OJSC Cherkizovo Group

Unaudited Condensed Consolidated Interim Financial Statements

For the Six Months Ended 30 June 2011

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OJSC CHERKIZOVO GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

Management is responsible for the preparation of condensed consolidated interim financial statements that present fairly the financial position of OJSC Cherkizovo Group and subsidiaries (together "the Group") as of 30 June 2011, and the results of its operations, cash flows and changes in equity and comprehensive income for the six months then ended, in compliance with accounting principles generally accepted in the United States of America ("US GAAP").

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

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

Management is also responsible for:

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

The condensed consolidated interim financial statements of the Group for the six months ended 30 June 2011 were approved by management on 14 September 2011.

On behalf of the Management:

___________________________	___________________________
Sergei Mikhailov	**Ludmila Mikhailova**
Chief Executive Officer	Chief Financial Officer
14 September 2011	14 September 2011

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

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

Introduction

We have reviewed the accompanying condensed consolidated interim balance sheet of OJSC Cherkizovo Group and subsidiaries (together "the Group") as of 30 June 2011 and the related condensed consolidated interim income statement, cash flow statement and statement of changes in equity and comprehensive income for the six months then ended, and a summary of significant accounting policies and other explanatory information (together, the "Interim Financial Statements"). Management is responsible for the preparation and presentation of these Interim Financial Statements in accordance with accounting principles generally accepted in the United States of America. Our responsibility is to express a conclusion on these Interim Financial Statements based on our review.

Scope of Review

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

Conclusion

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

14 September 2011

Deloitte & Touche CIS

Moscow, Russia

Unaudited condensed consolidated interim balance sheet

As of 30 June 2011

		30 June 2011 US$000	31 December 2010 US$000
ASSETS			
Current assets:			
Cash and cash equivalents		39 128	68 164
Short-term deposits in bank		5 667	33 796
Trade receivables, net of allowance for doubtful accounts of 5 124 and of 4 808 as of 30 June 2011 and 31 December 2010, respectively		85 297	81 300
Other receivables, net of allowance for doubtful accounts of 3 064 and of 1 935 as of 30 June 2011 and 31 December 2010, respectively	17	42 743	12 594
Advances paid, net of allowance for doubtful accounts of 2 323 and of 1 820 as of 30 June 2011 and 31 December 2010, respectively		34 351	42 087
Inventory	3	225 376	183 170
Other current assets		53 319	41 513
Deferred tax assets		5 431	5 003
Total current assets		**491 312**	**467 627**
Non-current assets:			
Property, plant and equipment, net	4	1 237 142	934 904
Goodwill	14	78 207	14 108
Other intangible assets, net		45 965	41 821
Deferred tax assets		3 545	3 266
Notes receivable, net		1 735	1 427
Other non-current assets		13 424	8 296
Total non-current assets		**1 380 018**	**1 003 822**
Total assets		**1 871 330**	**1 471 449**

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

Unaudited condensed consolidated interim balance sheet continued

As of 30 June 2011

	Note	30 June 2011 US$000	31 December 2010 US$000
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade accounts payable		88 961	73 251
Short-term borrowings	5	287 345	182 467
Payroll related liability		21 366	14 159
Payables for non-current assets		13 884	10 450
Tax related liabilities		12 031	10 132
Advances received		2 931	6 121
Interest payable		2 169	3 131
Other liabilities	14	31 083	6 656
Total current liabilities		**459 770**	**306 367**
Non-current liabilities:			
Long-term borrowings	5	587 370	465 889
Deferred tax liabilities		29 322	25 728
Tax related liabilities		2 959	2 726
Payables to shareholders		572	563
Other liabilities		2 614	25
Total non-current liabilities		**622 837**	**494 931**
Commitments and contingencies	15		
Equity:			
Share capital	6	15	15
Additional paid-in capital		268 146	272 682
Treasury shares		(496)	(496)
Other accumulated comprehensive loss		(20 184)	(76 062)
Retained earnings		508 421	442 447
Total shareholders' equity		**755 902**	**638 586**
Non-controlling interests		32 821	31 565
Total equity		**788 723**	**670 151**
Total liabilities and equity		**1 871 330**	**1 471 449**

Unaudited condensed consolidated interim income statement

For the six months ended 30 June 2011

		Six months ended 30 June 2011 US$000	Six months ended 30 June 2010 (Restated- see Note 1) US$000	Year ended 31 December 2010 US$000
Sales	7	689 053	572 778	1 188 213
Cost of sales	8	(519 337)	(409 174)	(864 341)
Gross profit		**169 716**	**163 604**	**323 872**
Selling, general and administrative expenses	9	(94 280)	(75 503)	(155 722)
Other operating expense, net		(34)	(8)	(1 182)
Operating Income		**75 402**	**88 093**	**166 968**
Other income, net	10	1 212	940	1 811
Interest expense, net	11	(7 312)	(9 748)	(15 936)
Income before income tax expense		**69 302**	**79 285**	**152 843**
Income tax expense		(2 465)	(3 246)	(4 145)
Net Income		**66 837**	**76 039**	**148 698**
Less: Net income attributable to non-controlling interests		(863)	(1 981)	(4 249)
Net Income attributable to Cherkizovo Group		**65 974**	**74 058**	**144 449**

Weighted average number of shares outstanding		43 028 022	43 028 022	43 028 022
Net income attributable to Cherkizovo Group per share – basic and diluted (USD):	6	1.53	1.72	3.36

