Current	Non-current
Credit lines (interest rates 6%-16%)	67 263	207 994	65 586	162 236
Bonds (Interest rate 8.85%)	–	77 471	–	75 956
Loans from government agencies (interest rates 0%-6%)	22 015	18 761	28 874	17 309
Bank loans (interest rates 12%-16%)	6 365	6 972	7 360	6 836
Finance leases (interest rates 8%-14%)	1 549	1 032	714	129
Other borrowings (interest rates 0%-0.1%)	1 767	–	1 471	–
	98 959	**312 230**	**104 005**	**262 466**
Total borrowings		**411 189**		**366 471**

9 Borrowings continued

Maturity of the non-current portion of borrowings is as follows:

	Year ended 30 June 2008 US$000	Year ended 30 June 2009 US$000	Year ended 30 June 2010 US$000	Year ended 30 June 2011 US$000	Year ended 30 June 2012 US$000	Year ended 30 June 2013 US$000	Later years US$000	Total US$000
Total borrowings	–	107 456	79 731	27 505	27 696	73	69 769	**312 230**

The Group's borrowings are denominated in roubles 407 064, Euro 1 785 and US dollars 2 340.

Finance leases

As of 30 June 2007 and 31 December 2006, the Group operated certain fixed assets under leasing contracts that qualified for treatment as finance leases. The lower of the incremental borrowing and the rate implicit in the lease agreement was used in capitalizing the leases.

The total minimum lease payments due under these lease agreements comprise:

	30 June 2007		31 December 2006	
Payments falling due	**Total minimum lease payments US$000**	**Portion related to interest US$000**	**Total minimum lease payments US$000**	**Portion related to interest US$000**
Within one year	1 746	197	760	46
In year two	958	64	123	5
In year three	143	5	11	–
	2 847	**266**	**894**	**51**

Bonds

During June 2006, the Group raised 2 billion roubles through an issue of callable bonds with a nominal value of 1 000 roubles. The bonds were sold at their nominal value and are due in 2011.

The coupon rate, payable semi-annually, was set at 8.85% per annum for the first 3 years, with the rate for subsequent years to be set by the Group' management at a later date. Investors in the bonds have the right to put the bonds to the Group at the time of the interest rate reset.

Bank loans

Gazprombank
Borrowings from Gazprombank consist of two long-term rouble denominated loans with interest rates of 12% per annum. Notes receivable with a carrying value of 7 795 were pledged as collateral under these loan agreements.

Lipetzkkombank
Borrowings from Lipetzkkombank consist of one short-term loan with interest of 14% per annum. The loan is guaranteed by a Group company.

Savings Bank of Russia
Borrowings from the Savings Bank of Russia consist of four short-term loans with interest ranging from 12% to 14% per annum. Inventory and livestock with a carrying amount of 3 484 were pledged as collateral under these loan agreements.

9 **Borrowings** continued

Lines of credit

Savings Bank of Russia

Borrowings from the Savings Bank of Russia consist of thirty seven lines of credit with interest ranging from 10% to 15% per annum. Property, plant and equipment in the amount of 21 549 and inventory with a carrying amount of 7 742 were pledged as collateral under these agreements. Several of these instruments are guaranteed by a related party.

Gazprombank

Borrowings from Gazprombank consist of four lines of credit with interest ranging from 11.5% to 14.0% per annum. Property, plant and equipment in the amount of 19 265 were pledged as collateral under these agreements.

Shares of and participating interests in the following Group companies are pledged as collateral under the facility:

- JSC Lipetskmyasoprom – 100%
- JSC Vasiljevskaya – 51%
- CJSC Petelinskaya – 51%
- LLC Budenovets Agrifirm – 51%
- LLC Mikhailovsky Feed Milling Plant – 51%
- LLC Kuznetsovsky Kombinat – 51%
- LLC Ardymsky Feed Milling Plant – 51%
- CJSC Botovo – 51%

51% of the outstanding shares of a related party are also pledged as collateral.

Some of these facilities are additionally guarantied by Group companies and related parties.

