# OJSC Cherkizovo Group

**Independent Accountants' Review Report**

**Condensed Consolidated Interim Financial Statements**
For the Six Months Ended 30 June 2010 and 2009
(UNAUDITED)

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# Independent Accountants' Review Report

To the Shareholders of OJSC Cherkizovo Group:

We have reviewed the accompanying condensed consolidated interim balance sheet of OJSC Cherkizovo Group and subsidiaries (together "the Group") as of 30 June 2010 and the related condensed consolidated interim statements of income, cash flows and changes in equity and comprehensive income for the six-month periods ended 30 June 2010 and 2009 ( "the Financial Statements"). Preparation of these Financial Statements is the responsibility of the Group's management.

We conducted our reviews 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 in the United States of America, 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 31 December 2001. At 30 June 2010, the stated amounts of such property, plant and equipment approximated US $44 615 thousand. On 31 December 2001 the Group established the carrying value of property, plant and equipment based on their estimated fair values as of such date. 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 reviews, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine competent evidential matter regarding the carrying value of property, plant and equipment as discussed 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.

Deloitte & Touche CIS

10 September 2010

Moscow, Russia

# Unaudited condensed consolidated interim balance sheet

As of 30 June 2010 and 31 December 2009

| | | 30 June 2010 US$000 UNAUDITED | 31 December 2009 US$000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets:** | | | |
| Cash and cash equivalents | | 59 528 | 38 961 |
| Trade receivables, net of allowance for doubtful accounts of 4 987 and of 4 940 as of 30 June 2010 and 31 December 2009, respectively | 12 | 88 706 | 86 631 |
| Advances paid, net of allowance for doubtful accounts of 1 623 and of 1 634 as of 30 June 2010 and 31 December 2009, respectively | 12 | 23 410 | 31 200 |
| Inventory | 3 | 120 804 | 138 364 |
| Loans receivable | 12 | 5 481 | 5 199 |
| Deferred tax assets | | 5 700 | 5 879 |
| Other receivables, net of allowance for doubtful accounts of 1 405 and of 1 394 as of 30 June 2010 and 31 December 2009, respectively | | 19 657 | 16 308 |
| Other current assets | | 23 842 | 22 858 |
| **Total current assets** | | **347 128** | **345 400** |
| | | | |
| **Non-current assets:** | | | |
| Property, plant and equipment, net | 4 | 762 580 | 754 720 |
| Goodwill | | 8 413 | 8 677 |
| Other intangible assets, net | | 40 656 | 41 889 |
| Loans receivable, net of allowance of 2 454 and of 2 531 as of 30 June 2010 and 31 December 2009, respectively | | 185 | 156 |
| Deferred tax assets | | 2 115 | 2 182 |
| Notes receivable, net | | 1 339 | 1 327 |
| Other non-current assets | | 8 996 | 5 146 |
| VAT receivable | | - | 10 620 |
| **Total non-current assets** | | **824 284** | **824 717** |
| **Total assets** | | **1 171 412** | **1 170 117** |

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

# **Unaudited condensed consolidated interim balance sheet** continued

As of 30 June 2010 and 31 December 2009

| | Note | 30 June 2010 US$000 UNAUDITED | 31 December 2009 US$000 |
|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities:** | | | |
| Trade payables | | 51 733 | 64 190 |
| Short-term debt and current portion of capital leases | 5 | 95 035 | 108 456 |
| Tax related payables | | 12 427 | 10 889 |
| Deferred tax liabilities | | 27 | 28 |
| Payroll related liability | | 13 641 | 13 807 |
| Advances received | | 3 684 | 5 563 |
| Payables for non-current assets | | 5 034 | 6 532 |
| Interest payable | | 2 088 | 2 448 |
| Other payables | | 5 558 | 5 159 |
| **Total current liabilities** | | **189 227** | **217 072** |
| **Non-current liabilities:** | | | |
| Long-term debt and capital leases | 5 | 351 188 | 375 689 |
| Deferred tax liabilities | | 25 528 | 27 057 |
| Tax related liabilities | | 4 125 | 4 255 |
| Payables to shareholders | | 583 | 632 |
| Other liabilities | | 5 | 7 |
| **Total non-current liabilities** | | **381 429** | **407 640** |
| **Total liabilities** | | **570 656** | **624 712** |
| Commitments and contingencies | 16 | | |
| **Equity:** | | | |
| Share capital | 6 | 15 | 15 |
| Additional paid-in capital | 6 | 293 654 | 289 213 |
| Treasury shares | 6 | (496) | (496) |
| Other accumulated comprehensive income | 6 | (89 472) | (71 039) |
| Retained earnings | | 368 417 | 297 035 |
| **Total shareholders' equity** | | **572 118** | **514 728** |
| Non-controlling interests | | 28 638 | 30 677 |
| **Total equity** | | **600 756** | **545 405** |
| **Total liabilities and equity** | | **1 171 412** | **1 170 117** |

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

# Unaudited condensed consolidated interim income statements

For the six months ended 30 June 2010 and 2009 and for the year ended 31 December 2009

| | | Six months ended 30 June 2010 US$000 UNAUDITED | Six months ended 30 June 2009 US$000 (as adjusted)* UNAUDITED | Year ended 31 December 2009 US$000 |
|---|---|---|---|---|
| Sales | 7 | 579 949 | 459 298 | 1 022 457 |
| Cost of sales | 8 | (420 423) | (330 993) | (741 187) |
| **Gross profit** | | **159 526** | **128 305** | **281 270** |
| Selling, general and administrative expenses | 9 | (74 657) | (65 147) | (139 872) |
| Other operating expense | | (8) | (225) | (1 208) |
| **Operating income** | | **84 861** | **62 933** | **140 190** |
| Other income (expense), net | 10 | 914 | (125) | 386 |
| Interest expense, net | 11 | (9 166) | (8 373) | (19 644) |
| **Income before tax** | | **76 609** | **54 435** | **120 932** |
| Income tax | | (3 246) | (2 112) | 3 347 |
| **Net income** | | **73 363** | **52 323** | **124 279** |
| Less: Net income attributable to non-controlling interests | | (1 981) | (2 048) | (4 108) |
| **Net income attributable to Cherkizovo Group** | | **71 382** | **50 275** | **120 171** |

| | | | |
|---|---|---|---|
| Weighted average number of shares outstanding | 43 028 022 | 43 028 022 | 43 028 022 |
| Net income per share – basic and diluted: | 1.66 | 1.17 | 2.79 |

* As required by US GAAP comparative information for the six months ended 30 June 2009 has been adjusted retrospectively for the finalisation of the allocation of purchase price of OJSC Penzensky Kombinat Hleboproductov (Note 14)