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

Unaudited condensed consolidated interim cash flow statement

For the six months ended 30 June 2011

	Six months ended 30 June 2011 US$000	Six months ended 30 June 2010 (Restated- see Note 1) US$000	Year ended 31 December 2010 US$000
Cash flows from (used in) operating activities:			
Net income	66 837	76 039	148 698
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortisation	29 823	24 908	50 544
Bad debt expense	1 261	898	2 834
Foreign exchange loss (gain)	914	(228)	353
Deferred tax expense (benefit)	119	(832)	(1 960)
Recognition of previously unrecognized tax benefits	-	-	(1 491)
Share-based compensation expense	-	1 872	3 803
Other adjustments, net	(181)	32	999
Changes in operating assets and liabilities			
Decrease (increase) in inventories	10 617	14 785	(31 205)
Decrease (increase) in trade receivables	3 898	(499)	(6 894)
Decrease (increase) in advances paid	12 579	5 183	(11 571)
Decrease in non-current value added tax receivable	-	10 682	7 566
Increase in other receivables and other current assets	(29 697)	(5 337)	(5 991)
(Decrease) increase in trade accounts payable	(4 173)	(13 645)	8 407
(Decrease) increase in taxes payable	(1 603)	1 268	(1 360)
(Decrease) increase in other current payables	(3 417)	(376)	3 627
Total net cash from operating activities	**86 977**	**114 750**	**166 359**
Cash flows from (used in) investing activities:			
Purchases of long-lived assets	(99 486)	(68 752)	(170 645)
Proceeds from sale of property, plant and equipment	831	425	448
Acquisition of subsidiaries, net of cash acquired	(43 219)	(561)	(9 317)
Sale of notes receivable	-	-	2 590
Issuance of short-term loans	(6 057)	(8 619)	(36 705)
Repayments on short-term loans issued	42 492	8 134	687
Total net cash used in investing activities	**(105 439)**	**(69 373)**	**(212 942)**

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

Unaudited condensed consolidated interim cash flow statement continued

For the six months ended 30 June 2011

	Six months ended 30 June 2011 US$000	Six months ended 30 June 2010 US$000 (Restated- see Note 1)	Year ended 31 December 2010 US$000
Cash flows from (used in) financing activities:			
Proceeds from long-term loans	78 143	51 276	150 485
Repayment of long-term loans	(72 099)	(23 655)	(65 449)
Proceeds from long-term loans from related parties	7	702	761
Repayment of long-term loans from related parties	(798)	(99)	(8 483)
Proceeds from short-term loans	42 234	31 855	141 169
Repayment of short-term loans	(60 819)	(74 894)	(127 571)
Acquisitions of entities under common control and non-controlling interests (Note 14)	(3 805)	(8 532)	(15 408)
Total net cash (used in) from financing activities	**(17 137)**	**(23 347)**	**75 504**
Total cash (used in) from operating, investing and financing activities	**(35 599)**	**22 030**	**28 921**
Impact of exchange rate difference on cash and cash equivalents	6 563	(2 014)	(591)
Net (decrease) increase in cash and cash equivalents	**(29 036)**	**20 016**	**28 330**
Cash and cash equivalents at the beginning of the period	**68 164**	**39 834**	**39 834**
Cash and cash equivalents at the end of the period	**39 128**	**59 850**	**68 164**
Supplemental Information:			
Income taxes paid	3 367	4 884	7 422
Interest paid	38 538	35 831	69 229
Subsidies received	29 714	23 840	57 344
Property, plant and equipment acquired under finance leases	37	-	-

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

Unaudited condensed consolidated interim statement of changes in equity and comprehensive income

For the six months ended 30 June 2011

	Share capital US$000	Additional paid-in capital US$000	Treasury shares US$000	Retained earnings US$000	Other accumulated comprehensive income (loss) US$000	Total shareholders' equity US$000	Non-controlling interests US$000	Total equity US$000
Balances at 1 January 2010	**15**	**281 161**	**(496)**	**297 998**	**(71 707)**	**506 971**	**30 676**	**537 647**
Net income	-		-	74 058	-	74 058	1 981	76 039
Other comprehensive loss from translation adjustment	-	-	-	-	(17 988)	(17 988)	(893)	(18 881)
Total comprehensive income (loss)				**74 058**	**(17 988)**	**56 070**	**1 088**	**57 158**
Contribution from shareholder	-	1 872	-	-	-	1 872	-	1 872
Effect of acquisitions under common control (Note 1)	-	(8 505)	-	-	-	(8 505)		(8 505)
Purchase of non-controlling interests	-	2 569	-	-	-	2 569	(3 126)	(557)
Balances at 30 June 2010 (Restated – see Note 1)	**15**	**277 097**	**(496)**	**372 056**	**(89 695)**	**558 977**	**28 638**	**587 615**
Balances at 1 January 2011	**15**	**272 682**	**(496)**	**442 447**	**(76 062)**	**638 586**	**31 565**	**670 151**
Net income	-	-	-	65 974	-	65 974	863	66 837
Other comprehensive income from translation adjustment	-	-	-	-	55 878	55 878	2 784	58 662
Total comprehensive income				**65 974**	**55 878**	**121 852**	**3 647**	**125 499**
Acquisition of entity under common control (Note 14)	-	(4 492)	-	-	-	(4 492)	-	(4 492)
Purchase of non-controlling interests	-	(44)	-	-	-	(44)	(20)	(64)
Purchase of non controlling interests due to acquisition of subsidiaries (Note 14)	-	-	-	-	-	-	(2 371)	(2 371)
Balances at 30 June 2011	**15**	**268 146**	**(496)**	**508 421**	**(20 184)**	**755 902**	**32 821**	**788 723**

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

Notes to the unaudited condensed consolidated interim financial statements

For the six months ended 30 June 2011

(in thousand USD, unless noted otherwise)

1 Business and environment

Incorporation and history

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

Accounting for the 2010 reorganisation

As previously reported, during the fourth quarter of 2010, the Group acquired LLC RAO Penzenskaya Grain Company ("PZK") and CJSC Lipetskmyaso ("Lipetskmyaso"), entities under common control. For purposes of these condensed consolidated interim financial statements, all prior periods have been retrospectively adjusted as if the acquisition had been completed in the earliest period presented. The Group's transactions with PZK and Lipetskmyaso have been eliminated upon consolidation.

PZK historically operated a grain and pork business. Prior to the Group's acquisition of PZK, the Group's majority shareholder reorganized PZK whereby all of the assets and operations of the grain business were transferred to another common control entity outside of the Cherkizovo structure. PZK's historical financial information has been retrospectively consolidated with the Group's results excluding the former grain business. PZK had a centralized cash management approach for its pork and grain business whereby the combined business' cash was used to purchase assets of both pork and grain. The resulting difference from the carve-out has been reflected as an effect of acquisition under common control in the Group's statement of changes in equity and comprehensive income.

