# OJSC RAZGULAY Group

# Consolidated Financial Statements and Supplementary Financial Information for the year ended 31 December 2010

## Contents

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**Independent Auditors' Report**

Board of Directors

OJSC RAZGULAY Group

We have audited the accompanying consolidated financial statements of OJSC RAZGULAY Group (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Other Matter*

The supplementary financial information presented on page 58 does not form part of the consolidated financial statements and is unaudited.

ZAO KPMG

ZAO KPMG
29 June 2011

| | Note | 2010<br>*Million RUB* | 2009<br>*Million RUB* |
|---|---|---|---|
| **ASSETS** | | | |
| ***Non-current assets*** | | | |
| Property, plant and equipment | 14 | 27,738 | 33,937 |
| Intangible assets | 15 | 808 | 808 |
| Investments in equity accounted investees | 17 | 43 | 397 |
| Land lease rights | 18 | 1,830 | - |
| Other non-current assets | | 178 | 155 |
| **Total non-current assets** | | 30,597 | 35,297 |
| ***Current assets*** | | | |
| Inventories and biological assets | 20 | 6,918 | 6,678 |
| Other investments | | 284 | 1,206 |
| Trade and other receivables | 21 | 6,356 | 3,709 |
| Cash and cash equivalents | 22 | 412 | 401 |
| **Total current assets** | | 13,970 | 11,994 |
| **Total assets** | | 44,567 | 47,291 |
| **EQUITY AND LIABILITIES** | | | |
| ***Equity*** | 23 | | |
| Share capital | | 519 | 519 |
| Reserve for own shares | | (39) | - |
| Additional paid-in capital | | 8,783 | 9,305 |
| Retained earnings | | 3,106 | 3,163 |
| Total equity attributable to equity holders of the Company | | 12,369 | 12,987 |
| Non-controlling interests | | 917 | 897 |
| **Total equity** | | 13,286 | 13,884 |
| ***Non-current liabilities*** | | | |
| Loans and borrowings | 25 | 19,497 | 20,482 |
| Finance lease liabilities | 26 | 732 | 471 |
| Deferred tax liabilities | 19 | 838 | 850 |
| Net assets attributable to participants in limited liability subsidiaries | | 2 | - |
| **Total non-current liabilities** | | 21,069 | 21,803 |
| ***Current liabilities*** | | | |
| Loans and borrowings | 25 | 5,372 | 5,170 |
| Finance lease liabilities | 26 | 118 | 62 |
| Trade and other payables | 27 | 3,332 | 3,563 |
| Provisions | 28 | 1,390 | 2,809 |
| **Total current liabilities** | | 10,212 | 11,604 |
| **Total liabilities** | | 31,281 | 33,407 |
| **Total equity and liabilities** | | 44,567 | 47,291 |



The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 8 to 57.

| | Note | 2010<br>*Million RUB* | 2009<br>*Million RUB* |
|---|---|---|---|
| Revenue | 7 | 23,843 | 29,159 |
| Cost of sales | | (18,949) | (23,595) |
| Change in fair value of biological assets | | 1,420 | 1,450 |
| **Gross profit** | | 6,314 | 7,014 |
| Distribution expenses | | (2,234) | (3,049) |
| Administrative expenses | 8 | (1,875) | (2,319) |
| Taxes, other than on income | | (245) | (176) |
| Other income/(expenses) | 9 | 512 | (388) |
| Gains related to acquisitions and disposals of shares in subsidiaries | 10 | 56 | 6 |
| **Profit from operations** | | 2,528 | 1,088 |
| Impairment losses on non-current assets | 16 | (986) | - |
| Finance income | 12 | 70 | 1,011 |
| Finance costs | 12 | (2,845) | (3,238) |
| Share of loss of equity accounted investees, net of income tax | 17 | (11) | (91) |
| **Loss before income tax** | | (1,244) | (1,230) |
| Income tax benefit/(expense) | 13 | 1,387 | (338) |
| **Profit/(loss) for the year** | | 143 | (1,568) |
| | | | |
| **Other comprehensive income** | | | |
| Foreign currency translation differences for foreign operations | | - | 8 |
| Income tax on other comprehensive income | | - | (1) |
| **Other comprehensive income for the year, net of income tax** | | - | 7 |
| **Total comprehensive income for the year** | | 143 | (1,561) |
| | | | |
| ***Profit/(loss) attributable to:*** | | | |
| Owners of the Company | | 87 | (1,586) |
| Non-controlling interests | | 56 | 18 |
| | | 143 | (1,568) |
| | | | |
| ***Total comprehensive income attributable to:*** | | | |
| Owners of the Company | | 87 | (1,579) |
| Non-controlling interests | | 56 | 18 |
| | | 143 | (1,561) |
| | | | |
| **Basic and diluted earnings/(loss) per share** | 24 | 0.55 | (10.03) |

These consolidated financial statements were approved by the Board of Directors on 29 June 2011 and were signed on its behalf by:

*Soukhinov V.E.*

*General Director, OJSC RAZGULAY Group*



The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 8 to 57.

| | | Attributable to equity holders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| _Million RUB_ | **Note** | **Share capital** | **Reserve for own shares** | **Additional paid-in capital** | **Retained earnings** | **Total** | **Non-controlling interests** | **Total equity** |
| Balance at 1 January 2009 | | 519 | - | 9,305 | 4,742 | 14,566 | 882 | 15,448 |
| **Total comprehensive income for the year** | | | | | | | | |
| Loss for the year | | - | - | - | (1,586) | (1,586) | 18 | (1,568) |
| **Other comprehensive income** | | | | | | | | |
| Foreign currency transaction difference for foreign operations, net of tax | | - | - | - | 7 | 7 | - | 7 |
| **Total comprehensive income for the year** | | - | - | - | (1,579) | (1,579) | 18 | (1,561) |
| **Transactions with owners, recorded directly in equity** | | | | | | | | |
| Acquisition of non-controlling interests | 6(c) | - | - | - | - | - | (17) | (17) |
| Reclassification of non-controlling interests in limited liability companies | | - | - | - | - | - | 14 | 14 |
| Total transactions with owners | | - | - | - | - | - | (3) | (3) |
| Balance at 31 December 2009 | | 519 | - | 9,305 | 3,163 | 12,987 | 897 | 13,884 |
| Balance at 1 January 2010 | | 519 | - | 9,305 | 3,163 | 12,987 | 897 | 13,884 |
| **Total comprehensive income for the year** | | | | | | | | |
| Profit and total comprehensive income for the year | | - | - | - | 87 | 87 | 56 | 143 |
| **Transactions with owners, recorded directly in equity** | | | | | | | | |
| Acquisition of treasury shares | 23(a) | - | (39) | (522) | - | (561) | - | (561) |
| Acquisition of non-controlling interests | 6(c) | - | - | - | - | - | (46) | (46) |
| Distributions to equity holders | | - | - | - | (144) | (144) | - | (144) |
| Increase in non-controlling interests due to business combinations | 6(b) | - | - | - | - | - | 10 | 10 |
| Total transactions with owners | | - | (39) | (522) | (144) | (705) | (36) | (741) |
| Balance at 31 December 2010 | | 519 | (39) | 8,783 | 3,106 | 12,369 | 917 | 13,286 |