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

# Unaudited condensed consolidated interim cash flow statements

For the six months ended 30 June 2010 and 2009 and for the year ended 31 December 2009

| | Six months ended 30 June 2010 US$000 UNAUDITED | Six months ended 30 June 2009 US$000 (as adjusted)* UNAUDITED | Year ended 31 December 2009 US$000 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net income | 73 363 | 52 323 | 124 279 |
| Adjustments to reconcile net income to net cash from operating activities: | | | |
| Depreciation and amortisation | 24 085 | 17 237 | 40 106 |
| Bad debt expense | 898 | 4 656 | 10 022 |
| Foreign exchange (gain) loss, net | (202) | (91) | 165 |
| Deferred tax (benefit) expense | (832) | 255 | (4 510) |
| Share based compensation expense | 1 872 | - | 908 |
| Other adjustments, net | 147 | 1 870 | (2 286) |
| **Changes in operating assets and liabilities** | | | |
| Decrease in inventories | 17 299 | 6 947 | 775 |
| (Increase) decrease in trade receivables | (5 698) | 2 271 | (5 760) |
| Decrease (increase) in advances paid | 7 029 | 5 311 | (2 531) |
| Decrease in other current assets | 4 834 | 3 238 | 7 219 |
| (Decrease) increase in trade accounts payable | (11 200) | (4 790) | 214 |
| Increase (decrease) in taxes payable | 1 321 | (494) | 3 057 |
| (Decrease) increase in other current payables | (515) | 3 227 | 4 558 |
| **Total net cash from operating activities** | **112 401** | **91 960** | **176 216** |
| | | | |
| **Cash flows from (used in) investing activities:** | | | |
| Purchases of non-current assets | (61 710) | (47 061) | (130 287) |
| Proceeds from sale of property, plant and equipment | 441 | 188 | 855 |
| Acquisition of subsidiaries, net of cash acquired, including advance payment of 4  000 as of 30 June 2010 (Note 14) | (4 718) | (1 853) | (2 140) |
| Sale of notes receivable | - | 9 890 | 10 310 |
| Purchases of notes receivable | - | (3 427) | (3 260) |
| Issuance of long-term loans | (222) | (805) | (901) |
| Repayment on long-term loans issued | 187 | 742 | 784 |
| Issuance of short-term loans | (8 602) | (8 421) | (17 950) |
| Repayments on short-term loans issued | 8 134 | 4 598 | 21 100 |
| **Total net cash used in investing activities** | **(66 490)** | **(46 149)** | **(121 489)** |

* As required by US GAAP comparative information for the six months ended 30 June 2009 has been adjusted retrospectively for the finalisation of the allocation of purchase price of OJSC Penzensky Kombinat Hleboproductov (Note 14)

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

# Unaudited condensed consolidated interim cash flow statements continued

For the six months ended 30 June 2010 and 2009 and for the year ended 31 December 2009

| | Six months ended 30 June 2010 US$000 UNAUDITED | Six months ended 30 June 2009 US$000 (as adjusted)* UNAUDITED | Year ended 31 December 2009 US$000 |
|---|---|---|---|
| **Cash flows from (used in) financing activities:** | | | |
| Proceeds from long-term loans | 43 409 | 38 301 | 89 508 |
| Repayment of long-term loans | (23 682) | (75 979) | (128 967) |
| Proceeds from long-term loans from related parties | 56 | 5 | 1 004 |
| Repayment of long-term loans from related parties | (56) | - | (85) |
| Proceeds from short-term loans | 31 855 | 33 431 | 90 733 |
| Repayment of short-term loans | (74 894) | (65 098) | (115 279) |
| Cash distributed to shareholders | (27) | (213) | (246) |
| **Total net cash used in financing activities** | **(23 339)** | **(69 553)** | **(63 332)** |
| **Total cash from (used in) operating, investing and financing activities** | **22 572** | **(23 742)** | **(8 605)** |
| Impact of exchange rate difference on cash and cash equivalents | (2 005) | (4 563) | (2 101) |
| **Net increase (decrease) in cash and cash equivalents:** | **20 567** | **(28 305)** | **(10 706)** |
| **Cash and cash equivalents at the beginning of the period** | **38 961** | **49 667** | **49 667** |
| **Cash and cash equivalents at the end of the period** | **59 528** | **21 362** | **38 961** |
| **Supplemental Information:** | | | |
| Income taxes paid | 4 868 | 1 712 | 4 649 |
| Interest paid | 30 750 | 30 207 | 62 056 |
| Property, plant and equipment acquired under capital leases | - | 22 | 599 |

* As required by US GAAP comparative information for the six months ended 30 June 2009 has been adjusted retrospectively for the finalisation of the allocation of purchase price of OJSC Penzensky Kombinat Hleboproductov (Note 14)

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

# Unaudited condensed consolidated interim statements of changes in equity and comprehensive income

For the six months ended 30 June 2010 and 2009

| | Share capital US$000 | Additional paid-in capital US$000 | Retained earnings US$000 | Treasury shares US$000 | Other accumulated comprehensive loss US$000 | Total shareholders' equity US$000 | Non-controlling interests US$000 | Total equity US$000 |
|---|---|---|---|---|---|---|---|---|
| **Balances at 1 January 2009** | **15** | **289 146** | **176 865** | **(496)** | **(64 550)** | **400 980** | **24 169** | **425 149** |
| Net income | - | - | 50 275 | - | - | 50 275 | 2 051 | 52 326 |
| Other comprehensive loss from translation adjustment | - | - | - | - | (22 505) | (22 505) | (406) | (22 911) |
| **Total comprehensive income (loss)** | | | **50 275** | | **(22 505)** | **27 770** | **1 645** | **29 415** |
| Purchase of subsidiary (Note 14) | - | - | - | - | - | - | 1 267 | **1 267** |
| **Balances at 30 June 2009 (as adjusted)* UNAUDITED** | **15** | **289 146** | **227 140** | **(496)** | **(87 055)** | **428 750** | **27 081** | **455 831** |
| | | | | | | | | |
| **Balances at 1 January 2010** | **15** | **289 213** | **297 035** | **(496)** | **(71 039)** | **514 728** | **30 677** | **545 405** |
| Net income | - | - | 71 382 | - | - | 71 382 | 1 981 | 73 363 |
| Other comprehensive income loss from translation adjustment | - | - | - | - | (18 433) | (18 433) | (894) | (19 327) |
| **Total comprehensive income (loss)** | - | - | **71 382** | - | **(18 433)** | **52 949** | **1 087** | **54 036** |
| Contribution from shareholder (Note 6) | - | 1 872 | - | - | - | 1 872 | - | **1 872** |
| Purchase of non-controlling interests (Note 14) | - | 2 569 | - | - | - | 2 569 | (3 126) | **(557)** |
| **Balances at 30 June 2010 UNAUDITED** | **15** | **293 654** | **368 417** | **(496)** | **(89 472)** | **572 118** | **28 638** | **600 756** |

* As required by US GAAP comparative information as at 1 January 2009 and for the six months ended 30 June 2009 has been adjusted retrospectively for the finalisation of the allocation of purchase price of OJSC Penzensky Kombinat Hleboproductov (Note 14)

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

# Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2010 and 2009 and for the year ended 31 December 2009 (in US$000)

## 1 Business

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. As the Group evolved with continuing acquisitions, two distinctive operating structures emerged made up of meat processing (APK Cherkizovsky) and agricultural entities (APK Mikhailovsky and Golden Rooster Co. Limited).