In accordance with the Group's accounting policy for common control transactions, assets and liabilities of the acquired companies were retrospectively reflected based on the carrying values at which they were recognised by the majority shareholder.

The following table presents the significant effects of this restatement:

As of 30 June 2010:	**As previously reported**	**Entities acquired under common control**	**Eliminations**	**As restated**
Total current assets	347 128	14 639	(16 232)	345 535
Property, plant and equipment, net	762 580	73 718	-	836 298
Other intangible assets, net	40 656	4	-	40 660
Other non-current assets	21 048	(37)	(4 007)	17 004
Total assets	1 171 412	88 324	(20 239)	1 239 497
Total current liabilities	189 227	26 586	(16 232)	199 581
Total non-current liabilities	381 429	70 873	-	452 302
Total liabilities	570 656	97 459	(16 232)	651 883
Total shareholders' equity	572 118	(9 134)	(4 007)	558 977
Non-controlling interest	28 638	-	-	28 638
Total equity	600 756	(9 134)	(4 007)	587 615
Total liabilities and equity	1 171 412	88 324	(20 239)	1 239 497
For the six months ended 30 June 2010:				
Sales	579 949	11 157	(18 328)	572 778
Operating income	84 861	3 232	-	88 093
Income before tax	76 609	2 676	-	79 285
Net income	73 363	2 676	-	76 039
Net income attributable to Group Cherkizovo	71 382	2 676	-	74 058
EPS, basic and diluted ($US)	1.66			1.72

2 Summary of significant accounting policies

Basis of preparation

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

The condensed consolidated interim financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for the preparation of interim financial information. They do not include all information and notes required by U.S. GAAP in the preparation of annual consolidated financial statements. The accounting policies used in the preparation of the 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 2010. The condensed consolidated balance sheet as of 31 December 2010 is derived from the 31 December 2010 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, the calculation of deferred taxes, valuation allowances for deferred tax assets and assets and liabilities acquired in business combinations.

The financial results for the six months ended 30 June 2011 are not necessarily indicative of the financial results for the full year. The unaudited condensed consolidated interim financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2010.

Taxation

The Group's effective tax rate for the six months ended 30 June 2011 was 3.55% and was calculated based on the expected effective tax rate for the full year. The gross effective tax rate differs from the statutory rate of 20% largely due to the tax holidays enacted for companies engaged in agricultural production, as well as the receipt of non-taxable subsidies by some of the Group companies.

(in thousand USD, unless noted otherwise)

2 Summary of significant accounting policies continued

Foreign currency translation

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

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

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

	Exchange rate
30 June 2011	28.0758
31 December 2010	30.4769
30 June 2010	31.1954
Weighted average exchange rate for the six months ended 30 June 2011	28.6242
Weighted average exchange rate for the year ended 31 December 2010	30.3692
Weighted average exchange rate for the six months ended 30 June 2010	30.0686

Effect of accounting pronouncements adopted

In December 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-29, "Disclosure of Supplementary Pro Forma Information for Business Combinations." This ASU requires that the pro forma information be presented as if the business combination occurred at the beginning of the prior annual reporting period for purposes of calculating both the current reporting period and the prior reporting period pro forma financial information. The ASU also requires that this disclosure be accompanied by a narrative description of the amount and nature of material nonrecurring pro forma adjustments. ASU No. 2010-29 is effective prospectively for business combinations occurring on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Group adopted the requirements of ASU No. 2010-29 for business combinations occurring on or after January 1, 2011. In the condensed consolidated interim financial statements the Group presented new pro forma information for business combinations occurring during six months ended 30 June 2011 (see Note 14).

In December 2010, the FASB issued ASU No. 2010-28, "When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts." This ASU modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. As a result, ASU No. 2010-28 is eliminating an entity's ability to assert that a reporting unit is not required to perform Step 2 because the carrying amount of the reporting unit is zero or negative despite the existence of qualitative factors that indicate the goodwill is more likely than not impaired. Therefore, goodwill impairments may be reported sooner than under current practice. ASU No. 2010-28 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Group adopted the requirements of ASU No. 2010-28 from January 1, 2011. The adoption of the standard did not have an impact on the condensed consolidated interim financial statements.

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 Accounting Standards Codification ("ASC" or, the "Codification") No. 310, "Receivables." This ASU provides financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables and requires entities to provide disclosures that facilitate financial statement users' evaluation of the following: 1) the nature of credit risk inherent in the entity's portfolio of financing receivables; 2) how that risk is analyzed and assessed in arriving at the allowance for credit losses; and 3) the changes and reasons for those changes in the allowance for credit losses. ASU No. 2010-20 also introduces new terminology, in particular, the term financial receivables. For public entities, 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 Group adopted ASU No. 2010-20 from January 1, 2011. The adoption of this new guidance did not have an impact on the condensed consolidated interim financial statements.

2 Summary of significant accounting policies continued

New accounting pronouncements

In June 2011, the FASB issued ASU No. 2011-05, “Presentation of Comprehensive Income,” which amends Topic 220 of the Codification. This ASU increases the prominence of other comprehensive income in financial statements. Under this ASU, an entity will have the option to present the components of net income and comprehensive income in either one or two financial statements. The ASU eliminates the option in US GAAP to present other comprehensive income in the statement of changes in equity. ASU No. 2011-05 is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011 and should be applied retrospectively. The Group is evaluating the effect of the adoption of ASU No. 2011-05 and expects the adoption to have an impact on the presentation of comprehensive income within our financial statements as we currently include it within the statement of changes in equity and comprehensive income.

In May 2011, the FASB issued ASU No. 2011-04, “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRSs,” which amends Topic 820 of the Codification. This ASU provides guidance for fair value measurements and disclosure requirements and clarifies the FASB’s intent about the application of existing fair value measurement requirements. The new standard does not extend the use of fair value but, rather, provides guidance about how fair value should be applied where it already is required or permitted under US GAAP. ASU No. 2011-04 is effective for public entities during interim and annual periods beginning after December 15, 2011 and should be applied prospectively. The Group is evaluating the effect of the adoption of ASU No. 2011-04 and does not expect any material impact on its results of operations, financial position or cash flows.