The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 8 to 57.

| | 2010<br>*Million RUB* | 2009<br>*Million RUB* |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Profit/(loss) for the year | 143 | (1,561) |
| *Adjustments for:* | | |
| Depreciation | 1,715 | 1, 382 |
| Impairment losses recognised on non-current assets | 986 | - |
| Reversal of impairment | (775) | (133) |
| Change in fair value of biological assets | (1,420) | (1,450) |
| Gains related to acquisitions and disposals of shares in subsidiaries | (51) | (6) |
| Land lease rights amortisation | 120 | - |
| Foreign exchange losses/(gains) | 72 | (231) |
| Loss on disposal of property, plant and equipment | 114 | 163 |
| Share of loss of equity accounted investees, net of income tax | 11 | 91 |
| Income tax (benefit)/expense | (1,387) | 338 |
| Interest income | (67) | (154) |
| Interest expense, net of related government grants | 2,830 | 3,109 |
| Share of profits attributable to non-controlling participants in limited liability subsidiaries | 2 | - |
| **Cash from operating activities before changes in working capital and provisions** | **2,293** | **1,548** |
| Decrease in inventories | 1,681 | 2,989 |
| Decrease in trade and other receivables | 1,635 | 2,000 |
| Decrease in trade and other payables | (1,889) | (4,012) |
| **Cash flows from operations before income taxes and interest paid** | **3,720** | **2,525** |
| Income taxes paid | (115) | (170) |
| Interest paid | (2,876) | (2,949) |
| **Net cash from/(used in) operating activities** | **729** | **(594)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from disposal of property, plant and equipment | 36 | 1 |
| Acquisition of property, plant and equipment | (1,012) | (851) |
| Acquisition of investments | - | (64) |
| Return of advances paid for agricultural land | 1,096 | 636 |
| Loans given to related parties | (15) | (1,200) |
| Loans collected from related parties | - | 1,462 |
| Loans given to third parties | (241) | (7) |
| Loans and promissory notes collected from third parties | 607 | 63 |
| Interest received | 67 | 154 |
| Acquisition of subsidiaries, net of cash acquired | (210) | - |
| **Net cash from investing activities** | **328** | **194** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Distributions to owners | (106) | - |
| Acquisition of non-controlling interests | (5) | (11) |
| Proceeds from borrowings | 21,882 | 34,274 |
| Repayment of borrowings | (22,817) | (35,486) |
| **Net cash used in financing activities** | **(1,046)** | **(1,223)** |
| **Net increase/(decrease) in cash and cash equivalents** | **11** | **(1,623)** |
| Cash and cash equivalents at beginning of year | 401 | 2,024 |
| Cash and cash equivalents at end of year | 412 | 401 |



The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 8 to 57.

## 1 Background

### (a) Organisation and operations

OJSC RAZGULAY Group (the "Company") and its subsidiaries (together referred to as the "Group") comprise Russian open joint stock, closed joint stock and limited liability companies as defined in the Civil Code of the Russian Federation. The Group also includes a number of legal entities operating in Cyprus, British Virgin Islands, the Netherlands and Switzerland.

The Company's registered office is 6/64, 2 Institutskaya, Moscow, 109428, Russia.

The Group's principal activities are the purchase, growing, processing and distribution of agricultural products, mainly sugar and grain. These products are sold in the Russian Federation and abroad. From 15 August 2010 the Group sold wheat, barley, corn, rye and products manufactured from these crops in the Russian Federation only.

Until July 2008, the majority of the Company's shares were owned by Mr. Igor V. Potapenko, who ultimately controlled the Group and had the power to direct transactions of the Group at his own discretion and for his own benefit. In July 2008, Mr. Igor V. Potapenko's ownership interest decreased to 47%. In the absence of any other party owning a significant stake in the business and, as a result of his being the Chairman of the Board of Directors of the Company, in the opinion of management, Mr. Igor V. Potapenko continued to have de facto control over the operations of the Group.

In May 2010 Mr. Igor V. Potapenko ceased to be the Company's controlling shareholder having disposed of 21.4% shares in the Company to entities ultimately controlled by Avangard Asset Management. As a result of this transaction, the Company ceased to have an ultimate controlling shareholder. In December 2010, Mr. Igor V. Potapenko sold an additional 7.6% shares of the Company to the Group.

In May 2011 entities ultimately controlled by Avangard Asset Management acting for AVG CIS Agricultural Opportunities Fund acquired an additional 8.6% interest in the Company and therefore increased its ownership interest in the Company to 29.99%. As a result of this transaction, Avangard Asset Management became the largest shareholder of the Company.

Further information about related party transactions is disclosed in note 31.

### (b) Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

## 2 Basis of preparation

### (a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

### (b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that:

- financial investments classified as available-for-sale are stated at fair value;
- property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRSs;
- biological assets are measured at fair value less costs to sell;
- agricultural produce is measured at fair value less cost to sell at the point of harvest;
- the carrying amounts of non-monetary assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, *GosKomStat*. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

**(c) Functional and presentation currency**

The national currency of the Russian Federation is the Russian Rouble (“RUB”), which is the Company’s functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest million.

**(d) Use of judgments, estimates and assumptions**

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 16 *Impairment*
- Note 28 *Provisions*
- Note 29 *Allowances for trade receivables*
- Note 30 *Contingencies*

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 16 *Impairment*
- Note 28 *Provisions*
- Note 30 *Contingencies*

**(e) Changes in accounting policies**

With effect from 1 January 2010, the Group changed its accounting policies in the following areas:

- accounting for business combinations;
- accounting for acquisitions of non-controlling interests.

**_(i) Accounting for business combinations_**

From 1 January 2010 the Group has applied IFRS 3 Business Combinations (2008) in accounting for business combinations. The change in accounting policy has been applied prospectively and has had no material impact on earnings per share.