Over the past two years, the Group’s business was impacted by the economic downturn. During 2008, the Group was primarily impacted by an increase in commodity prices and the devaluation of the rouble. In 2009, the commodity costs and the rouble stabilized while at the same time sales prices increased. In response to these changes, the Group focused its efforts on cost management and operational efficiency. During the first half of 2010, the Group has increased production volumes in all segments and particularly in pork where farms began operating at near full capacity. The sales prices in the poultry segment have returned to their normal level, while sales prices in the pork and meat-processing segments increased during the period. The Group’s costs have continued to be maintained at levels consistent with 2009 though continue to be subject to potential volatility.

## 2 Summary of significant accounting policies

### Basis of preparation

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

The unaudited 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 unaudited condensed consolidated 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 2009. The condensed consolidated balance sheet as of 31 December 2009 is derived from the 31 December 2009 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 interim consolidated 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, calculation of deferred taxes and valuation allowances for deferred tax assets.

Management believes that all adjustments necessary for a fair statement of the results for the periods presented have been made and all such adjustments were of a normal recurring nature unless otherwise disclosed. The financial results for the six months ended 30 June 2010 are not necessarily indicative of 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 2009.

For the six months ended 30 June 2010 and 2009 and for the year ended 31 December 2009 (in US$000)

## 2 Summary of significant accounting policies continued

### Foreign currency translation

The Group follows a translation policy in accordance with the Foreign Currency Matters Topic of the Financial Accounting Standards Board's (further "FASB") Accounting Standards Codification (further "ASC") 830, and has determined the Russian rouble to be the Group companies' functional currency.

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 accumulated comprehensive income.

The following table summarizes the exchange rates of the Russian rouble to 1 US dollar at 30 June 2010, 31 December 2009 and 30 June 2009.

| | **Exchange rate** |
|---|---|
| 30 June 2010 | 31.1954 |
| 31 December 2009 | 30.2442 |
| 30 June 2009 | 31.2904 |
| Weighted average exchange rate for the six months ended 30 June 2010 | 30.0686 |
| Weighted average exchange rate for the year ended 31 December 2009 | 31.7231 |
| Weighted average exchange rate for the six months ended 30 June 2009 | 33.0679 |

### Effect of accounting pronouncements adopted

In January 2010, the FASB issued ASU No. 2010-06, "Improving Disclosures about Fair Value Measurements," which requires reporting entities to make new disclosures about recurring or nonrecurring fair-value measurements including significant transfers into and out of Level 1 and Level 2 fair-value measurements and information about purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements. This ASU also clarifies existing fair-value measurement disclosure guidance about the level of disaggregation, inputs, and valuation techniques. ASU No. 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009. The Group adopted the requirements of ASU No. 2010-06 on January 1, 2010.  This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

In January 2010, the FASB issued ASU No. 2010-02, "Accounting and Reporting for Decreases in Ownership of a Subsidiary - A Scope Clarification" to clarify the scope of ASC Subtopic No. 810-10, "Consolidation – Overall." This ASU specifies that the guidance in ASC Subtopic No. 810-10 on accounting for decreases in ownership of a subsidiary applies to: (1) a subsidiary or group of assets that constitutes a business or nonprofit activity; (2) a subsidiary that is a business or a nonprofit activity that is transferred to an equity method investee or a joint venture; and (3) an exchange of a group of assets that constitute a business or nonprofit activity for a non-controlling interest in an entity. If a company's ownership interest in a subsidiary that is not a business or nonprofit activity decreases, then other accounting guidance generally would be applied based on the nature of the transaction. This ASU is effective for interim and annual periods ending after December 15, 2009 and the guidance should be applied on a retrospective basis to the first period in which the company adopted ASC No. 810. The Group adopted ASU No. 2010-02 on January 1, 2010. 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 January 2010, the FASB issued ASU No. 2010-01, "Accounting for Distributions to Shareholders with Components of Stock and Cash," which addresses how an entity should account for the stock portion of a dividend in certain arrangements when a shareholder makes an election to receive cash or stock, subject to limitations on the amount of the dividend to be issued in cash. The stock portion of the dividend should be accounted for as a stock issuance upon distribution, resulting in basic earnings per share being adjusted prospectively. Prior to distribution, the entity's obligation to issue shares would be reflected in diluted earnings-per-share based on the guidance in ASC No. 260, which addresses contracts that may be settled in shares. This ASU is effective for interim and annual periods ending after December 15, 2009. The Group adopted ASU No. 2010-01 on January 1, 2010. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

In December 2009, the FASB issued ASU No. 2009-17, "Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities," which amends the guidance on variable interest entities ("VIE") in ASC No. 810. This ASU changes the approach to determining VIE primary beneficiary from a quantitative assessment to a qualitative assessment designed to identify a controlling financial interest, and increases the frequency of required reassessments to determine whether an entity is the primary beneficiary of a VIE. ASU No. 2009-17 also clarifies, but does not significantly change, the characteristics that identify a VIE. ASU No. 2009-17 is effective as of the beginning of a company's first fiscal year that begins after November 15, 2009, and for subsequent interim and annual reporting periods. The Group adopted the requirements of ASU No. 2009-17 on January 1, 2010. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

### New accounting pronouncements

In April 2010 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards updated 2010-13 Compensation (Topic 718). This Update clarifies that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendment is effective for interim or annual periods beginning on or after December 15, 2010 and should be applied on a prospective basis. Management does not believe the adoption will have a significant impact on the Company's financial position, results of operations and cash flows.