In April 2011, the FASB issued ASU No. 2011-02, “A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring”, which amends Topic 310 of the Codification. This ASU provides additional guidance in considering whether restructuring constitutes a troubled debt restructuring and helps creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties. ASU No. 2011-02 is effective starting from the first interim or annual period beginning on or after June 15, 2011. The Group is evaluating the effect of the adoption of ASU No. 2011-02 and does not expect any material impact on its results of operations, financial position or cash flows.

(in thousand USD, unless noted otherwise)

3 Inventory

Inventory as of 30 June 2011 and 31 December 2010 comprised:

	30 June 2011 US$000	31 December 2010 US$000
Raw materials	98 378	97 130
Livestock	96 222	71 844
Work in-process	18 728	7 715
Finished goods	12 048	6 481
Total inventory	**225 376**	**183 170**

4 Property, plant and equipment, net

The carrying amounts of property, plant and equipment as of 30 June 2011 and 31 December 2010 comprised:

	30 June 2011 US$000	31 December 2010 US$000
Land	13 855	7 652
Buildings, infrastructure and leasehold improvements	704 695	521 179
Machinery and equipment	231 915	180 533
Vehicles	39 627	27 761
Sows	17 315	15 093
Advances paid for property, plant and equipment	48 527	42 004
Construction in-progress and equipment for installation	179 097	138 880
Other	2 111	1 802
Total property, plant and equipment, net	**1 237 142**	**934 904**

Accumulated depreciation amounted to 277 010 and 230 666 as of 30 June 2011 and 31 December 2010, respectively. Depreciation expense amounted to 29 121 and 24 619 for the six months ended 30 June 2011 and 2010, respectively, which includes depreciation of leased equipment.

Net book values of vehicles and machinery and equipment include 7 324 and 6 141 of leased equipment as of 30 June 2011 and 31 December 2010, respectively. Net book values of buildings, infrastructure and leasehold improvements include 10 233 and 10 179 of leased buildings and infrastructure as of 30 June 2011 and 31 December 2010, respectively. Accumulated depreciation on leased property and equipment amounted to 8 701 and 6 981 as of 30 June 2011 and 2010, respectively.

(in thousand USD, unless noted otherwise)

5 Borrowings

Borrowings of the Group as of 30 June 2011 and 31 December 2010 comprised:

				30 June 2011 US$000		31 December 2010 US$000	
	Interest rates	**WAIR***	**EIR****	**Current**	**Non-current**	**Current**	**Non-current**
Finance leases	8.30% - 17.52%	15.16%	15.16%	529	7 262	717	4 610
Bonds	8.25% -12.25%	10.09%	10.09%	45 308	53 427	10 479	49 218
Bank loans	8.00% - 17.00%	8.93%	0.56%	6 860	1 981	328	984
Credit lines	7.52% - 17.00%	11.29%	1.84%	233 338	523 784	168 267	409 746
Loans from government	0.00%	0.00%	0.00%	21	234	1 815	-
Other borrowings	0.00% - 2.60%	0.08%	0.08%	1 289	682	861	1 331
				287 345	**587 370**	**182 467**	**465 889**
Total borrowings					**874 715**		**648 356**

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

Contractual maturity of long-term borrowings (excluding finance leases) is as follows:

Maturity of non-current borrowings	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	01.07.2017 US$000	>01.07.2017 US$000	Total US$000
Total borrowings	161 921	162 405	181 722	85 974	83 567	56 619	9 821	**742 029***

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

As of 30 June 2011, the Group's borrowings are denominated in the following currencies: 859 144 in Russian roubles, 9 978 in Euro and 5 593 in USD. As of 31 December 2010, the Group's borrowings were denominated in the following currencies: 642 982 in Russian roubles, 615 in Euro and 4 759 in USD.

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

Capital leases

As of 30 June 2011 and 31 December 2010, 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 comprised:

	30 June 2011 US$000		31 December 2010 US$000	
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	1 610	1 080	1 426	710
In year two	1 416	1 016	885	654
In year three	1 369	960	827	624
In year four	3 995	1 822	827	593
In year five	897	605	827	557
After year five	6 507	2 520	5 994	2 321
	15 794	**8 003**	**10 786**	**5 459**

(in thousand USD, unless noted otherwise)

5 Borrowings continued

Bonds

Bonds due in June 2011
As of 31 December 2010, the Group had outstanding 320 000 bonds (10 479) with a maturity date in June 2011. The Group accounted for these instruments at amortized cost. The bonds were redeemed at par value in June 2011.

Bonds due in November 2013
In November 2010, the Group placed 3 000 000 bonds at par value (1 000 roubles or 33 at the issuance date) with a maturity date in November 2013. 1 500 000 of these bonds were purchased by a Group company upon issuance, for the purpose of selling on the market when funds are required. The remaining 1 500 000 bonds (53 427) held by third parties are presented as non-current debt as of 30 June 2011. The coupon rate on the bonds, payable semi-annually, was set at 8.25% per annum.

Mosselprom Bonds due in April 2014
In July 2011 the Group redeemed at par value 1,272,061 bonds (45 308) issued by Mosselprom due to their relatively high coupon rate. Accordingly, the bonds were classified as short term as of 30 June 2011.

Bank loans

Gazprombank
Borrowings from Gazprombank consist of one long-term rouble denominated loan with a fixed interest rate of 12% per annum. Notes receivable with a carrying value of 1 612 were pledged as collateral under this loan. Principal payment is due on maturity in 2014. Amount outstanding was 1 069 and 984 as of 30 June 2011 and 31 December 2010, respectively.

Savings Bank of Russia
Borrowings from Savings Bank of Russia consist of one short-term rouble denominated loan with a fixed interest rate of 8.1% per annum. Amount outstanding was 356 and 328 as of 30 June 2011 and 31 December 2010, respectively.

CreditEuropeBank
Borrowings from CreditEuropeBank consist of one short-term rouble denominated loan with a fixed interest rate of 8.25% per annum. Amount outstanding was 6 055 and 0 as of 30 June 2011 and 31 December 2010, respectively.