Raiffeisen

Borrowings from Raiffeisen consist of one unsecured loan facility bearing interest at 6% per annum.

Bank Zenith

Borrowings from Bank Zenith consist of two lines of credit with interest ranging from 11.15% to 11.5% per annum. Property, plant and equipment in the amount of 3 927 and notes receivable with a carrying value of 3 504 were pledged as collateral under these agreements.

The total amount of credit available on lines of credit as of 30 June 2007 is 47 866.

Loans from government agencies

Regional treasury (Lipetsk)

Borrowings from the Department of finance of the Lipetsk regional administration consist of one long-term loan bearing interest at 1% per annum. Property, plant and equipment in the amount of 983 were pledged as collateral under this loan agreement.

Department of Food Supply of the City of Moscow

Borrowings from the Department of Food Supply of the City of Moscow consist of two loans with interest ranging from 3.67% to 4.3% per annum.

Shares of the following Group company are pledged as collateral under the facility:

- JSC Meat Processing Plant Ulyanovsky (JSC MPP Ulyanovsky) – 50% plus one share.

9 Borrowings continued

Department of Taxes and Financial Policies, Moscow City Government
Borrowings from the Department of Taxes and Financial Policies of the Moscow City Government consist of two loans with interest ranging from 5.5% to 6% per annum.

Shares of and participating interests in the following Group companies are pledged as collateral under the facility:

- JSC Vasiljevskaya – 41%
- JSC Meat Processing Plant Ulyanovsky (JSC MPP Ulyanovsky) – 35.4%

Other borrowings
Other borrowings primarily represent unsecured loans from shareholders with interest rates ranging from 0% to 0.1%.

10 Tax related payables

Short-term tax related payables as of 30 June 2007 and 31 December 2006 comprised:

	30 June 2007 US$000	31 December 2006 US$000
Corporate income tax	2 198	2 742
Value added tax	1 742	1 974
Payroll related taxes	1 489	1 166
Property tax payable	1 017	950
Personal income tax withheld	975	973
Transportation tax	15	22
Other taxes	116	307
Total short-term taxes payable	**7 552**	**8 134**

Long-term tax related payables as of 30 June 2007 and 31 December 2006 comprised:

	30 June 2007 US$000	31 December 2006 US$000
Corporate income tax	1 965	342
Payroll related taxes	36	38
Value added tax	6	12
Other taxes	9	–
Total long-term taxes payable under restructuring agreements	**2 016**	**392**

The schedule of tax repayment comprises:

	US$000
2009	774
2010	1 206
2011	9
2012	9
2013	9
2014	9
Total tax repayments	**2 016**

11 Shareholders' equity

In May 2006, the Group made an offering of global depositary receipts on the London Stock Exchange. As part of this process, the Group issued 67 427 additional shares of common stock with a par value of 1 rouble per share in exchange for total consideration of 146 249.

As of 30 June 2007 and 2006, 547 026 shares of ordinary stock were authorized, of which 395 643 were issued and outstanding. All issued and outstanding shares have equal voting rights. Cherkizovsky Group Ltd. owned 67.1% of outstanding share capital. The Group is authorized to issue preferred shares not exceeding 25% of its ordinary stock. No such shares are currently issued or outstanding.

In accordance with Russian legislation, earnings available for dividends are limited to retained profits of OJSC Cherkizovo Group, calculated in accordance with statutory rules in local currency.

12 Sales

Sales for the six months ended 30 June 2007 and 2006 and for the year ended 31 December 2006 comprised:

	Six months ended 30 June 2007 US$000	Six months ended 30 June 2006 US$000	Year ended 31 December 2006 US$000
Produced goods and goods for resale	352 648	287 555	644 980
Other sales	1 785	1 752	1 774
Sales volume discounts	(7 730)	(3 525)	(9 917)
Sales returns	(3 640)	(3 063)	(6 852)
Total sales	**343 063**	**282 719**	**629 985**

During the six months ended 30 June 2007 and 2006 and the year ended 31 December the Group's sales to related parties comprised:

	Six months ended 30 June 2007 US$000	Six months ended 30 June 2006 US$000	Year ended 31 December 2006 US$000
Produced goods and goods for resale	2 063	3 122	4 344
Other sales	239	563	1 138
Total sales to related parties	**2 302**	**3 685**	**5 482**

13 Cost of sales

Cost of sales for the six months ended 30 June 2007 and 2006 and for the year ended 31 December 2006 comprised:

	Six months ended 30 June 2007 US$000	Six months ended 30 June 2006 US$000	Year ended 31 December 2006 US$000
Raw materials and goods for resale	198 821	178 291	392 370
Personnel (excluding pension costs)	22 494	18 723	40 338
Depreciation	11 530	10 865	20 870
Utilities	7 018	5 530	11 805
Pension costs (Note 18)	3 578	3 050	6 615
Other	5 119	3 518	9 744
Total cost of sales	**248 560**	**219 977**	**481 742**

14 Selling, general and administrative expenses

Selling, general and administrative expenses for the six months ended 30 June 2007 and 2006 and for the year ended 31 December 2006 comprised:

	Six months ended 30 June 2007 US$000	Six months ended 30 June 2006 US$000	Year ended 31 December 2006 US$000
Personnel (excluding pension costs)	25 498	20 110	42 171
Transportation	4 851	3 138	7 438
Materials and supplies	4 634	3 071	7 303
Advertising and marketing	4 569	3 063	8 636
Pension costs (Note 18)	4 094	2 754	6 244
Taxes (other than income tax)	2 968	2 357	5 378
Audit, consulting and legal fees	2 440	2 310	3 852
Depreciation	2 102	1 732	3 654
Security services	1 966	1 319	2 814
Bad debt expense (recovery)	1 851	(548)	(206)
Utilities	755	644	1 504
Bank charges	636	770	1 493
Insurance	448	494	848
Information technology and communication services	370	281	647
Other	6 987	4 388	6 573
Total selling, general and administrative expenses	**64 169**	**45 883**	**98 349**

15 Other operating income (expenses)

Other operating expenses for the six months ended 30 June 2007 and 2006 and for the year ended 31 December 2006 comprised:

	Six months ended 30 June 2007 US$000	Six months ended 30 June 2006 US$000	Year ended 31 December 2006 US$000
Gain (loss) on disposal of property, plant and equipment	459	(521)	(1 717)
	459	**(521)**	**(1 717)**

16 Other income, net

Other income, net of other expenses, for the six months ended 30 June 2007 and 2006 and for the year ended 31 December 2006 comprised:

	Six months ended 30 June 2007 US$000	Six months ended 30 June 2006 US$000	Year ended 31 December 2006 US$000
Interest income	2 164	–	2 570
Gain from debt forgiveness	103	65	801
Foreign exchange (loss) gain	(520)	4 140	4 567
Loan origination fees (EBRD loan)	–	(1 661)	(1 690)
Bank fees related to early repayment of EBRD loan	–	(889)	(898)
Other financial income	24	354	1 138
Total other income, net	**1 771**	**2 009**	**6 488**

Gain on debt forgiveness relates to creditors, with whom the Group has not been able to make contact and where the statute of limitations on such debt has expired.

17 Interest expense

Interest expense for the six months ended 30 June 2007 and 2006 and for the year ended 31 December 2006 comprised:

	Six months ended 30 June 2007 US$000	Six months ended 30 June 2006 US$000	Year ended 31 December 2006 US$000
Interest expense	7 095	12 185	17 390
Finance lease expenses	129	71	130
Amortization of discount	7	11	18
Total financial expenses, net	**7 231**	**12 267**	**17 538**

18 Pension costs

The Group makes payments for employees into the Pension fund of the Russian Federation. From 1 January 2005, all contributions to the Pension fund are calculated by the application of a regressive rate from 20% to 2% of the annual gross remuneration of each employee.

19 Related parties

Shareholders

During 2007 and 2006, certain shareholders provided debt financing to the Group and served as guarantors for certain third party debts.