In July 2010, the FASB issued ASU No. 2010-20, "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" which amends the guidance on receivables in ASC No. 310. This ASU enhance disclosures about the credit quality of financing receivables and the allowance for credit losses. Existing disclosure guidance is amended to require an entity to provide a greater level of disaggregated information about the credit quality of its financing receivables and its allowance for credit losses. In addition, the amendments in this ASU require an entity to disclose credit quality indicators, past due information, and modifications of its financing receivables. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The impact of adoption of this ASU in the preparation of the consolidated financial statements in future periods is currently being assessed by management.

## 3 Inventory

Inventory as of 30 June 2010 and 31 December 2009 comprised:

| | 30 June 2010 US$000 | 31 December 2009 US$000 |
|---|---|---|
| Raw materials and goods for resale | 52 152 | 69 705 |
| Livestock | 55 487 | 59 314 |
| Work-in-process | 6 738 | 4 283 |
| Finished goods | 6 427 | 5 062 |
| **Total inventory** | **120 804** | **138 364** |

## 4 Property, plant and equipment, net

The carrying amounts of property, plant and equipment as of 30 June 2010 and 31 December 2009 comprised:

| | 30 June 2010 US$000 | 31 December 2009 US$000 |
|---|---|---|
| Buildings, infrastructure and leasehold improvements | 428 517 | 434 118 |
| Land | 5 634 | 3 830 |
| Machinery and equipment | 160 072 | 159 035 |
| Vehicles | 25 944 | 26 673 |
| Cattle | - | 190 |
| Sows | 13 226 | 13 746 |
| Other | 942 | 1 188 |
| Advances paid for property, plant and equipment | 51 278 | 45 167 |
| Construction in progress and equipment for installation | 76 967 | 70 773 |
| **Total property, plant and equipment, net** | **762 580** | **754 720** |

Accumulated depreciation amounted to 198 207 and 182 207 as of 30 June 2010 and 31 December 2009, respectively. Depreciation expense amounted to 23 797 and 17 009 for the six months ended 30 June 2010 and 2009, respectively, which includes depreciation of leased equipment.

Net book values of property, plant and equipment include 19 509 and 23 626 of leased assets as of 30 June 2010 and 31 December 2009, respectively, and corresponding accumulated depreciation amounted to 6 981 and 6 520, respectively.

Loss on disposal of property, plant and equipment of 8 and 225 was recognized in the Other operating income (expenses), line item in the consolidated income statement for the six months ended 30 June 2010 and 2009, respectively.

## 5 Borrowings

Borrowings of the Group as of 30 June 2010 and 31 December 2009 comprised:

| | | | | 30 June 2010 US$000 | | 31 December 2009 US$000 | |
|---|---|---|---|---|---|---|---|
| | **Interest rates** | **WAIR*** | **EIR**** | **Current** | **Non-current** | **Current** | **Non-current** |
| Capital leases | 8.30% - 17.52% | 15.24% | 15.24% | 1 431 | 4 687 | 2 372 | 5 367 |
| Bonds | 12.75% | 12.75% | 12.75% | 10 238 | - | - | 10 560 |
| Bank loans | 11.50% - 18.50% | 16.41% | 4.78% | 641 | 6 732 | 1 152 | 6 943 |
| Credit lines | 7.97% - 16.00% | 13.55% | 3.53% | 60 944 | 339 144 | 90 348 | 335 700 |
| Loans from government | 3.00% - 6.00% | 4.64% | 4.64% | 21 264 | 448 | 12 178 | 16 935 |
| Other borrowings | 0.00% - 0.05% | 0.02% | 0.02% | 517 | 177 | 2 406 | 184 |
| | | | | **95 035** | **351 188** | **108 456** | **375 689** |
| **Total borrowings** | | | | | **446 223** | | **484 145** |

* WAIR represents the weighted average interest rate on outstanding borrowings.

** EIR represents the effective rate on borrowings as of 30 June 2010, 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. See Note 11 for further disclosure of government subsidies related to interest on borrowings.

Contractual maturity of long-term borrowings (excluding capital leases and interest) is as follows:

| | 01.07.2012 US$000 | 01.07.2013 US$000 | 01.07.2014 US$000 | 01.07.2015 US$000 | 01.07.2016 US$000 | >01.07.2016 US$000 | Total US$000 |
|---|---|---|---|---|---|---|---|
| **Total borrowings** | 122 029 | 93 393 | 66 194 | 27 747 | 22 657 | 14 481 | **346 501** |

As of 30 June 2010, the Group's borrowings are denominated in the following currencies: 440 815 in Russian roubles, 534 in Euro and 4 874 in US dollars. As of December 31 2009, the Group's borrowings are denominated in the following currencies: 477 871 in Russian roubles, 713 in Euro and 5 561 in US dollars.

The 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.

## **5 Borrowings** continued

### Capital leases

As of 30 June 2010 and 31 December 2009, the Group used certain fixed assets under leasing contracts that qualified for treatment as capital leases. The lower of the incremental borrowing rate 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 2010 | | 31 December 2009 | |
|---|---|---|---|---|
| **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 | 2 204 | 773 | 3 304 | 932 |
| In year two | 967 | 658 | 1 437 | 715 |
| In year three | 819 | 623 | 892 | 659 |
| In year four | 807 | 596 | 833 | 629 |
| In year five | 808 | 562 | 833 | 597 |
| After year five | 6 260 | 2 535 | 6 873 | 2 901 |
| | **11 865** | **5 747** | **14 172** | **6 433** |

### Bonds

During June 2006, the Group raised two billion roubles (74 881 at the issuance date) through an issue of puttable bonds with a face value of 1 000 roubles (37 at the issuance date). The coupon rate on the bonds, payable semi-annually, was set at 8.85% per annum for the first three years.

During the period from February to May 2009, the Group repurchased 710 028 bonds on the open market for 20 394 resulting in a gain of 1 077, which was included in the “Other income (expense), net” line item in the consolidated income statement. In June 2009, as allowed by the original agreement, the Group bid a coupon rate to be paid for an additional two years. At that point, the investors in the bonds had the right to redeem the bonds at their par value or accept the Group’s bid, causing the maturity to be extended to June 2011. The investors’ decision to redeem was made individually by each bondholder; therefore 64.38% of the outstanding principle (1 287 662 bonds) became due and were redeemed in June 2009.

In December 2009, the Group re-issued 320 000 bonds at 99.57% of face value for 318 624 roubles (10 468 at re-issuance date) with a maturity date in June 2011. The Group is accounting for these instruments at amortized cost.

### Bank Loans

#### Gazprombank

Borrowings from Gazprombank consist of two long-term rouble denominated loans with interest ranging from 12% to 18.5% per annum. Notes receivable with a carrying value of 1 339 were pledged as collateral under these loan agreements. Principal payment is due on maturity in 2014. Amount outstanding was 5 770 and 5 952 as of 30 June 2010 and 31 December 2009, respectively.