Rosselhozbank
Borrowings from Rosselhozbank consist of one long-term rouble denominated loan with interest rate 17.0% per annum and two long-term euro denominated loans with a fixed interest rate of 8.0% per annum. Amount outstanding was 1 362 and 0 as of 30 June 2011 and 31 December 2010, respectively.

Lines of credit

Savings Bank of Russia
Borrowings from the Savings Bank of Russia consist of fifty rouble denominated lines of credit with fixed interest rates ranging from 7.54% to 13.5% per annum. Several of these instruments are guaranteed by related parties. Principal payments are due from 2011 to 2019. Amount outstanding was 367 124 and 306 070 as of 30 June 2011 and 31 December 2010, respectively.

Gazprombank
Borrowings from Gazprombank consist of six rouble denominated lines of credit with fixed interest rates ranging from 8% to 13.0% per annum. Some of these facilities are guaranteed by related parties. Principal payments are due from 2011 to 2016. Amount outstanding was 140 488 and 126 093 as of 30 June 2011 and 31 December 2010, respectively.

Bank Zenith
Borrowings from Bank Zenith consist of four rouble denominated lines of credit with a fixed interest rate of 13% per annum. Some of these facilities are guaranteed by related parties. Principal payment is due on maturity in 2013 and 2014. Amount outstanding was 83 702 and 77 108 as of 30 June 2011 and 31 December 2010, respectively.

Raiffeisenbank
Borrowings from Raiffeisenbank consist of one rouble denominated line of credit with an interest rate 7.52% per annum. Amount outstanding was 682 and 17 037 as of 30 June 2011 and 31 December 2010, respectively.

(in thousand USD, unless noted otherwise)

5 Borrowings continued

Rosselhozbank

Borrowings from Rosselhozbank consist of thirty five rouble and five euro denominated lines of credit with fixed interest rates ranging from 8% to 17% per annum. Some of these facilities are guaranteed by related parties. Principal payments are due from 2011 to 2017. Amount outstanding was 151 501 and 43 503 for rouble denominated and 8 885 and 0 for euro denominated lines of credit as of 30 June 2011 and 31 December 2010, respectively.

The total amount of unused credit on lines of credit as of 30 June 2011 is 116 883. The unused credit can be utilized from 2011 to 2015 with expiration of available amounts varying as follows: 70 142 expires by 30 June 2012 and 46 741 by the year 2015.

Other borrowings

Other borrowings primarily represent unsecured loans from shareholders and contractors with interest rates ranging from 0% to 2.6% per annum. Principal payments are due from 2011 to 2020.

Collateral under borrowings

Shares of and participating interests in the following Group companies are pledged as collateral under certain borrowings as of 30 June 2011:

- 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%;
- LLC AIC Mikhailovsky – 51%;
- LLC Tambovmyasoprom – 51%;
- LLC Kurinoe Tsarstvo – Bryansk – 99%;
- CJSC Agroresurs-Voronezh – 100%;
- LLC Resurs (Tambov) – 100%;
- LLC RAO PZK – 100%;
- CJSC LipetskMyaso – 100%.

Inventory with a carrying value of 62 960 and 52 113 was pledged under certain borrowings as of 30 June 2011 and 31 December 2010, respectively.

Property, plant and equipment with a carrying value of 469 716 and 331 849 was pledged under loan agreements as of 30 June 2011 and 31 December 2010, respectively.

Certain significant loan agreements with Gazprombank and Savings Bank of Russia contain financial covenants requiring minimum cash receipts from sales in accounts at the respective banks. The Group believes that it is in compliance with these covenants as of 30 June 2011.

6 Shareholders' equity

Share capital

As of 30 June 2011, issued shares of OJSC Cherkizovo Group had a par value of 0.01 roubles. The total number of authorized shares was 54 702 600 and the number of issued and outstanding shares was 43 069 355 and 43 028 022, respectively.

All issued and outstanding shares have equal voting rights. 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 2011 and 2010.

Earnings per share

The option related to the Mosselprom acquisition (Note 14) was not included in calculating diluted earnings per share due to its antidilutive impact. There were no share based compensation agreements outstanding during the six months ended 30 June 2011.

(in thousand USD, unless noted otherwise)

7 Sales

Sales for the six months ended 30 June 2011 and 2010 and for the year ended 31 December 2010 comprised:

	Six months ended 30 June 2011 US$000	Six months ended 30 June 2010 (Restated- see Note 1) US$000	Year ended 31 December 2010 US$000
Produced goods and goods for resale	714 311	592 519	1 233 602
Other sales	5 674	4 110	8 125
Sales volume discounts	(23 413)	(18 442)	(41 212)
Sales returns	(7 519)	(5 409)	(12 302)
Total sales	**689 053**	**572 778**	**1 188 213**

8 Cost of sales

Cost of sales for the six months ended 30 June 2011 and 2010 and for the year ended 31 December 2010 comprised:

	Six months ended 30 June 2011 US$000	Six months ended 30 June 2010 (Restated- see Note 1) US$000	Year ended 31 December 2010 US$000
Raw materials and goods for resale	394 162	312 117	667 335
Personnel (excluding pension costs)	50 681	38 056	78 387
Utilities	29 406	21 190	42 718
Depreciation	27 057	22 638	46 438
Pension costs	8 662	5 834	11 827
Other	9 369	9 339	17 636
Total cost of sales	**519 337**	**409 174**	**864 341**

Raw materials and goods for resale are offset by subsidies received from local governments in the amount of 19 225, 455 and 1 098 for the six months ended 30 June 2011 and 2010 and for the year ended 31 December 2010, respectively. These targeted subsidies are received based on the amount of meat produced.