For acquisitions on or after 1 January 2010, the Group measures goodwill as the fair value of the consideration transferred (including the fair value of the previously-held equity interest in the acquiree) and the recognised amount of any non-controlling interests in the acquiree; less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

**_(ii) Accounting for acquisitions of non-controlling interests_**

From 1 January 2010 the Group has applied IAS 27 _Consolidated and Separate Financial Statements_ (2008) in accounting for acquisitions of non-controlling interests. The change in accounting policy has been applied prospectively and has had no impact on earnings per share.

Under the new accounting policy, acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

Previously, goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

**(f) Reclassifications and other adjustments**

In these consolidated financial statements the Group has changed presentation of certain items of the statement of financial position. Comparative information has been re-presented so that it is in conformity with the current presentation. In particular the Group has made the following changes:

**_(i)_** the presentation of advances to third parties for the acquisition of agricultural land has been changed from other non-current assets to a new category of property, plant and equipment – advances for land acquisition;

**_(ii)_** the presentation of certain land plots has been changed from intangibles and other non-current assets to property, plant and equipment; and

**_(iii)_** certain lease agreements have been recognized as finance leases.

A summary of reconciliations and the items affected in these consolidated financial statements is presented below:

| *Million RUB* | **As previously reported** | **Reclassification of advances for land 2(f)(i)** | **Reclassification of land into PPE 2(f) (ii)** | **Recognition of finance lease 2(f)(iii)** | **As reclassified** |
|---|---|---|---|---|---|
| **Property plant and equipment, cost** | | | | | |
| At 1 January 2009 | 20,936 | 22,797 | 370 | - | 44,103 |
| Additions | 3,050 | (1,690) | - | 307 | 1,667 |
| Disposals | (237) | - | - | - | (237) |
| Advances for land acquisition returned | - | (769) | - | - | (769) |
| At 31 December 2009 | 23,749 | 20,338 | 370 | 307 | 44,764 |
| **Property plant and equipment, accumulated depreciation and impairment losses** | | | | | |
| At 1 January 2009 | (5,696) | (3,953) | - | - | (9,649) |
| Reclassification of impairment loss | (293) | 293 | - | - | - |
| Depreciation charge | (1,346) | (36) | - | - | (1,382) |
| Disposals | 71 | 133 | - | - | 204 |
| At 31 December 2009 | (7,264) | (3,563) | - | - | (10,827) |
| **Property plant and equipment, net book value** | | | | | |
| At 1 January 2009 | 15,240 | 18,844 | 370 | - | 34,454 |
| At 31 December 2009 | 16,485 | 16,775 | 370 | 307 | 33,937 |
| **Intangible assets** | | | | | |
| At 1 January 2009 | 1,114 | - | (305) | - | 809 |
| Amortisation | (1) | - | - | - | (1) |
| At 31 December 2009 | 1,113 | - | (305) | - | 808 |
| **Other non-current assets** | | | | | |
| At 1 January 2009 | 19,494 | (18,844) | (65) | - | 585 |
| At 31 December 2009 | 16,995 | (16,775) | (65) | - | 155 |
| **Trade and other receivables** | | | | | |
| At 31 December 2009 | 3,696 | - | - | 12 | 3,708 |
| **Trade and other payables** | | | | | |
| At 31 December 2009 | (3,244) | - | - | (319) | (3,563) |

## 3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in note 2(e), which addresses changes in accounting policies.

### (a) Basis of consolidation

#### *(i) Business combinations*

The Group has changed its accounting policy with respect to accounting for business combinations. See note 2(e)(i) for further details.

#### *(ii) Subsidiaries*

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

#### *(iii) Acquisitions from entities under common control*

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for from the date that the Group obtains control over the entities.

The assets and liabilities acquired are recognised at the carrying amounts previously recognised in the individual IFRS financial statements of the acquirees. The difference between the Group’s share in the equity of the acquired company and the consideration paid is recognised as additional paid-in capital. Any cash paid for the acquisition is recognised directly in equity.

#### *(iv) Loss of control*

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

#### *(v) Disposals of subsidiaries to entities under common control*

Disposals of subsidiaries to entities that are under the control of the shareholder that controls the Group are accounted for by recognising the difference between the consideration received and the carrying amount of the net assets of the subsidiary, including non-controlling interests and attributable goodwill, as additional paid-in capital.

#### *(vi) Disposals of non-controlling interests to third parties*

Any difference between the consideration received upon disposal of non-controlling interests to a third party, and the carrying amount of that portion of the Group’s interest in the subsidiary, including attributable goodwill, is recognised in profit or loss.

**_(vii) Acquisitions and disposals of non-controlling interests from/to entities under common control_**

Any difference between the consideration paid to acquire a non-controlling interests from an entity that is under the control of the shareholder that controls the Group, and the carrying amount of that non-controlling interests, is recognised as additional paid-in capital.

Any difference between the consideration received upon disposal of a non-controlling interests to an entity that is under the control of the shareholder that controls the Group, and the carrying amount of that portion of the Group's interest in the subsidiary, including attributable goodwill, is recognised as additional paid-in capital.

**_(viii) Investments in associates (equity accounted investees)_**

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest including any long-term investments is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

**_(ix) Transactions eliminated on consolidation_**

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**(b) Foreign currency**

**_(i) Foreign currency transactions_**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

### _(ii) Foreign operations_

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to RUB at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to RUB at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and are presented in the foreign currency translation reserve in equity.

## (c) Financial instruments

### _(i) Non-derivative financial instruments_

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

_Held-to-maturity financial assets_

If the Group has the positive intent and ability to hold to maturity debt securities that are quoted in an active market, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

_Loans and receivables_

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables as presented in note 21.

_Cash and cash equivalents_

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities at initial recognition of three months or less.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(j)(i)) and foreign currency differences on available-for-sale equity instruments (see note 3(b)(i)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss. Available-for-sale financial investments comprise equity securities.

***(ii) Non-derivative financial liabilities***

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings and trade and other payables.

**(d) Share capital**

*Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

*Repurchase of share capital*

When share capital recognised as equity is repurchased, the amount of the consideration paid which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in additional paid-in capital.

*Dividends*

Dividends are recognised as a liability in the period in which they are declared.

## (e) Property, plant and equipment

### _(i) Recognition and measurement_

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2002, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs (see note 2(e)(i)). Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income in profit or loss.

### _(ii) Subsequent costs_

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

### _(iii) Depreciation_

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Significant components of individual assets are assessed and, if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- buildings 5 to 57 years
- plant and equipment 2 to 13 years
- vehicles 2 to 15 years
- fixtures and fittings 2 to 9 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

## (f) Intangible assets

### _(i) Goodwill_

Goodwill (negative goodwill) that arises on the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see note 2(e)(i).

_Acquisitions prior to 1 January 2002_

In respect of acquisitions prior to 1 January 2002, goodwill represents the difference between the Company's interest in a subsidiary's net identifiable assets on the date of transition and the cost of that interest.