Entities disposed of to shareholders

Transactions with entities disposed of to shareholders in prior periods comprise mostly of purchases of raw materials from CJSC Penzamyasoprom and sale of mixed fodder to CJSC Penzamyasoprom. Settlements between related entities are generally made in cash. These related parties are under common ownership and the existence of that control could result in operating results or financial position of the Group significantly different from those that would have been obtained were the enterprises autonomous. Such transactions are expected to continue to play a role in the operations of the Group in the future.

19 Related parties continued

Other related parties

Other related party purchases during the six months ended 30 June 2007 and 2006 and for the year ended 31 December 2006 are mostly represented by purchases of IT technology and security services.

As of 30 June 2007 and for the six months then ended, balances and transactions with related parties are summarized as follows:

	Shareholders US$000	Companies disposed of to shareholders and other related parties US$000	Total US$000
Balances			
Short-term loan receivable	194	2 938	3 132
Trade receivables	–	3 421	3 421
Advances issued	–	6 237	6 237
Other receivables and prepayments	–	1 579	1 579
Long-term loans receivable	12	19	31
Equity investments in affiliated companies	–	3	3
Trade payables	–	730	730
Short-term loans	74	–	74
Other payables	70	153	223
Current portion of long-term loans payable	843	–	843
Long-term notes payable	–	–	–
Long-term loans payable	–	–	–
Long-term payables to shareholders related to lease agreements	1 133	–	1 133
Transactions			
Sales	–	2 302	2 302
Rent income	–	5	5
Purchases of IT services	–	292	292
Purchases of security services	–	697	697
Purchases of goods and services	–	2 569	2 569
Purchases of property plant and equipment	–	180	180

19 Related parties continued

Balances as of 31 December 2006 and transactions for the first six months of 2006 with related parties are summarized as follows:

	Shareholders US$000	Companies disposed of to shareholders and other related parties US$000	Total US$000
Balances			
Short-term loan receivable	–	2 544	2 544
Trade receivables	–	2 772	2 772
Advances issued	–	1 835	1 835
Other receivables and prepayments	–	1 561	1 561
Long-term loans receivable	12	657	669
Trade payables	–	1 454	1 454
Short-term loans	72	247	319
Other payables	144	1 270	1 414
Current portion of long-term loans payable	879	–	879
Long-term notes payable	190	–	190
Long-term loans payable	–	–	–
Long-term payables to shareholders related to lease agreements	1 133	–	1 133
Transactions			
Sales	–	3 685	3 685
Rent income	–	14	14
Purchases of IT services	–	152	152
Purchases of security services	–	540	540
Purchases of goods and services	–	5 081	5 081
Purchases of property plant and equipment	–	55	55

20 Payables to shareholders

During 2005, certain Group companies were spun-off as a part of a restructuring. Some property, plant and equipment that remained in distributed entities were necessary for the continuing operations of the Group. This equipment was partly transferred to the companies remaining in the Group. The equipment that was not possible to transfer due to timing issues was leased by the distributed companies on bargain terms. The lease terms include bargain options for the Group to continue the agreement over the life of the underlying equipment. For the purposes of calculating the lease term, the Group used the remaining useful life of the underlying assets. The value of property, plant and equipment at lease inception was 4 137.

Payables to shareholders for leased property, plant and equipment as of 30 June 2007 amounted to 1 176, including a long-term portion of 1 133.

Movements in the liability for the six months ended 30 June 2007 were:

	US$000
Liability to shareholders for lease of equipment as of 1 January 2007	1 172
Interest accrued at 14%	82
Repayment	(101)
Translation gain	23
Liability to shareholders for lease of equipment as of 30 June 2007	**1 176**

21 Segment reporting

The Group's operations are divided into three segments by types of products produced: meat processing, poultry and pork. Substantially all of the Group's operations are located within the Russian Federation. The pork and poultry segments share a common legal and organizational structure with all segments sharing a common chief operating decision maker. Discreet information for each segment is presented to the respective decision makers and is significant in managing operations.