(in thousand USD, unless noted otherwise)

9 Selling, general and administrative expenses

Selling, general and administrative expenses for the six months ended 30 June 2011 and 2010 and for the year ended 31 December 2010 comprised:

	Six months ended 30 June 2011 US$000	Six months ended 30 June 2010 (Restated- see Note 1) US$000	Year ended 31 December 2010 US$000
Personnel (excluding pension costs)	35 881	30 229	61 830
Transportation	13 434	7 899	17 932
Pension costs	6 810	4 323	7 420
Taxes (other than income tax)	5 392	6 305	12 387
Materials and supplies	5 274	4 927	10 418
Security services	4 768	3 986	8 088
Audit, consulting and legal fees	3 202	1 740	4 926
Depreciation and amortisation	2 766	2 270	4 106
Utilities	1 930	1 416	2 523
Bad debt expense	1 261	898	2 834
Advertising and marketing	1 164	536	1 226
Veterinary services	1 162	940	2 009
Repairs and maintenance	911	949	2 122
Bank charges	813	960	1 672
Information technology and communication services	813	644	1 264
Insurance	488	424	965
Other	8 211	7 057	14 000
Total selling, general and administrative expenses	**94 280**	**75 503**	**155 722**

10 Other income, net

Other income, net for the six months ended 30 June 2011 and 2010 and for the year ended 31 December 2010 comprised:

	Six months ended 30 June 2011 US$000	Six months ended 30 June 2010 (Restated- see Note 1) US$000	Year ended 31 December 2010 US$000
Interest income	1 641	701	1 220
Foreign exchange (loss) gain	(914)	228	(353)
Other financial income, net	485	11	944
Total other income, net	**1 212**	**940**	**1 811**

11 Interest expense, net

Interest expense, net for the six months ended 30 June 2011 and 2010 and for the year ended 31 December 2010 comprised:

	Six months ended 30 June 2011 US$000	Six months ended 30 June 2010 (Restated- see Note 1) US$000	Year ended 31 December 2010 US$000
Interest expense, net of subsidies	6 856	9 236	15 004
Finance lease expense	453	508	928
Amortization of discount	3	4	4
Total interest expense, net	**7 312**	**9 748**	**15 936**

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 25 871, 21 911 and 42 653 for the six months ended 30 June 2011 and 2010 and for the year ended 31 December 2010, respectively.

Interest (net of subsidies) capitalized for the six months ended 30 June 2011 and 2010 and for the year ended 31 December 2010 was 2 305, 1 096 and 2 586, 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 with related parties such as the sale and purchase of inventory. In addition, the Group enters into financing transactions with related parties.

Trading transactions

Trading transactions with related parties comprise mostly of sales of mixed fodder to CJSC Penzamyasoprom and purchases of raw materials from CJSC Voronezhmyasoprom as well as purchase of finished goods for resale through the Group's trading house from CJSC Penzamyasoprom.

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.

(in thousand USD, unless noted otherwise)

12 Related parties continued

Financing transactions

During the six months ended 30 June 2011 and 2010 and for the year ended 31 December 2010, certain shareholders issued loans to the Group and, as of 30 June 2011, have personally guaranteed certain of the bank loans and lines of credit for a total amount of 326 652 (Note 5).

As of 30 June 2011 and 31 December 2010, balances with related parties are summarized as follows:

Balances	30 June 2011 US$000	31 December 2010 US$000
Short-term loan receivable	4 160	3 909
Trade receivables	10 888	13 540
Other non-current receivables	7 212	2 593
Advances paid	4 381	6 170
Other receivables	1 192	3 188
Long-term loans receivable	140	129
Trade payables	4 241	4 447
Short-term loans	561	521
Other payables	480	421
Current portion of long-term loans payable	33	39
Long-term loans payable	541	1 232
Long-term payables to shareholders related to lease agreements	572	563

For the six months ended 30 June 2011 and 2010, and for the year ended 31 December 2010, transactions with related parties are summarized as follows:

Transactions	Six months ended 30 June 2011 US$000	Six months ended 30 June 2010 (Restated- see Note 1) US$000	Year ended 31 December 2010 US$000
Sales	2 641	3 568	8 430
Rent income	209	94	439
Purchases of security services	183	272	27
Purchases of goods and services	13 051	18 830	30 830

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. All segments have different segment managers responsible for the segments' operations. The chief operating decision maker (the Chief Executive Officer) is the individual responsible for allocating resources to and assessing the performance of each segment of the business.

The meat processing segment is involved in the production of a wide range of meat products, including sausages, ham and raw meat. The pork and poultry segments produce and offer distinctive products, such as semi-finished poultry products, raw meat, eggs and other poultry meat products in the poultry segment and raw pork meat in the pork segment. All three segments are involved in other business activities, including production of dairy and other services, which are non-core business activities. Additionally, as a result of the acquisition of Mosselprom, the Group expects to begin reporting a fourth segment by the end of the current fiscal year, crop cultivation, which will consist primarily of the results of an operational land bank which was acquired.

The Group evaluates segment performance based on income before income tax expense. 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 issues, and loans to Group companies.

Notes to the unaudited condensed consolidated interim financial statements continued

For the six months ended 30 June 2011

(in thousand USD, unless noted otherwise)

13 Segment reporting continued

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

Segment information for the six months ended 30 June 2011:

	Meat-Processing US$000	Poultry US$000	Pork US$000	Corporate and other US$000	Intersegment US$000	Combined US$000
Total Sales	302 999	321 755	123 386	1 610	(60 697)	689 053
including other sales	1 445	36 560	12 329	-	-	50 334
including sales volume discounts	(12 699)	(10 714)	-	-	-	(23 413)
Intersegment Sales	(331)	(22 359)	(36 400)	(1 607)	60 697	-
Sales to external customers	302 668	299 396	86 986	3	-	689 053
Cost of Sales	(254 481)	(246 449)	(77 299)	(3)	58 895	(519 337)
Gross profit	**48 518**	**75 306**	**46 087**	**1 607**	**(1 802)**	**169 716**
Operating expenses	(37 236)	(40 327)	(9 055)	(9 498)	1 802	(94 314)
Operating income	**11 282**	**34 979**	**37 032**	**(7 891)**	**-**	**75 402**
Other income and expenses, net	1 188	(720)	53	6 157	(5 466)	1 212
Interest expense, net	(5 090)	(3 153)	(1 592)	(2 943)	5 466	(7 312)
Segment profit	**7 380**	**31 106**	**35 493**	**(4 677)**	**-**	**69 302**
Supplemental information:						
Expenditure for segment property,						
plant and equipment	5 625	42 225	58 172	(71)	-	105 951
Depreciation expense	6 106	14 247	9 224	246	-	29 823
Income tax expense (benefit)	2 202	290	(27)	-	-	2 465