#### Savings Bank of Russia

Borrowings from Savings Bank of Russia consist of two short-term rouble denominated loans with interest ranging from 14% to 15.5% per annum. These loans are guaranteed by a Group company. Amount outstanding was 641 and 876 as of 30 June 2010 and 31 December 2009, respectively.

## 5 Borrowings continued

### Lines of credit

**Savings Bank of Russia**

Borrowings from the Savings Bank of Russia consist of forty two rouble denominated lines of credit with interest ranging from 8.75% to 16.0% per annum. Several of these instruments are guaranteed by Group companies and related parties. Principal payments are due from 2010 to 2017. Amount outstanding was 190 056 and 208 711 as of 30 June 2010 and 31 December 2009, respectively.

**Gazprombank**

Borrowings from Gazprombank consist of three rouble denominated lines of credit with an interest rate of 13% per annum. Some of these facilities are guaranteed by Group companies and related parties. Principal payments are due from 2010 to 2016. Amount outstanding was 118 607 and 122 999 as of 30 June 2010 and 31 December 2009, respectively.

**Bank Zenith**

Borrowings from Bank Zenith consist of four rouble denominated lines of credit with an interest rate of 16% per annum. All these facilities are guaranteed by Group companies and related parties. Principal payment is due on maturity in 2011, 2013 and 2014. Amount outstanding was 75 332 and 77 701 as of 30 June 2010 and 31 December 2009, respectively.

**Raiffeisenbank**

Borrowings from Raiffeisenbank consist of one rouble denominated loan facility bearing interest equal to Raiffeisenbank's internal interest rate on the date of tranche issuance which ranged from 7.58% to 8.15% per annum. The facility is guaranteed by a Group company. Amount outstanding was 16 041 and 16 541 as of 30 June 2010 and 31 December 2009, respectively. The maturity date on the loan facility is 2011.

The total amount of unused credit on lines of credit as of 30 June 2010 is 95 591. The unused credit can be utilized from 2011 to 2015 with expiration of available amounts varying as follows: 27 216 expires by 30 June 2011, 68 375 expires by 30 June 2015.

### Loans from government

**Department of Food Supply of the City of Moscow**

Borrowings from the Department of Food Supply of the City of Moscow consist of two rouble denominated short-term loans with interest rate of 4.5% per annum. Amount outstanding was 18 526 and 24 142 as of 30 June 2010 and 31 December 2009, respectively. The agreement contains a condition that volume amounting to approximately 15% of the Group's sales be realized in Moscow in 2010. The maturity date on the loan facility was extended to 2010 – 2011.

**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 rouble denominated long-term loans with interest ranging from 5.5% to 6% per annum. Principal payments are due from 2010 to 2011. Amount outstanding was 2 436 and 4 034 as of 30 June 2010 and 31 December 2009, respectively.

### Other borrowings

Other borrowings primarily represent unsecured loans from shareholders and contractors with interest rates ranging from 0% to 0.05% per annum. Principal payments are due from 2010 to 2014.

## 5 Borrowings continued

### Collateral under borrowings

Shares of and participating interests in the following Group companies are pledged as collateral under certain borrowings as of 30 June 2010:

- JSC Vasiljevskaya – 92%;
- CJSC Petelinskaya – 51%;
- JSC Lipetskmyasoprom – 99%;
- LLC Budenovets Agrofirm – 51%;
- LLC Mikhailovsky Feed Milling Plant – 51%;
- LLC Kuznetsovsky Kombinat – 51%;
- LLC Ardymsky Feed Milling Plant – 51%;
- CJSC Botovo – 51%;
- JSC MPP Ulyanovsky – 35%;
- LLC AIC Mikhailovsky – 51%;
- JSC Biruliovsky Meat Processing Plant – 51%;
- LLC Tambovmyasoprom – 51%;
- LLC Kurinoe Tsarstvo – Bryansk – 99%.

Inventory with a carrying value of 17 193 and 24 410 was pledged under certain borrowings as of 30 June 2010 and 31 December 2009, respectively.

Property, plant and equipment with a carrying value of 240 506 and 209 471 was pledged under loan agreements as of 30 June 2010 and 31 December 2009, respectively.

Certain significant loan agreements with Gazprombank and Savings Bank of Russia contain financial covenants requiring the maintenance of minimum revenue turnover through accounts at the respective banks. The Group believes that it is in compliance with these covenants as of June 30, 2010. .

## 6 Shareholders' equity

### Share capital

All issued and outstanding shares have equal voting rights. As of 30 June 2010, MB Capital Partners Ltd. (formerly, Cherkizovsky Group Ltd.) owned 50.1% of the outstanding share capital of OJSC Cherkizovo Group. The Group is authorized to issue preferred shares not exceeding 25% of its ordinary share capital. No such shares are currently issued.

In accordance with Russian legislation, earnings available for dividends are limited to retained earnings of OJSC Cherkizovo Group, calculated in accordance with statutory rules in local currency. No dividends were declared or paid for the six months ended 30 June 2010 and 2009.

## 6 Shareholders' equity continued

### Shares granted to employees

The controlling shareholder of the Group has entered into two share compensation agreements with members of management on outstanding shares. The total amount of shares covered by the option agreements is 400 000 (600 000 GDR's) with multiple service / derived service periods ranging through May 2014 as follows:

- 200 000 shares (300 000 GDR's) with a derived service period through May 2014 and containing a cash payment option at the choice of the shareholder as well as market conditions which must be met prior to exercise;
- 120 000 shares (180 000 GDR's) with a service period through December 2010 and containing a cash payment option at the choice of the shareholder;
- 80 000 shares (120 000 GDR's) with a service period through December 2010 and containing a cash payment option at the choice of the employee.

Management used the lattice model in estimating the fair value of the share options at their grant date. Volatility of share prices was based on actual market prices of GDR's of the Group as traded on the London Stock Exchange (LSE), dividends were estimated at zero (in keeping with the Group's stated policy) and the risk free rate used in the calculation was 5%.

The Group will recognize the fair value of the options as management remuneration over their applicable service periods through 2014, including 1 508 for the six months ended 30 June 2010 and 908 during 2009.

During the six months ended 30 June 2010, 80 000 shares (120 000 GDR's) became vested as market conditions were met. The option was exercised and 80 000 shares were transferred by the shareholders to management personnel. The remaining unamortized portion of the exercised option in the amount of 364 was recognized as management compensation expense during the period.

The additional management remuneration recognized as a result of share options granted had no impact on total income tax provisions for the Group as such remuneration is not tax deductible in the Russian Federation.