_Acquisitions between 1 January 2002 and 1 January 2010_

For acquisitions between 1 January 2002 and 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

_Subsequent measurement_

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

**(g) Leased assets**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

**(h) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**(i) Biological assets and agricultural produce**

Biological assets are measured at fair value less estimated costs to sell, with any change therein recognised as profit or loss. Costs to sell include all costs that would be necessary to sell the assets. Grain crops and sugar beets are transferred to inventory at their fair value less estimated costs to sell at the date of harvest.

Agricultural produce is measured at fair value less estimated costs to sell at the date of harvest.

**(j) Impairment**

***(i) Non-derivative financial assets***

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

*Loans and receivables and held-to-maturity investment securities*

The Group considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

### _(ii) Non-financial assets_

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating unit. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, cash generating units to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of cash generated units, that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the cash generating unit to which the corporate asset belongs.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amount of the other assets in the cash-generating unit (group of cash-generating units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an equity accounted investee is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an equity accounted investee is tested for impairment as a single asset when there is objective evidence that the investment in an equity accounted investee may be impaired.

## (k) Employee benefits

### _(i) Defined contribution plans_

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

***(ii) Short-term benefits***

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

**(l) Provisions**

***(i) Tax provisions***

The Group provides for tax risks including late-payment interest and penalties, when the tax becomes payable according to effective laws and regulations. Such provisions are maintained, and updated if necessary, for the period over which the respective tax positions remain subject to review by the tax authorities. Upon expiry of the review period the provisions are released. Tax provisions are recognised as part of income tax expense or in another relevant line of profit or loss.

***(ii) Other provisions***

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

**(m) Revenue**

***(i) Goods sold***

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. For sales of white sugar and grain crops, transfer usually occurs when the produce is dispatched from the Group’s warehouses. Generally for such products the buyer has no right of return.

***(ii) Services***

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

***(iii) Commissions***

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

### _(iv) Government grants_

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income or as a credit to interest expense on a systematic basis in the periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

## (n) Other expenses

### _(i) Lease payments_

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

## (o) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group’s right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

## (p) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### (q) Earnings per share

The Group presents basic and diluted earnings per share (“EPS”) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares. Currently, the Group has no dilutive potential ordinary shares.

### (r) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components. All operating segments’ operating results are reviewed regularly by the Group’s CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available (see note 2(e)(ii)).

Segment results that are reported to the Group CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly:

- recognition of input and output value added tax as additional costs and revenue items in management information; and
- fixed costs expenditure incurred are not allocated to inventory cost but expensed when occurred.

Inter-segment pricing is determined on an arm’s length basis.

### (s) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2010, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group’s operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during the first half of 2011. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2011. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

## 4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### (a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values, when possible.

The majority of the Group's property, plant and equipment is of specialised nature and is rarely sold on an open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales of comparable property, plant and equipment for using a market-based approach for determining fair value.

Consequently, the fair value of property, plant and equipment was primarily determined using the depreciated replacement cost method. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

The depreciated replacement cost of assets in the Grain segment was determined by reference to the information on replacement expenditure provided by CNII "PromZernoProekt", a research and development institute specialising in construction projects related to the grain industry.

The depreciated replacement cost of assets in the Sugar segment was determined by reference to the information on replacement expenditure provided by "GiproSakharProm" and NPO "StroyInkor", research and development institutes specialising in construction projects related to the sugar industry.

### (b) Biological assets and agricultural produce

The fair value of biological assets is based on the market price of the estimated harvest, net of the estimated costs to manage the crop until harvest and harvesting costs and a reasonable profit margin based on the effort required to manage and harvest the crops.

The fair value of agricultural produce at the point of harvest is based on market prices less costs to sell.

### (c) Investments in equity and debt securities

The fair value of held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

### (d) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

### (e) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

## 5 Operating segments

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's CEO reviews internal management reports on a regular basis. The following summary describes the operations in each of the Group's reportable segments:

- *Grain:* Purchase, processing and sale of grain products.
- *Sugar:* Purchase of sugar beet and raw sugar, processing them into sugar, and selling sugar.
- *Agriculture*: Growing sugar beet and grain products, development of land bank.

In July 2009 the Group set up a new subsidiary, OOO Razgulay-Market, to which distribution activities of the Group were transferred. This segment does not meet any of the quantitative thresholds for a reportable segment in 2010.

The Group's production facilities and its markets and customers are located primarily in Russia. Operations of the Group do not include activities in economic environments with significantly differing risks and returns. Consequently, they represent one geographical segment.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment revenue and segment profit/(loss) for the year, as included in the internal management reports that are reviewed by the Group's CEO. Revenue and segment profit/(loss) are used to measure performance as management believe that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

In addition, the CEO also reviews certain financial information related to the management operations of the Group.

| _Million RUB_ | 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Grain** | **Sugar** | **Agri-culture** | **Subtotal** | **Manage ment** | **Elimi-nations** | **Total** |
| Revenue | 10,195 | 13,957 | 7,155 | 31,307 | 1,616 | (7,023) | 25,900 |
| EBITDA | 893 | 2,654 | 1,548 | 5,095 | 39 | (718) | 4,416 |
| Interest income | 48 | 906 | 1 | 955 | 1,546 | (2,483) | 18 |
| Interest expense | (708) | (2,141) | (1,426) | (4,275) | (1,583) | 2,483 | (3,375) |
| Depreciation and amortization | (209) | (216) | (848) | (1,273) | (44) | - | (1,317) |
| Profit/(loss) for the year | 174 | 1,397 | (724) | 847 | (39) | (718) | 90 |
| Reportable segment assets | 5,726 | 12,786 | 26,404 | 44,916 | 10,116 | (18,209) | 36,823 |
| Reportable segment liabilities | 6,810 | 17,826 | 9,183 | 33,819 | 11,692 | (17,310) | 28,201 |

| | 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Grain** | **Sugar** | **Agri-culture** | **Subtotal** | **Manage ment** | **Elimi-nations** | **Total** |
| Revenue | 17,044 | 10,610 | 6,408 | 34,062 | 1,107 | (4,968) | 30,201 |
| EBITDA | 657 | 2,170 | 616 | 3,443 | (20) | (294) | 3,129 |
| Interest income | 184 | 4 | 7 | 195 | 2,089 | (2,208) | 76 |
| Interest expense | (1,205 ) | (1,686) | (1,448) | (4,339) | (2,052) | 2,208 | (4,183) |
| Depreciation and amortization | (191) | (174) | (760) | (1,125) | (39) | - | (1,164) |
| Profit/(loss) for the year | (235) | 386 | (1,390) | (1,239) | 102 | (294) | (1,431) |
| Reportable segment assets | 5,462 | 11,849 | 27,771 | 45,082 | 1,054 | (7,840) | 38,296 |
| Reportable segment liabilities | 6,651 | 17,812 | 9,827 | 34,290 | 2,108 | (7,188) | 29,210 |

The major differences between information provided to the CEO and the related IFRS-based revenues and expenses relate to:

- recognition of input and output value added tax as additional costs and revenue items in management information;
- non-recognition of gains from change in fair value of biological assets in management information;
- recognition of depreciation of property, plant and equipment in management information based on statutory accounts;
- non-recognition of tax provision items in management information and
- non-recognition of impairment losses and reversals in management information.