Segment information at 30 June 2007 and for the six months then ended comprised:

	Meat processing US$000	Poultry US$000	Pork US$000	Corporate assets/ expenditures US$000	Intersegment US$000	Combined US$000
Total sales	220 485	104 547	23 123	322	–	348 477
including other sales	477	3 461	1 600	–	–	5 538
including sales volume discount	(5 035)	(2 695)	–	–	–	(7 730)
Intersegment sales	(163)	(3 311)	(1 618)	(322)	–	(5 414)
Sales to external customers	**220 322**	**101 236**	**21 505**	**–**	**–**	**343 063**
Cost of sales	(174 405)	(64 006)	(15 222)	(2)	5 075	(248 560)
Gross profit	**46 080**	**40 541**	**7 901**	**320**	**(339)**	**94 503**
Operating expenses	(38 220)	(18 768)	(2 046)	(5 015)	339	(63 710)
Operating income	**7 860**	**21 773**	**5 855**	**(4 695)**	**–**	**30 793**
Other income and expenses, net	190	(32)	(137)	10 504	(8 754)	1 771
Interest expenses	(7 054)	(4 045)	(651)	(4 235)	8 754	(7 231)
Segment profit	**996**	**17 696**	**5 067**	**1 574**	**–**	**25 333**
Segment assets	302 772	204 798	235 075	262 816	(197 788)	807 673
Supplemental information:						
Depreciation expense	7 856	3 791	1 985	–	–	13 632
Income tax expense (income)	1 365	1 069	(105)	620	–	2 949
Reconciliation between net segment profit and consolidated income from continuing operations:						
Total net segment profit	**25 333**					
Minority interest	(519)					
Income taxes	(2 949)					
Consolidated income from continuing operations	**21 865**					
Reconciliation between combined segment assets and total assets per financial statements						
Combined segment assets	807 673					
Total assets per financial statements	**807 673**					

21 Segment reporting continued

Segment information at 30 June 2006 and for the six months then ended comprised:

	Meat processing US$000	**Poultry US$000**	**Pork US$000**	**Corporate assets/ expenditures US$000**	**Intersegment US$000**	**Combined US$000**
Total sales	206 781	65 251	12 491	1 214	–	285 737
including other sales	1 031	5 286	1 079	–	–	7 396
including sales volume discount	(2 797)	(728)	–	–	–	(3 525)
Intersegment sales	(103)	(1 572)	(129)	(1 214)	–	(3 018)
Sales to external customers	**206 678**	**63 679**	**12 362**	**–**	**–**	**282 719**
Cost of sales	(170 325)	(43 662)	(7 790)	(1)	1 801	(219 977)
Gross profit	**36 456**	**21 589**	**4 701**	**1 213**	**(1 217)**	**62 742**
Operating expenses	(29 132)	(13 486)	(1 922)	(3 081)	1 217	(46 404)
Operating income	**7 324**	**8 103**	**2 779**	**(1 868)**	**–**	**16 338**
Other income and expenses, net	1 825	66	1	316	(199)	2 009
Interest expenses	(5 316)	(6 393)	(319)	(438)	199	(12 267)
Segment profit	**3 833**	**1 776**	**2 461**	**(1 990)**	**–**	**6 080**
Segment assets	254 898	150 121	105 076	219 191	(135 280)	594 006
Supplemental information:						
Depreciation expense	7 359	4 219	1 019	–	–	12 597
Income tax expense (income)	1 711	(603)	319	(1)	–	1 426
Reconciliation between net segment profit and consolidated income from continuing operations:						
Total net segment profit	**6 080**					
Minority interest	(852)					
Income taxes	(1 426)					
Consolidated income from continuing operations	**3 802**					
Reconciliation between combined segment assets and total assets per financial statements						
Combined segment assets	594 006					
Assets of discontinued operations	4 046					
Total assets per financial statements	**598 052**					

Corporate assets comprise cash in bank received from both the issuance of new shares and bond issue, and loans to Group companies.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Group evaluates performance based on profit or loss from operations before income taxes. The Group attempts to account for inter-segment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices.