None of the remaining options were vested, exercised, converted or expired during the period.

### Earnings per share

Earnings per share for the six months ended 30 June 2010 and 2009 have been determined using the weighted average number of Group shares outstanding over each period. The Group has no securities which should be considered for dilution. The shares granted to employees are not expected to have any dilutive impact upon exercise because any exercise will result in a transfer of existing outstanding shares held by the majority shareholder.

## 7 Sales

Sales for the six months ended 30 June 2010 and 2009 and for the year ended 31 December 2009 comprised:

| | Six months ended 30 June 2010 US$000 | Six months ended 30 June 2009 US$000 | Year ended 31 December 2009 US$000 |
|---|---|---|---|
| Produced goods and goods for resale | 599 554 | 474 030 | 1 056 970 |
| Other sales | 4 246 | 4 164 | 10 736 |
| Sales volume discounts | (18 442) | (14 381) | (35 406) |
| Sales returns | (5 409) | (4 515) | (9 843) |
| **Total sales** | **579 949** | **459 298** | **1 022 457** |

## 8 Cost of sales

Cost of sales for the six months ended 30 June 2010 and 2009 and for the year ended 31 December 2009 comprised:

| | Six months ended 30 June 2010 US$000 | Six months ended 30 June 2009 US$000 | Year ended 31 December 2009 US$000 |
|---|---|---|---|
| Raw materials and goods for resale | 324 785 | 259 533 | 583 947 |
| Personnel (excluding pension costs) | 37 685 | 30 134 | 66 450 |
| Depreciation | 21 820 | 15 314 | 35 962 |
| Utilities | 20 962 | 13 222 | 28 932 |
| Pension costs | 5 815 | 4 643 | 9 681 |
| Other | 9 356 | 8 147 | 16 215 |
| **Total cost of sales** | **420 423** | **330 993** | **741 187** |

Raw materials and goods for resale are offset by subsidies received from local governments in the amount of 455, 1 009 and 1 055 for the six months ended 30 June 2010 and 2009 and for the year ended 31 December 2009, respectively. These targeted subsidies are received based on the amount of meat produced.

## 9 Selling, general and administrative expenses

Selling, general and administrative expenses for the six months ended 30 June 2010 and 2009 and for the year ended 31 December 2009 comprised:

| | Six months ended 30 June 2010 US$000 | Six months ended 30 June 2009 US$000 | Year ended 31 December 2009 US$000 |
|---|---|---|---|
| Personnel (excluding pension costs) | 30 053 | 23 393 | 51 557 |
| Transportation | 7 931 | 7 419 | 16 707 |
| Taxes (other than income tax) | 5 997 | 3 297 | 7 445 |
| Materials and supplies | 4 918 | 4 294 | 9 655 |
| Pension costs | 4 309 | 3 505 | 6 416 |
| Security services | 3 895 | 3 097 | 6 990 |
| Depreciation and amortisation | 2 265 | 1 923 | 4 144 |
| Audit, consulting and legal fees | 1 724 | 1 693 | 4 114 |
| Utilities | 1 404 | 1 172 | 2 155 |
| Repairs and maintenance | 945 | 827 | 2 069 |
| Veterinary services | 939 | 956 | 1 841 |
| Bank charges | 899 | 828 | 1 856 |
| Bad debt expense | 898 | 4 656 | 7 609 |
| Information technology and communication services | 626 | 611 | 1 228 |
| Advertising and marketing | 536 | 1 401 | 2 992 |
| Insurance | 410 | 532 | 925 |
| Other | 6 908 | 5 543 | 12 169 |
| **Total selling, general and administrative expenses** | **74 657** | **65 147** | **139 872** |

## 10 Other income (expense), net

Other income and expenses for the six months ended 30 June 2010 and 2009 and for the year ended 31 December 2009 comprised:

| | Six months ended 30 June 2010 US$000 | Six months ended 30 June 2009 US$000 | Year ended 31 December 2009 US$000 |
|---|---|---|---|
| Interest income | 701 | 681 | 1 123 |
| Foreign exchange gain (loss) | 202 | 91 | (165) |
| Other financial income | 11 | 341 | 764 |
| Gain on early retirement of bonds | - | 1 077 | 1 077 |
| Reserve on loans receivable | - | (2 315) | (2 413) |
| **Total other income (expense), net** | **914** | **(125)** | **386** |

## 11 Interest expense, net

Interest expense for the six months ended 30 June 2010 and 2009 and for the year ended 31 December 2009 comprised:

| | Six months ended 30 June 2010 US$000 | Six months ended 30 June 2009 US$000 | Year ended 31 December 2009 US$000 |
|---|---|---|---|
| Interest expense | 8 654 | 7 678 | 18 292 |
| Capital lease expenses | 508 | 692 | 1 345 |
| Amortization of discount | 4 | 3 | 7 |
| **Total interest expense, net** | **9 166** | **8 373** | **19 644** |

In accordance with Russian legislation, enterprises engaged in agricultural activities and enterprises involved in purchasing of meat receive subsidies on certain qualifying loans. The Group has accounted for such subsidies by reducing the interest expense on the associated loans by 18 549, 6 521 and 28 025 for the six months ended 30 June 2010 and 2009 and for the year ended 31 December 2009, respectively.

Interest (net of subsidies) capitalized for the six months ended 30 June 2010 and 2009 and for the year ended 31 December 2009 was 942, 2 753 and 3 398, respectively.

## 12 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 such as the sale and purchase of inventory. In addition, the Group enters into financing transactions with related parties. The amounts recognized are not necessarily indicative of the amounts that would be recognised for transactions with third parties.

### Trading transactions

Trading transactions with related parties comprise mostly of sales of mixed fodder to LLC RAO Penzenskaya Grain Company and CJSC Penzamyasoprom and purchases of raw materials from these companies as well as purchase of live pigs and other finished goods for resale through the Group's trading house.

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.

### Financing transactions

During the six months ended 30 June 2010 and for the year ended 31 December 2009, certain shareholders issued loans to the Group and, as of 30 June 2010, have personally guaranteed certain of the bank loans and lines of credit for a total amount of 193 939 (Note 5).