### (a) Reconciliation of reportable segment revenues, loss, assets and liabilities and other material items

| *Million RUB* | **2010** | **2009** |
|---|---|---|
| **Revenues** | | |
| Total revenue for reportable segments | 31,307 | 34,063 |
| Elimination of inter-segment revenue | (7,023) | (4,968) |
| Elimination of value added tax from reportable segments revenue | (2,059) | (1,986) |
| Unallocated sales | 1,616 | 1,107 |
| Other revenue | 2 | 943 |
| Consolidated revenue | 23,843 | 29,159 |

| | | |
|---|---|---|
| **Profit/(loss) for the year** | | |
| Total profit/(loss) for reportable segments | 847 | (1,239) |
| Effect of recognizing fair value of biological assets: | | |
| Change in fair value of biological assets recognised for the year ended 31 December | 1,420 | 1,450 |
| Effect of recognising fair value of biological assets as at 1 January | (774) | (689) |
| Effect of recognising fair value of biological assets as at 31 December | (800) | (676) |
| Difference in depreciation of property, plant and equipment | (393) | (182) |
| Eliminations | (718) | (294) |
| Change in provisions | 1,419 | (145) |
| Impairment loss on non-current assets | (986) | - |
| Reversal of impairment losses | 775 | 133 |
| Land lease rights write off | (120) | - |
| VAT recovered | (494) | - |
| Loss on disposal of property, plant and equipment | (114) | (163) |
| Other, net | 81 | 237 |
| Consolidated profit/(loss) for the year | 143 | (1,568) |

| | | |
|---|---|---|
| **Assets** | | |
| Total assets for reportable segments | 44,916 | 45,082 |
| Effect of recognizing fair value of biological assets | 620 | 774 |
| Investments in equity accounted investees | 43 | 397 |
| Unrealised profit in inventories | 1,374 | 1,395 |
| Difference in property, plant and equipment net book value | (788) | 3,733 |
| Eliminated receivables and loans given to equity accounted investees | 66 | 1,290 |
| Taxes receivable | 623 | 983 |
| Prepayment for shares | 4,061 | - |
| Long term lease VAT | 268 | 221 |
| Eliminations | (18,209) | (7,840) |
| Unallocated assets | 10,116 | 1,054 |
| Other | 1,477 | 202 |
| Consolidated total assets | 44,567 | 47,291 |

| _Million RUB_ | 2010 | 2009 |
|---|---|---|
| **Liabilities** | | |
| Total liabilities for reportable segments | 33,819 | 34,290 |
| Deferred tax liabilities | 838 | 850 |
| Tax provisions | 1,390 | 2,809 |
| Eliminations | (17,310) | (7,188) |
| Unallocated liabilities | 11,692 | 2,108 |
| Other | 852 | 538 |
| Consolidated total liabilities | 31,281 | 33,407 |

| _Million RUB_<br>**Other material items 2010** | Reportable segment totals | Unallocated items and eliminations | Adjustments | Consolidated totals |
|---|---|---|---|---|
| Interest income | 955 | (937) | 49 | 67 |
| Interest expense | (4,275) | 900 | (9) | (3,384) |
| Depreciation and amortisation | (1,273) | (44) | (398) | (1,715) |

| _Million RUB_<br>**Other material items 2009** | Reportable segment totals | Unallocated items and eliminations | Adjustments | Consolidated totals |
|---|---|---|---|---|
| Interest income | 195 | (119) | 78 | 154 |
| Interest expense | (4,339) | 156 | 419 | (3,764) |
| Depreciation and amortisation | (1,125) | (39) | (218) | (1,382) |

### (b) Geographical information

The Grain, Sugar and Agriculture segments are managed primarily in Russia, where substantially all of non-current assets of the Group are located. In presenting geographical information, segment revenue is based on the geographical location of customers.

| **Revenue** | **2010**<br>_Million RUB_ | **2009**<br>_Million RUB_ |
|---|---|---|
| Russia | 20,593 | 21,153 |
| Iraq | 2,208 | 889 |
| Asia | 779 | 5,297 |
| Europe | 240 | 1,260 |
| Africa | 17 | 560 |
| Latin America | 6 | - |
| | 23,843 | 29,159 |

### (c) Major customer

No customer represented more than 10% of the Group’s total revenue either in 2009 or in 2010.

## 6 Acquisitions and disposals of controlling and non-controlling interests in subsidiaries

### (a) Acquisition of subsidiaries

In March 2010 the Group acquired a 100% interest in an agricultural company OOO Kurganinskagro from third parties for RUB 28 million. The excess of the fair value of the acquiree’s net assets over the purchase consideration amounted to RUB 56 million and has been recognized in profit and loss as negative goodwill.

### (b) Acquisition of subsidiaries in transactions under common control

In March 2010 the Group increased its interest in ZAO Donskaya Agrarnaya Gruppa from 25%+1 share to 100% through acquisition of the shares from a fellow subsidiary. Total consideration paid for the 100% interest amounted to RUB 608 million settled in cash. The excess of the consideration over the acquiree's book value of net assets in the amount of RUB 38 million has been recognised in equity.