Segment information for the six months ended 30 June 2010 (as restated – see Note 1):

	Meat-Processing US$000	Poultry US$000	Pork US$000	Corporate and other US$000	Intersegment US$000	Combined US$000
Total Sales	243 402	253 268	105 984	3 038	(32 914)	572 778
including other sales	1 293	33 608	9 208	-	-	44 109
including sales volume discounts	(8 577)	(9 865)	-	-	-	(18 442)
Intersegment Sales	(233)	(18 418)	(11 227)	(3 036)	32 914	-
Sales to external customers	243 169	234 850	94 757	2		572 778
Cost of Sales	(201 037)	(176 710)	(61 148)	(5)	29 726	(409 174)
Gross profit	**42 365**	**76 558**	**44 836**	**3 033**	**(3 188)**	**163 604**
Operating expenses	(29 848)	(31 679)	(7 273)	(9 899)	3 188	(75 511)
Operating income	**12 517**	**44 879**	**37 563**	**(6 866)**	**-**	**88 093**
Other income and expenses, net	1 088	(399)	405	3 356	(3 510)	940
Interest expense, net	(4 512)	(4 117)	(3 709)	(920)	3 510	(9 748)
Segment profit	**9 093**	**40 363**	**34 259**	**(4 430)**	**-**	**79 285**
Supplemental information:						
Expenditure for segment property,						
plant and equipment	961	36 634	28 640	1 804	-	68 039
Depreciation expense	5 614	11 842	7 330	122	-	24 908
Income tax expense (benefit)	2 506	(693)	1 433	-	-	3 246

(in thousand USD, unless noted otherwise)

13 Segment reporting continued

Segment information for the year ended 31 December 2010 comprised:

	Meat-Processing US$000	Poultry US$000	Pork US$000	Corporate and other US$000	Intersegment US$000	Combined US$000
Total Sales	529 354	500 961	222 239	4 856	(69 197)	1 188 213
including other sales	2 670	61 410	14 436	-	-	78 516
including sales volume discounts	(21 308)	(19 904)	-	-	-	(41 212)
Intersegment Sales	(616)	(35 962)	(27 773)	(4 846)	69 197	-
Sales to external customers	528 738	464 999	194 466	10	-	1 188 213
Cost of Sales	(441 725)	(354 805)	(132 198)	(10)	64 397	(864 341)
Gross profit	**87 629**	**146 156**	**90 041**	**4 846**	**(4 800)**	**323 872**
Operating expenses	(61 805)	(64 742)	(15 614)	(19 543)	4 800	(156 904)
Operating income	**25 824**	**81 414**	**74 427**	**(14 697)**	**-**	**166 968**
Other income and expenses, net	1 081	(399)	422	7 669	(6 962)	1 811
Interest expense, net	(8 473)	(6 436)	(5 438)	(2 551)	6 962	(15 936)
Segment profit	**18 432**	**74 579**	**69 411**	**(9 579)**	**-**	**152 843**
Supplemental information:						
Expenditure for segment property, plant and equipment	4 764	85 242	79 751	3 921	-	173 678
Depreciation expense	10 994	23 799	15 521	231	-	50 545
Income tax expense (benefit)	6 584	(1 972)	60	(527)	-	4 145

The reconciliation between segment profit and net income per the consolidated income statements for the six months ended 30 June 2011 and 2010 and for the year ended 31 December 2010 is as follows:

	Six months ended 30 June 2011 US$000	Six months ended 30 June 2010 US$000	Year ended 31 December 2010 US$000
Total segment profit	69 302	79 285	152 843
Net income attributable to non-controlling interests	(863)	(1 981)	(4 249)
Income taxes	(2 465)	(3 246)	(4 145)
Net income attributable to Cherkizovo Group	**65 974**	**74 058**	**144 449**

The reconciliation between segment assets and total assets per the consolidated balance sheets as of 30 June 2011 and 31 December 2010 is as follows:

	30 June 2011 US$000	31 December 2010 US$000
Meat processing	259 931	256 658
Poultry	808 618	578 594
Pork	709 155	532 579
Corporate and other assets	335 375	274 716
Intersegment	(241 749)	(171 098)
Total assets	**1 871 330**	**1 471 449**

(in thousand USD, unless noted otherwise)

14 Subsidiaries, acquisitions, divestitures

Acquisition of entity under common control

On 19 May 2011, the Group acquired 100% of CJSC Progress from NAFCO, a related party through common ownership, for cash consideration of 4 268. This acquisition has been accounted for as a common control transaction at carrying amount within equity in the current period. The Group has not retrospectively adjusted prior periods for the common control transaction as the impact of the transaction is immaterial to both the current and prior periods. Located in the Penza region of Russia, the acquired pork complex will be remodeled to 27 bird houses, with a combined capacity of 1.18 million broiler places. The site will be integrated into the existing Penza project, created in late 2009, thereby further increasing capacity at the cluster.

Acquisition of entity from third party

On 12 May 2011, the Group completed an acquisition of 100% of the share capital of ZAO Mosselprom. In accordance with the terms of the share purchase agreement, 44 235 was paid in cash and 27 000 is due within 150 days from the date of acquisition, either payable in cash or a fixed number of Group shares (873 203 shares) at the Group's discretion.

The Group accounted for the financed portion of the acquisition by recognizing the obligation as debt at fair value on the acquisition date and separately recognizing the option to settle in Group shares as a derivative instrument at its fair value on the acquisition date. Subsequently, the debt instrument will be accounted for at amortised cost and the derivative instrument will be remeasured at fair value at each subsequent balance sheet date until the obligation has been settled.

Mosselprom is a multi-industrial agro holding company that comprises poultry production and feed production, as well as land cultivation and cropping. The Group purchased Mosselprom in order to expand its poultry and pork production businesses.