The meat processing segment is involved in the production of a wide range of meat products, including sausages, ham and raw meat.

21 Segment reporting continued

Pork and poultry are strategic segments that 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.

All three segments are involved in other business activities, including production of dairy, crop cultivation and other services, which are non-core business activities.

As discussed in Note 2 to the condensed consolidated interim financial statements, the Group, as of December 31, 2006, changed its method of distributing the results of business activities of trade houses across segments. The impact of this change on the previously reported results of operations and total assets by segment as of 30 June 2006 is as follows:

For the six-month period ended 30 June 2006	**Meat-Processing US$000**	**Poultry US$000**	**Pork US$000**	**Corporate assets/ expenditures US$000**	**Intersegment US$000**	**Combined US$000**
Segment profit previously reported	3 725	1 745	2 519	(1 990)	(5)	5 994
Discontinued operations	–	109	(4)	–	–	105
Effect of change in distribution of trade house sales	108	(59)	(54)	–	5	–
Segment profit after change in distribution of trade house sales	**3 833**	**1 795**	**2 461**	**(1 990)**	–	**6 099**
Effect of change in accounting policy	–	(19)	–	–	–	(19)
Segment profit per financial statements	**3 833**	**1 776**	**2 461**	**(1 990)**	–	**6 080**

As of 30 June 2006	**Meat-Processing US$000**	**Poultry US$000**	**Pork US$000**	**Corporate assets/ expenditures US$000**	**Intersegment US$000**	**Combined US$000**
Segment assets previously reported	256 499	152 999	107 468	219 191	(137 080)	599 077
Discontinued operations	–	(2 446)	(1 600)	–	–	(4 046)
Effect of change in distribution of trade house assets	(1 601)	593	(792)	–	1 800	–
Segment assets after change in distribution of trade house assets	**254 898**	**151 146**	**105 076**	**219 191**	**(135 280)**	**595 031**
Effect of change in accounting policy	–	(1 025)	–	–	–	(1 025)
Segment assets per financial statements	**254 898**	**150 121**	**105 076**	**219 191**	**(135 280)**	**594 006**

(In US$000)

22 Acquisitions, divestitures, investments in affiliates

Subsidiaries

As of 30 June 2007, the Group controls the meat processing and agricultural sub-groups through its 100% ownership in AIC Cherkizovsky Ltd. and AIC Mikhailovsky Ltd.

APK Cherkizovsky is a sub-group consisting of meat processing plants, distribution companies and other companies registered and operating in the Russian Federation. On 30 June 2007 and 31 December 2006 the following principal companies were included in the APK Cherkizovsky sub-group:

			Consolidated interest	
Name of company	**Legal form**	**Nature of business**	**% 30.06.2007**	**% 31.12.2006**
JSC MPP Babaevskiy	Closed Joint Stock Company	Meat processing plant	85%	85%
JSC Belmiaso	Open Joint Stock Company	Meat processing plant	75%	75%
JSC Biruliovsky meat processing plant (JSC BMPP)	Open Joint Stock Company	Meat processing plant	95%	95%
JSC Meat and Poultry Processing Plant Penzensky (JSC MPPP Penzensky)	Open Joint Stock Company	Meat processing plant	95%	95%
JSC Meat Processing Plant Ulyanovsky (JSC MPP Ulyanovsky)	Open Joint Stock Company	Meat processing plant	85%	85%
JSC Cherkizovsky meat processing plant (JSC CMPP)	Open Joint Stock Company	Meat processing plant	87%	87%
AIC Cherkizovsky Ltd.	Limited Liability Company	Holding company	100%	100%
MPP Salsky Ltd.	Limited Liability Company	Meat processing plant	81%	81%
TIC Cherkizovo Ltd. (Cherkizovo-2)	Limited Liability Company	Procurement company	100%	100%
LLC Cherkizovo-Kashira (Cherkizovo-Kashira Ltd.)	Limited Liability Company	Meat processing plant	99%	99%
JSC Trading Company of Agroindustrial Complex Cherkizovsky (JSC Trading Company of AIC Cherkizovsky)	Open Joint Stock Company	Trading company: distribution of products of APK Cherkizovsky	100%	100%

As of 30 June 2007 and 31 December 2006, all companies listed above were under the control of AIC Cherkizovsky Ltd.