As of 30 June 2010 and as of 31 December 2009, balances with related parties are summarized as follows:

| Balances | 30 June 2010 US$000 | 31 December 2009 US$000 |
|---|---|---|
| Short-term loan receivable | 3 742 | 4 390 |
| Trade receivables | 26 454 | 20 297 |
| Advances paid | 9 314 | 16 416 |
| Other receivables and prepayments | 1 704 | 674 |
| Long-term loans receivable | 164 | 135 |
| Trade payables | 2 145 | 1 350 |
| Short-term debt and current portion of capital leases payable | 445 | 799 |
| Other payables | 44 | 400 |
| Other non-currents assets | 4 007 | - |
| Long-term debt and capital leases payable | 966 | 997 |
| Long-term payables to shareholders | 583 | 632 |

For the six months ended 30 June 2010 and 2009, and for the year ended 31 December 2009, transactions with related parties are summarized as follows:

| Transactions | Six months ended 30 June 2010 US$000 | Six months ended 30 June 2009 US$000 | Year ended 31 December 2009 US$000 |
|---|---|---|---|
| Sales | 10 816 | 7 250 | 17 125 |
| Rent income | 94 | 64 | 174 |
| Purchases of IT services | - | 138 | 25 |
| Purchases of security services | 272 | 536 | 1 074 |
| Purchases of goods and services | 28 490 | 13 396 | 40 686 |

## 13 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 chief operating decision maker (the Chief Executive Officer) is the individual responsible for allocating resources to and assessing the performance of each component 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. 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. All three segments are involved in other business activities, including production of dairy, crop cultivation and other services, which are non-core business activities.

The Group evaluates segment performance based on profit before income taxes. The Group accounts for inter-segment sales and transfers as if the sales or transfers were to third parties. Corporate assets comprise cash in bank received from both the issuance of new shares and bond issue, and loans to Group companies. Corporate income and expenses relate to management salaries and interest earned on loans issued to Group companies as well as interest incurred on loans obtained.

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

## 13 Segment reporting continued

Segment information for the six months ended 30 June 2010:

| | Meat-Processing US$000 | Poultry US$000 | Pork US$000 | Corporate assets/ expenditures US$000 | Intersegment US$000 | Combined US$000 |
|---|---|---|---|---|---|---|
| Total Sales | 243 402 | 253 268 | 109 394 | 3 038 | | 609 102 |
| including other sales | 1 293 | 33 608 | 20 324 | - | | 55 225 |
| including sales volume discount | (8 577) | (9 865) | - | - | | (18 442) |
| Intersegment Sales | (233) | (14 657) | (11 227) | (3 036) | | (29 153) |
| Sales to external customers | 243 169 | 238 611 | 98 167 | 2 | | 579 949 |
| Cost of Sales | (201 037) | (176 710) | (68 637) | (5) | 25 966 | (420 423) |
| **Gross profit** | **42 365** | **76 558** | **40 757** | **3 033** | **(3 187)** | **159 526** |
| Operating expenses | (29 848) | (31 679) | (6 427) | (9 898) | 3 187 | (74 665) |
| **Operating income (loss)** | **12 517** | **44 879** | **34 330** | **(6 865)** | **-** | **84 861** |
| Other income and expenses, net | 1 088 | (399) | 379 | 3 355 | (3 509) | 914 |
| Interest expense | (4 512) | (4 117) | (3 126) | (920) | 3 509 | (9 166) |
| **Segment profit (loss) before tax** | **9 093** | **40 363** | **31 583** | **(4 430)** | **-** | **76 609** |
| Supplemental information | | | | | | |
| Expenditure for segment property, plant and equipment | 961 | 36 634 | 20 612 | 1 804 | - | 60 011 |
| Depreciation expense | 5 615 | 11 842 | 6 507 | 121 | - | 24 085 |
| Income tax expense | 2 506 | (693) | 1 433 | - | - | 3 246 |

Segment information for the six months ended 30 June 2009:

| | Meat-Processing US$000 | Poultry US$000 | Pork US$000 | Corporate assets/ expenditures US$000 | Intersegment US$000 | Combined US$000 |
|---|---|---|---|---|---|---|
| Total Sales | 206 561 | 221 346 | 50 758 | 786 | | 479 451 |
| including other sales | 1 774 | 25 294 | 2 285 | - | | 29 353 |
| including sales volume discount | (7 388) | (6 993) | - | - | | (14 381) |
| Intersegment Sales | (134) | (11 989) | (7,244) | (786) | | (20 153) |
| Sales to external customers | 206 427 | 209 357 | 43,514 | - | | 459 298 |
| Cost of Sales | (176 870) | (144 050) | (29,287) | (17) | 19,231 | (330 993) |
| **Gross profit** | **29 691** | **77 296** | **21,471** | **769** | **(922)** | **128 305** |
| Operating expenses | (28 328) | (27 641) | (3 813) | (6 515) | 925 | (65 372) |
| **Operating income (loss)** | **1 363** | **49 655** | **17 658** | **(5 746)** | **3** | **62 933** |
| Other income and expenses, net | (2 099) | (1 958) | (153) | 10 414 | (6 329) | (125) |
| Interest expense | (5 647) | (5 118) | (609) | (3 328) | 6 329 | (8 373) |
| **Segment (loss) profit before tax** | **(6 383)** | **42 579** | **16 896** | **1 340** | **3** | **54 435** |
| Supplemental information | | | | | | |
| Expenditure for segment property, plant and equipment | 4 729 | 23 419 | 23 191 | 239 | - | 51 578 |
| Depreciation expense | 5 075 | 9 289 | 2 865 | 8 | - | 17 237 |
| Income tax expense | (96) | 1 508 | 598 | 102 | - | 2 112 |

## 13 Segment reporting continued

Segment information for the year ended 31 December 2009 comprised:

| | Meat Processing US$000 | Poultry US$000 | Pork US$000 | Corporate assets/ expenditures US$000 | Intersegment US$000 | Combined US$000 |
|---|---|---|---|---|---|---|
| Total Sales | 460 158 | 470 058 | 139 887 | 2 438 | – | 1 072 541 |
| including other sales | 3 693 | 55 816 | 17 634 | – | – | 77 143 |
| including sales volume discount | (17 862) | (17 544) | – | – | – | (35 406) |
| Intersegment Sales | (307) | (22 881) | (24 462) | (2 434) | – | (50 084) |
| Sales to external customers | 459 851 | 447 177 | 115 425 | 4 | – | 1 022 457 |
| Cost of Sales | (392 590) | (307 352) | (88 657) | (2) | 47 414 | (741 187) |
| **Gross profit** | **67 568** | **162 706** | **51 230** | **2 436** | **(2 670)** | **281 270** |
| Operating expenses | (59 393) | (62 366) | (8 349) | (13 642) | 2 670 | (141 080) |
| **Operating income (loss)** | **8 175** | **100 340** | **42 881** | **(11 206)** | **–** | **140 190** |
| Other income and expenses, net | (141) | (1 888) | (196) | 14 793 | (12 182) | 386 |
| Interest expense | (11 841) | (9 682) | (4 879) | (5 424) | 12 182 | (19 644) |
| **Segment (loss) income before tax** | **(3 807)** | **88 770** | **37 806** | **(1 837)** | **–** | **120 932** |
| Supplemental information: | | | | | | |
| Expenditure for segment property, plant and equipment | 5 906 | 72 092 | 50 168 | 343 | – | 128 509 |
| Depreciation and amortisation expense | 10 966 | 20 585 | 8 448 | 107 | – | 40 106 |
| Income tax expense (benefit) | 973 | (5 560) | 1 716 | (476) | – | (3 347) |