Mosselprom includes four poultry factories for broiler breeding, three incubation facilities, three slaughter facilities and a feed production facility, including an elevator. These factories have implemented the HACCP system and comply with European Union quality requirements. Mosselprom's pork division includes a state-of-the-art pork complex in the Orel region (Central Russia). Land and cropping includes an operational land bank of 27,500 hectares and grain storage facilities with an overall storage capacity of more than 45 000 tonnes.

The results of Mosselprom's operations have been included in the condensed consolidated interim financial statements from the acquisition date. The acquisition was accounted for using historical book values as provisional values based on the assumption that the historical book values are equivalent to fair value at the date of acquisition since there was no other information available at that time.

The Group is in the process of obtaining a third party valuation report on the fair value of the assets and liabilities acquired including obtaining third-party valuation of the property, plant and equipment and accordingly, these amounts are preliminary and subject to change.

The provisional purchase price allocation was as follows:

Purchase price	**67 895**
Inventory	31 645
Other current assets	19 710
Property, plant and equipment	158 628
Goodwill and acquired intangible assets (assigned to the poultry and pork segment)	63 773
Other non-current assets	284
Short-term loans and finance leases	(61 982)
Other current liabilities	(20 818)
Long-term loans and finance leases	(124 061)
Other non-current liabilities	(1 655)
Non-controlling interest	2 371

(in thousand USD, unless noted otherwise)

14 Subsidiaries, acquisitions, divestitures continued

The following pro forma financial information presents consolidated income statements as if the acquisition occurred as of the beginning of the prior annual reporting period (1 January 2010). In determining proforma amounts, all non-recurring costs were determined to be immaterial. Pro forma information is presented for all preceding comparative periods:

Pro forma Information	**For the six months ended 30 June 2011 US$000 (UNAUDITED)**	**For the six months ended 30 June 2010 US$000 (UNAUDITED)**	**For the year ended 31 December 2010 US$000 (UNAUDITED)**
Sales	744 078	618 861	1 339 824
Operating income	75 334	92 916	174 784
Net income	**59 013**	**67 211**	**128 984**
Weighted average number of shares outstanding	43 028 022	43 028 022	43 028 022
Earnings per share (USD)	1.37	1.56	3.00

These unaudited pro forma results have been prepared for comparison 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. The actual results of operations of Mosselprom are included in the consolidated financial statements of the Group only from the date of acquisition and were:

Actual results of Mosselprom from the date of acquisition 12 May 2011 to 30 June 2011	**US$000**
Sales	22 973
Operating loss	(2 277)
Net loss	(4 173)

15 Commitments and contingencies

Legal

As of 30 June 2011 and 31 December 2010, 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, results of operations, or cash flows.

Taxation

Laws and regulations affecting businesses in the Russian Federation continue to change rapidly. These changes are characterized by different interpretations and arbitrary application by the authorities. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. The tax authorities in the Russian Federation frequently take an assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Under certain circumstances reviews may cover longer periods. Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the outflow of resources which will more likely than not 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.

(in thousand USD, unless noted otherwise)

15 Commitments and contingencies continued

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 2011.

Capital commitments
At 30 June 2011, the Group had large capital projects in progress at JSC Lipetskmyasoprom, LLC Tambovmyasoprom, LLC Kurinoe Tsarstvo – Bryansk, JSC Vasiljevskaya, CJSC Petelinskaya, LLC Resurs (Tambov), LLC Agroresurs (Voronezh) and CJSC Lipetskmyaso. As part of these projects, commitments had been made to contractors of approximately 91 428 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 1 939 towards completion of the project.

Operating lease commitments
At 30 June 2011, the Group had the following obligations under non-cancellable operating lease agreements:

	For the year ended 30.06.2012 US$000	For the year ended 30.06.2013 US$000	For the year ended 30.06.2014 US$000	For the year ended 30.06.2015 US$000	For the year ended 30.06.2016 US$000	For all periods subsequent to 30.06.2016 US$000	Total US$000
Total commitments	2 848	2 904	2 961	3 018	3 079	13 133	**27 943**

16 Fair value of financial instruments

Financial instruments accounted for at fair value on a recurring basis
On 12 May 2011 the Group acquired 100% of the share capital of ZAO Mosselprom and recognized the option to settle a portion of the consideration payable in Group shares as a derivative instrument at its fair value on the acquisition date (Note 14). Subsequently the derivative instrument was remeasured at fair value of 2 711 as of 30 June 2011. In arriving at fair value, the Group used the Black-Scholes-Merton Model, which is based on an income approach. The significant inputs for the valuation model included the following:

- Volatility of publicly traded shares: 24%
- Risk-free interest rate: 1.45%

The financial instrument falls under Level 2 of the fair value hierarchy, since fair value is calculated based on market observable inputs.

Other financial instruments
The carrying values and fair values of the Group's loans and notes receivable and borrowings with the exception of finance leases, as of 30 June 2011 and 31 December 2010 are as follows:

	30 June 2011 US$000		31 December 2010 US$000	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Loans receivable*	4 823	4 435	5 003	4 532
Notes receivable, net	1 735	1 211	1 427	902
Borrowings other than finance leases **	866 924	829 684	643 029	624 937

* Loans receivable include both the long-term loans to affiliates and short-term loans receivable

** Cost of debt of 13.39% was applied, which did not include the effect of subsidies for interest expense

17 Subsequent events

The Group obtained 98 510 and repaid 136 179 on lines of credit, bank loans and other loans for the period from 1 July through 14 September 2011.

As at 30 June 2011, the government of the Russian Federation had set aside funds for the issuance of subsidies to agricultural producers to compensate producers for the high cost of mixed fodder used in the production of poultry and pork during the first half of 2011. The Group accrued subsidies as of 30 June 2011, based on formulas used to calculate actual funds transferred to the Group by regional authorities subsequent to 30 June 2011 and prior to issuance of these condensed consolidated interim financial statements. Out of the 19 225 in subsidies accrued, 15 986 had been received as of 13 September 2011.

Subsequent to 30 June 2011 the Group acquired LLC Bolshevik an entity under common control for 10 387 consideration. This acquisition is part of the Group's plan to increase pork production capacity in the Penza Region.

The Group has evaluated subsequent events through 14 September 2011 the date the condensed consolidated interim financial statements were available for issuance.