The acquisition had the following impact on the Group's effective ownership in individual entities:

| | **Ownership at 31 December 2010** | **Ownership at 1 January 2010** |
|---|---|---|
| Donskaya Agrarnaya Gruppa, ZAO | 100% | 25% |
| AP imeni Yaroslavskogo, OAO | 47% | 25% |
| Krinichansky, OAO | 75% | 23% |
| Selkhoztekhnika, ZAO | 98% | 24% |
| Degtevskoe, OOO | 98% | 25% |
| Rassvet, ZAO | 86% | 22% |
| Plemennoiy zavod Progress, OAO | 100% | 25% |
| DonAgro, OOO | 100% | 25% |
| Kucherbai agroinvest, OOO | 100% | 25% |

### Identified assets acquired and liabilities assumed

| *Million RUB* | **Recognised book values on acquisition** |
|---|---|
| Property, plant and equipment | 2,441 |
| Land lease rights | 370 |
| Inventories | 462 |
| Trade and other receivables | 980 |
| Other investments | 724 |
| Cash and cash equivalents | 6 |
| Non-current loans and borrowings | (2,065) |
| Deferred tax liabilities | (30) |
| Current loans and borrowings | (688) |
| Trade and other payables | (1,695) |
| Net identifiable assets acquired | 505 |
| Non-controlling interests | (10) |
| Group's share of net identifiable assets acquired | 495 |
| De-recognised investment in the equity accounted investee | 75 |
| Excess of consideration over the Group's share of net identifiable assets acquired, recognised in equity | 38 |
| Total consideration | 608 |
| Consideration settled in previous periods for 25% plus 1 share | 420 |
| Consideration settled in current period for 75% less 1 share | 188 |
| | 608 |

The net book value of property, plant and equipment of RUB 2,441 million includes advances in the amount of RUB 1,199 million paid by the Group to third parties for the acquisition of land plots for ZAO Donskaya Agrarnaya Gruppa. Consequently, non-current loans and borrowings of RUB 2,065 million include loans in the amount of RUB 1,199 million payable to the Group for those land plots.

## (c) Acquisition of non-controlling interests in subsidiaries

_Acquisitions in 2010:_

| | Share of subsidiary controlled prior to the acquisition | Share acquired | Date | Conside-ration paid | Carrying amount of non controlling interest acquired | Negative goodwill |
|---|---|---|---|---|---|---|
| | | | | | _In million RUB_ | |
| _Acquisition of non-controlling shares in open joint stock companies_ | | | | | | |
| ZAO Anastasievskoe | 97% | 3% | May 2010 | - | 21 | (21) |
| OAO Dubovskkhleboprodukt | 88% | 1.2% | Apr 2010 | - | 2 | (2) |
| OAO Russko-Polyansky Elevator | 85% | 3.2% | June 2010 | 2 | 4 | (2) |
| OAO Gerkules | 86% | 2.5% | Nov 2010 | 1 | 3 | (2) |
| OAO Slavyansky KHP | 86% | 1.4% | July 2010 | 2 | 16 | (14) |
| | | | | 5 | 46 | (41) |

_Acquisitions in 2009:_

| | Share of subsidiary controlled prior to the acquisition | Share acquired | Date | Conside-ration paid | Carrying amount of non controlling interest acquired | Negative goodwill |
|---|---|---|---|---|---|---|
| | | | | | _In million RUB_ | |
| _Acquisition of non-controlling shares in open joint stock companies_ | | | | | | |
| OAO Shipunovsky Elevator | 87% | 8% | Apr 2009 | 11 | 15 | (4) |
| OAO Slavyansky KHP | 85% | 0.7% | Sep 2009 | - | 1 | (1) |
| OAO Podolsky EMZ | 97% | 0.1% | Dec 2009 | - | - | - |
| | | | | 11 | 16 | (5) |
| _Acquisition of non-controlling shares in limited liability companies_ | | | | | | |
| OOO Anastasievskoe | 97% | 0.1% | Sep 2009 | - | 1 | (1) |
| | | | | - | 1 | (1) |
| | | | | 11 | 17 | (6) |

## 7 Revenue

| | 2010 | 2009 |
|---|---|---|
| | _Million RUB_ | _Million RUB_ |
| Revenue from sales | 21,934 | 27,715 |
| Revenue from processing and storage services and other revenues | 1,909 | 1,444 |
| | 23,843 | 29,159 |

## 8 Administrative expenses

| | 2010<br>*Million RUB* | 2009<br>*Million RUB* |
|---|---|---|
| Wages and salaries | 1,263 | 1,270 |
| Bank charges | 73 | 123 |
| Legal and consulting services | 65 | 28 |
| Other administrative expenses | 474 | 898 |
| | 1,875 | 2,319 |

## 9 Other income/(expenses)

| | 2010<br>*Million RUB* | 2009<br>*Million RUB* |
|---|---|---|
| Loss on disposal of property, plant and equipment | (114) | (163) |
| Reversal of impairment losses (note 14) | 775 | 133 |
| Other expenses | (149) | (358) |
| | 512 | (388) |

## 10 Gains and losses related to acquisitions and disposals of shares in subsidiaries

Gains and losses related to acquisitions and disposals of shares in subsidiaries included negative goodwill on acquisition of subsidiaries (note 6).

## 11 Total personnel costs

Personnel costs included in cost of sales, administrative expenses and distribution expenses amounted to RUB 3,216 million (2009: RUB 3,066 million).

## 12 Finance income and finance costs

| | 2010<br>*Million RUB* | 2009<br>*Million RUB* |
|---|---|---|
| *Finance income* | | |
| Interest income | 67 | 154 |
| Gain from redemption of own bonds | 3 | 626 |
| Foreign exchange gain, net | - | 231 |
| | 70 | 1,011 |
| *Finance costs* | | |
| Interest expense | (3,350) | (3,748) |
| Government grants compensating the Group's cost of financing agricultural activities | 554 | 655 |
| Reversal of impairment/(impairment loss) on trade receivables | 59 | (129) |
| Foreign exchange loss, net | (72) | - |
| Finance lease expense | (34) | (16) |
| Share of profits attributable to non-controlling participants in limited liability subsidiaries | (2) | - |
| | (2,845) | (3,238) |
| | (2,775) | (2,227) |

In 2010 the Group recognised government grants of RUB 554 million (2009: RUB 655 million) compensating the Group for interest expense incurred by certain of the Group's subsidiaries.

The grants are available to certain entities engaged in agricultural activities. They aim to compensate 80% of the interest expense incurred by entities over the reporting period. The compensation shall not, however, exceed 80% of the Russian Federation Central Bank official discount rate which varied from 7.75% to 8.75% in 2010 (2009: from 8.75% to 13.0%). The decision regarding compensation depends, among other things, on the availability of resources from the relevant state budget when an application for the grant is made. Accordingly, the Group recognises such grants when the decision about compensation is made.

## 13 Income tax benefit/(expense)

| | 2010<br>*Million RUB* | 2009<br>*Million RUB* |
|---|---|---|
| Current tax benefit/(expense) | 1,345 | (312) |
| Deferred tax benefit/(expense): | | |
| - Origination and reversal of temporary differences | 42 | (26) |
| | 1,387 | (338) |

The applicable tax rate for the Company and its Russian subsidiaries is the income tax rate of 20% (2009: 20%). For the subsidiaries located in Cyprus, the applicable tax rate is the corporate income tax rate of 10% (2009: 10%); for the subsidiary located in the Netherlands the effective income tax rate applied is 20% (2009: 25.5%); for the subsidiary located in Switzerland the effective income tax rate applied is 7.8%. Income earned by subsidiaries incorporated in the British Virgin Islands is not currently subject to income tax.