The reconciliation between segment profit and net income per the consolidated income statements for the six months ended 30 June 2010 and 2009 and for the year ended 31 December 2009 is as follows:

| | Six months ended 30 June 2010 US$000 | Six months ended 30 June 2009 US$000 | Year ended 31 December 2009 US$000 |
|---|---|---|---|
| Total segment profit | 76 609 | 54 435 | 120 932 |
| Net income attributable to non-controlling interests | (1 981) | (2 048) | (4 108) |
| Income taxes | (3 246) | (2 112) | 3 347 |
| **Net income attributable to Cherkizovo Group** | **71 382** | **50 275** | **120 171** |

## 13 Segment reporting continued

The reconciliation between segment assets and total assets per the consolidated balance sheets as of 30 June 2010 and 31 December 2009 is as follows:

| | 30 June 2010 US$000 | 31 December 2009 US$000 |
|---|---|---|
| Meat processing | 224 795 | 262 151 |
| Poultry | 493 652 | 490 410 |
| Pork | 382 640 | 371 957 |
| Corporate assets | 202 135 | 228 633 |
| Intersegment | (131 810) | (183 034) |
| **Total assets** | **1 171 412** | **1 170 117** |

## 14 Subsidiaries, acquisitions, divestitures

### Acquisitions

**Penzensky Kombinat Hleboproductov**

On 3 March 2009 the Group acquired 57.29% of the share capital of OJSC Penzensky Kombinat Hleboproductov in exchange for 1 867 in cash. The results of Penzensky's operations have been included in the consolidated financial statements from the acquisition date. In the condensed consolidated interim financial statements for the six months ended 30 June 2009 the acquisition was accounted for using historical book values as provisional values based on the assumption that the historical book values were equivalent to fair value at the date of acquisition since the appraisal of fair value of the assets and liabilities had not been received.

The valuation report was obtained subsequently and therefore, the six months 2009 comparative information is retrospectively adjusted to change the fair values of the following assets and liabilities at the acquisition date:

| | 30 June 2009 US$000 (as previously reported) | 30 June 2009 US$000 (as adjusted) |
|---|---|---|
| Purchase price | 1 867 | 1 867 |
| Inventory | 419 | 441 |
| Other current assets (including cash of 14) | 1 464 | 355 |
| Property, plant and equipment | 1 592 | 6 150 |
| Goodwill | 1 796 | 313 |
| Short-term loans and capital leases | (3 103) | (3 103) |
| Other current liabilities | (248) | (219) |
| Deferred tax liability | - | (912) |
| Non-controlling interest | (53) | (1 158) |

As a result of the following adjustments, consolidated net income for the six months ended 30 June 2009 decreased by 4.

## 14 Subsidiaries, acquisitions, divestitures continued

The following unaudited pro forma financial information presents consolidated income statements as if the acquisition occurred at the beginning of the respective period. Pro forma information is presented for all preceding comparative periods:

| **Pro forma Information** | **For the year ended 31 December 2009 (UNAUDITED) US$000** | **For the six months ended 30 June 2009 (UNAUDITED) US$000** |
|---|---|---|
| Sales | 1 024 413 | 461 174 |
| Net income | 120 248 | 50 445 |

These unaudited pro forma results have been prepared for comparative purposes only and contain certain adjustments which relate to the new accounting base of property, plant and equipment recognized in recording the combination. The unaudited pro forma information does not purport to represent what the Group's financial position or results of operations would actually have been if these transactions had occurred at the beginning of the period or to project the Group's future results of operations.

### Purchase of pig-breeding complex

On 25 June 2010 the Group made an advance payment in the amount of 4 000 related to the planned acquisition from a related party of 100% interest in an entity that operates a pig-breeding complex. The Group expects to finalize the transaction and obtain control of the business in the second half of 2010.

### Other acquisitions

During the first quarter 2010, the Group acquired further 4.47% of OJSC Petelinskaya for cash consideration of 557. The purchase was accounted for as an equity transaction. The carrying amount of the non-controlling interest was adjusted to reflect the change in its ownership interest in OJSC Petelinskaya. The difference between the fair value of the consideration paid and the amount of the adjustment to the non-controlling interest was recognized in equity attributable to the Group.

## 15 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 capital leases, as of 30 June 2010 and 31 December 2009 are as follows:

| | **30 June 2010 US$000** | | **31 December 2009 US$000** | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | **Carrying Value** | **Fair Value** |
| Loans receivable | 5 666 | 5 240 | 5 355 | 4 954 |
| Notes receivable, net | 1 339 | 793 | 1 327 | 736 |
| Borrowings other than capital leases (Note 5) | 440 105 | 415 658 | 476 406 | 448 367 |

## 16 Commitments and contingencies

### Legal

As of 30 June 2010 and 31 December 2009, 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. 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 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.

### 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 2010.

### Capital commitments

At 30 June 2010, the Group had large capital projects in progress at JSC Lipetskmyasoprom, LLC Tambovmyasoprom, LLC Kurinoe Tsarstvo – Bryansk, JSC Vasiljevskaya and CJSC Petelinskaya. As part of these projects, commitments had been made to contractors of approximately 61 979 towards completion of the projects.

The Group is implementing an integrated management planning and accounting system in the meat processing segment. As part of this project, commitments have been made to contractors of approximately 3 098 towards completion of the project.

### Operating lease commitments

At 30 June 2010, the Group had the following obligations under non-cancellable operating lease agreements:

| | 30.06.2011 US$000 | 30.06.2012 US$000 | 30.06.2013 US$000 | 30.06.2014 US$000 | 30.06.2015 US$000 | >30.06.2015 US$000 | Total US$000 |
|---|---|---|---|---|---|---|---|
| **Total commitments** | 1 364 | 2 690 | 2 745 | 2 802 | 2 861 | 13 111 | **25 573** |

## 17 Subsequent events

The Group obtained 19 611 and repaid 8 384 on existing lines of credit and existing bank loans for the period from 1 July to 10 September 2010.

The Group has evaluated subsequent events through 10 September 2010 which is the date of issuance of these condensed consolidated interim financial statements.