(In US$000)

22 Acquisitions, divestitures, investments in affiliates continued

APK Mikhailovsky is a sub-group of companies registered and operating in the Russian Federation engaged in the production of various types of compound feed, raising of poultry, pigs and cattle and the distribution of meat. On 30 June 2007 and 31 December 2006 the following principal companies were included in the APK Mikhailovsky sub-group:

			Consolidated interest	
Name of company	**Legal form**	**Nature of business**	**% 30.06.2007**	**% 31.12.2006**
CJSC Petelinskaya	Closed Joint Stock Company	Raising poultry	84%	84%
JSC Vasiljevskaya	Open Joint Stock Company	Raising poultry	100%	100%
LLC Ardymsky Feed Milling Plant (Ardymsky Feed Milling Plant Ltd.)	Limited Liability Company	Mixed fodder production	89%	89%
LLC Penzenskaya	Limited Liability Company	Raising poultry	100%	100%
LLC Petelino Trade House	Limited Liability Company	Trading company: distribution of products of APK Mikhailovsky	84%	84%
CJSC Botovo	Closed Joint Stock Company	Pig breeding	76%	76%
LLC Petelinsky Poultry Factory	Limited Liability Company	Meat processing	84%	84%
LLC Trading House Petelino-Samara	Limited Liability Company	Trading company: distribution of products of APK Mikhailovsky	100%	100%
LLC Kuvak-Nikolskoie Poultry Factory	Limited Liability Company	Raising poultry	100%	100%
JSC Lipetskmyasoprom	Open Joint Stock Company	Pig breeding	100%	100%
LLC Mikhailovsky Feed Milling Plant	Limited Liability Company	Mixed fodder production	100%	100%
LLC Kuznetsovsky Kombinat	Limited Liability Company	Pig breeding	100%	100%
LLC Agro-industrial Complex Mikhailovsky (AIC Mikhailovsky Ltd.)	Limited Liability Company	Holding company	100%	100%
LLC Tambovmyasoprom	Limited Liability Company	Pig breeding	99%	99%
LLC Budenovets Agrifirm	Limited Liability Company	Pig breeding	100%	100%

As of 30 June 2007 and 31 December 2006, all companies listed above were under the control of AIC Mikhailovsky Ltd.

In September 2006, management of the Group made a decision to dispose the non-core business operations of CJSC Budenovets Agrifirm and CJSC Krugovskaya (“the Discontinued Entities”) in exchange for 162 in cash. The disposal was completed by the end of 2006.

Legal obligations of approximately 2 395 (as of the balance sheet date) exist for the Group to purchase fixed assets owned by the Discontinued Entities in 2007. Such fixed assets as well as the liability relating to their purchase were included in the calculation of the gain / loss resulting on sale of discontinued operations. The fixed assets remained at their historical book value in the accounting records and the related liability was included in other payables.

22 Acquisitions, divestitures, investments in affiliates continued

Results from discontinued operations for the six months of 2006 were as follows:

	Six months ended 30 June 2006 US$000
Sales	725
Cost of sales	(591)
Operating expenses	(228)
Operating loss	**(94)**
Gain from disposal of property, plant and equipment	1
Financial expenses, net	(12)
Loss before provision for income taxes and minority interest	**(105)**
Provision for income taxes	(32)
Minority interest in net profit	34
Loss from discontinued operations	**(103)**

23 Change in accounting policy

As required by SFAS No. 154 “Accounting Changes and Error Corrections” the Group adjusted comparative financial statements to apply the change in accounting policy described in Note 2. The following income statement line items for the six months ended 30 June 2007 and 2006, and for the year ended 31 December 2006 and the balance sheet line items as at 30 June 2007 and 2006 and 31 December 2006 were impacted by the change in accounting principle:

Balance sheet as at 30 June 2007:

	Old method US$000	New method US$000	Effect of Change US$000
Inventory	97 030	95 419	(1 611)
Minority interest	19 335	19 215	(120)
Other accumulated comprehensive loss	4 618	4 486	(132)
Retained earnings	60 386	59 027	(1 359)

Income statement for the six months ended 30 June 2007:

	Old method US$000	New method US$000	Effect of Change US$000
Cost of sales	(248 851)	(248 560)	291
Minority interest	(453)	(519)	(66)
Income from continuing operations	21 640	21 865	225
Net income	21 640	21 865	225
Earnings per share – basic and diluted:			
Income from continuing operations	0.55	0.55	–
Net income	0.55	0.55	–

23 Change in accounting policy continued

Balance sheet as at 31 December 2006:

	Old method US$000	New method US$000	Effect of Change US$000
Inventory	89 116	87 249	(1 867)
Minority interest	18 882	18 696	(186)
Other accumulated comprehensive loss	(934)	(1 031)	(97)
Retained earnings	41 410	39 826	(1 584)

Income statement for the year ended 31 December 2006:

	Old method US$000	New method US$000	Effect of Change US$000
Cost of sales	(480 935)	(481 742)	(807)
Minority interest	(2 319)	(2 270)	49
Income from continuing operations	33 196	32 438	(758)
Net income	30 184	29 426	(758)
Earnings per share – basic and diluted:			
Income from continuing operations	0.90	0.88	(0.02)
Net income	0.82	0.79	(0.02)

Balance sheet as at 30 June 2006:

	Old method US$000	New method US$000	Effect of Change US$000
Inventory	60 387	59 362	(1 025)
Minority interest	15 357	15 227	(130)
Other accumulated comprehensive loss	(8 406)	(8 448)	(42)
Retained earnings	14 959	14 106	(853)

Income statement for the six months ended 30 June 2006:

	Old method US$000	New method US$000	Effect of Change US$000
Cost of sales	(219 958)	(219 977)	(19)
Minority interest	(843)	(852)	(9)
Income from continuing operations	3 830	3 802	(28)
Net income	3 727	3 699	(28)
Earnings per share – basic and diluted:			
Income from continuing operations	0.11	0.11	–
Net income	0.11	0.11	–

24 Commitments and contingencies

Operating leases

As of 30 June, 2007, the Group had made commitments under several operating lease contracts relating to leases of office space, warehouses, as well as land for warehouses. Most leases have terms ranging from one to ten years with varying renewal periods. Minimum lease commitments under non-cancellable leases at 30 June 2007, totalled 2 200 , composed of 482 for the year ending 30 June 2008, 482 for the year ending 30 June 2009, 482 for the year ending 30 June 2010, 482 for the year ending 30 June 2011, 54 for the year ending 30 June 2012 and 217 for later periods.

Legal

As of 30 June 2007, 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 poor drafting, 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. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. It is therefore possible that significant additional tax liabilities, as well as penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. 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.

Environmental remediation costs

The Group's management believes that it 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 2007.

Capital commitments

At 30 June 2007, the Group had large capital projects in progress at JSC Lipetskmyasoprom and LLC Tambovmyasoprom. As part of these projects, commitments had been made to contractors of approximately 89 704 and 49 223, respectively, towards completion of the projects.

Also the Group is in the process of implementing an integrated management planning and accounting system related to the meat processing segment of the business. As part of this project, commitments have been made to contractors of approximately 1 664 towards completion of the project.

25 Subsequent events

On 10 July 2007, issued shares of the Group were split by converting each issued share with a par value of 1 rouble into 100 shares with a par value of 0.01 roubles per share. This brought the number of shares issued and outstanding to 39 564 300.

On 28 August 2007, the Group acquired 100% of the share capital in Golden Rooster Co Limited, the holding company of OAO Chicken Kingdom. The total amount of consideration paid in the acquisition was approximately 143 000.