Subsidiaries qualifying for the status of agricultural producers are taxed at 0% until 2013, at 18% from 2013 until 2015 and at 20% from 2016 onwards.

In 2010 the Group released tax provisions of RUB 1,610 million recognised in respect of tax exposures on transactions carried out in 2007, and recognised an additional provision of RUB 191 million for tax exposures on transactions carried out in 2010 and late-payment interest for the year 2010 (note 28).

### Reconciliation of effective tax rate:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | *Million RUB* | *%* | *Million RUB* | *%* |
| Loss before income tax | (1,244) | 100 | (1,230) | 100 |
| Income tax benefit at applicable tax rate | 249 | (20) | 246 | (20) |
| Items taxed in lower tax jurisdictions | 12 | (1) | (138) | 11 |
| Effect of income of agricultural subsidiaries taxed at 0% | (129) | 10 | (205) | 17 |
| Current year losses for which no deferred tax asset was recognised | (41) | 3 | (7) | 1 |
| Net reversal of provision/(provision) for income tax and related penalties (note 28) | 1,419 | (114) | (145) | 12 |
| Non-deductible items | (123) | 10 | (89) | 7 |
| | 1,387 | (112) | (338) | 28 |

## 14 Property, plant and equipment

| *Million RUB* | **Land and buildings** | **Plant and equipment** | **Vehicles** | **Fixtures and fittings** | **Construction in progress** | **Advances for land acquisition** | **Total** |
|---|---|---|---|---|---|---|---|
| *Cost/ Deemed cost* | | | | | | | |
| Balance at 1 January 2009, reclassified (note 2(f)) | 12,648 | 7,374 | 462 | 140 | 681 | 22,798 | 44,103 |
| Additions, reclassified (note 2(f)) | 196 | 1,193 | 61 | 16 | 201 | - | 1,667 |
| Disposals | (31) | (60) | (9) | (3) | (134) | - | (237) |
| Return of advances previously paid for land acquisition | - | - | - | - | - | (769) | (769) |
| Transfers | 3,696 | 617 | (82) | 21 | (349) | (3,903) | - |
| Balance at 31 December 2009 | 16,509 | 9,124 | 432 | 174 | 399 | 18,126 | 44,764 |
| Acquisitions through business combinations (notes 6(a) and 6(b)) | 1,832 | 595 | 75 | 9 | - | (1,228) | 1,283 |
| Additions | 196 | 589 | 44 | 7 | 176 | - | 1,012 |
| Disposals | (112) | (152) | (10) | (4) | (10) | - | (288) |
| Return of advances paid for land acquisition | - | - | - | - | - | (1,096) | (1,096) |
| Reclassification of advances paid for land acquisition into other receivables (note 21) | - | - | - | - | - | (3,373) | (3,373) |
| Transfer of advances paid for land acquisition to land lease rights (note 18) | - | - | - | - | - | (2,469) | (2,469) |
| Transfers | 7,756 | 166 | - | 2 | (306) | (7,618) | - |
| Balance at 31 December 2010 | 26,181 | 10,322 | 541 | 188 | 259 | 2,342 | 39,833 |
| *Depreciation and impairment losses* | | | | | | | |
| Balance at 1 January 2009 | (2,455) | (2,951) | (190) | (47) | (53) | (3,953) | (9,649) |
| Reclassification of impairment loss | (5) | (15) | 13 | - | 7 | - | - |
| Depreciation charge | (425) | (900) | (36) | (21) | - | - | (1,382) |
| Transfers | (621) | (88) | 21 | - | 11 | 677 | - |
| Disposals | 12 | 52 | 4 | 1 | 2 | - | 71 |
| Reversal of impairment losses due to return of advances paid for land acquisition | - | - | - | - | - | 133 | 133 |
| Balance at 31 December 2009 | (3,494) | (3,902) | (188) | (67) | (33) | (3,143) | (10,827) |
| Acquisitions through business combinations (notes 6(a) and 6(b)) | (213) | - | - | - | - | 213 | - |
| Impairment loss (note 16(f)) | (637) | (150) | (6) | - | (11) | (91) | (895) |
| Depreciation charge | (550) | (1,078) | (61) | (26) | - | | (1,715) |
| Disposals | 32 | 95 | 7 | 2 | 3 | - | 139 |
| Reversal of impairment loss related to returned advances for land acquisition | - | - | - | - | - | 190 | 190 |
| Reversal of impairment loss related to advances for land, reclassified in other receivables | - | - | - | - | - | 585 | 585 |
| Transfer of impairment loss related to land lease rights (note 18) | - | - | - | - | - | 428 | 428 |
| Transfers | (1,351) | (9) | - | - | 41 | 1,319 | - |
| At 31 December 2010 | (6,213) | (5,044) | (248) | (91) | - | (499) | (12,095) |
| Net book value | | | | | | | |
| At 1 January 2009 | 10,193 | 4,423 | 272 | 93 | 628 | 18,845 | 34,454 |
| At 31 December 2009 | 13,015 | 5,222 | 244 | 107 | 366 | 14,983 | 33,937 |
| At 31 December 2010 | 19,968 | 5,278 | 293 | 97 | 259 | 1,843 | 27,738 |

**(a) Security**

Certain items of property, plant and equipment have been pledged to secure bank loans - refer note 25.

**(b) Leased plant and machinery**

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2010 the net book value of leased plant and machinery was RUB 707 million (2009: RUB 748 million). The leased equipment secures lease obligations.

## 15 Intangible assets

| *Million RUB* | **Goodwill** | **Other intangible assets** | **Total** |
|---|---|---|---|
| On 1 January 2009, reclassified (note2(f)(ii)) | 806 | 3 | 809 |
| Amortization charge | - | (1) | (1) |
| On 31 December 2009 | 806 | 2 | 808 |
| Amortization charge | - | - | - |
| On 31 December 2010 | 806 | 2 | 808 |

## 16 Impairment

For the purposes of impairment testing, the goodwill has been allocated to the sugar and grain business segments at RUB 556 million and RUB 250 million, respectively. These segments include respective Group entities whose acquisition resulted in recognition of the goodwill. These units represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

For the purpose of impairment testing all other non-financial assets of the Group have been allocated to five cash generating units representing agriculture, sugar production, flour production, cereals production and grain trading. The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external sources and internal sources.

**(a) Agricultural activities**

The following key assumptions were used in determining the recoverable amount of the non-current assets attributable to the cash-generating unit:

- Cash flows were projected based on actual operating results for 2010 and the six-year business plan for 2011 - 2016.
- The total projected area of cultivated land is assumed to increase from 326 thousand hectares in 2011 to 338 thousand hectares from 2012 to 2016. The increase is represented the land plots already controlled by the Group as at 31 December 2010, but not yet cultivated.
- The yield per hectare is assumed to increase from 2011 to 2016 from 32.04 tons to 36.25 tons for sugar beets; from 3.23 tons to 3.65 tons for winter wheat and the yield of rice per hectare is assumed to increase from 6.44 tons to 7.29 tons in 2011 – 2016.
- Average sales price of agricultural produce has been assumed at 1,950 RUB per ton in 2011 and at 2,100 RUB per ton in 2012 – 2016 for sugar beets, at 5,018 RUB

per ton in 2011 and at 6,500 RUB per ton in 2012 – 2016 for winter wheat and at 10,494 RUB per ton in 2011 – 2016 for rice.

- Variable costs per hectare for sugar beets have been assumed to decrease by 5% in 2012 comparing to 2011 and to be stable from 2012 to 2016. For other crops variable cost per hectare assumed to be stable during six-year business plan.
- Zero growth of net cash flows is assumed in the post-forecast period (2009: 0%).
- A real post-tax discount rate of 13.0% (2009: 13.0%) was applied in determining the recoverable amount of the cash-generating unit.

The value in use calculation based on the above assumptions resulted in an impairment loss of RUB 986 million, of which RUB 895 million was allocated to property, plant equipment and RUB 91 million to land lease rights.

The above estimates are particularly sensitive in the following areas:

- An assumption of variable costs per hectare in 2012 – 2016 being stable at the level of 2011 would have increased the impairment loss by RUB 347 million.
- An increase of two percentage points in the discount rate used would have increased the impairment loss by RUB 3,351 million.
- An assumption of sales prices in 2012 – 2016 being stable at the level of 2011 would have increased the impairment loss by RUB 3,953 million.

**(b) Sugar production**

The following key assumptions were used in determining the recoverable amount of the non-current assets attributable to the cash-generating unit:

- Cash flows were projected based on actual operating results for 2010 and the six-year business plan for 2011-2016.
- The sales price of sugar was projected to be stable for from 2011 to 2016 at RUB 25,451 per ton.
- Annual growth of variable costs per sugar ton production of 1% leads to gradual gross profit margin decrease from 36% in 2011 to 33% in 2016.
- Zero growth of net cash flows is assumed in the post-forecast period (2009: 0%).
- A real post-tax discount rate of 13.0% (2009: 13.5%) was applied in determining the recoverable amount of the cash-generating unit.

The value in use calculation based on the above assumptions resulted in no impairment.

The above estimates are not sensitive in the following areas:

- An increase of two percentage points in the discount rate used would have resulted in no impairment.
- A reduction in the annual growth in quantity of processed sugar-beets from 1% to 0% would have resulted in no impairment.

**(c) Flour production**

The following key assumptions were used in determining the recoverable amount of the non-current assets attributable to the cash-generating unit:

- Cash flows were projected based on actual operating results for 2010 and the six-year business plan for 2011 – 2016.

- Sales quantities of wheat flour have been assumed at 200 thousand tons in 2011, and annual growth of 11% in 2012 and 8% in 2013 – 2016 is projected.
- The sales price of wheat flour was assumed to be stable at RUB 12,150 per ton from 2011 to 2016. Variable costs of wheat flour production were assumed to be stable at RUB 9,852 per ton from 2011 to 2016.
- Zero growth of net cash flows is assumed in the post-forecast period (2009: 0%).
- A real post-tax discount rate of 13.0% (2009: 13.5%) was applied in determining the recoverable amount of the cash-generating unit.

The value in use calculation based on the above assumptions resulted in no impairment.

The above estimates are sensitive in the following areas:

- An increase of two percentage points in the discount rate used would have resulted in an impairment loss of RUB 80 million.
- A reduction in the annual growth of wheat flour sales in 2012 - 2016 to 5% would have resulted in an impairment loss of RUB 499 million.

**(d) Cereals production**

The following key assumptions were used in determining the recoverable amount of the non-current assets attributable to the cash-generating unit:

- Cash flows were projected based on actual operating results for 2010 and the six-year business plan for 2011 - 2016.
- Sales quantities in tons were assumed to increase by 7% in 2011 and to increase by 1% per year from 2012 to 2016.
- The sales prices of rice groats, buckwheat and oats were assumed to be stable in 2011 to 2016 at RUB 21,254, RUB 46,419 and RUB 13,017 per ton, respectively.
- Variable costs were assumed at approximately RUB 18,828 per ton from 2011 to 2016.
- Zero growth of net cash flows is assumed in the post-forecast period (2009: 0%).
- A real post-tax discount rate of 13.0% (2009: 13.5%) was applied in determining the recoverable amount of the cash-generating unit.

The value in use calculation based on the above assumptions resulted in no impairment.

The above estimates are sensitive in the following areas:

- An increase of two percentage points in the discount rate used would have resulted in an impairment loss of RUB 123 million.
- A decrease in sales quantity growth to 1% in 2011 would have resulted in an impairment loss of RUB 61 million.
- An assumption of stable sales in tons from 2012 to 2016 would have resulted in an impairment loss of RUB 1,253 million.

**(e) Grain trading**

The following key assumptions were used in determining the recoverable amount of the non-current assets attributable to the cash-generating unit:

- Cash flows were projected based on actual operating results for 2010 and the six-year business plan for 2011-2016.

- Domestic sale prices have been assumed to be RUB 7,434 per ton in 2011 and RUB 8,169 per ton from 2012 to 2016.
- Distribution expenses were assumed to be stable at RUB 1,669 per ton for domestic sales from 2011 to 2016.
- Zero growth of net cash flows has been determined for the post-forecast period (2009: 0%).
- A real post-tax discount rate of 13.0% (2009: 13.5%) was applied in determining the recoverable amount of the cash-generating unit.

The value in use calculation based on the above assumptions resulted in no impairment.

The above estimates are not sensitive in the following areas:

- An increase of two percentage points in the discount rate used would have resulted in no impairment.
- A reduction in price for export sales by 8% in 2010 - 2015 would have resulted in an impairment loss of RUB 426 million.

### (f) Impairment loss recognised as at 31 December 2010

| | **Carrying value** | **Impairment** | **Balance after impairment** |
|---|---|---|---|
| | Million RUR | Million RUR | Million RUR |
| Agricultural production | | | |
| Property, plant and equipment (note 14) | 18,963 | (895) | 18,068 |
| Land lease rights (note 18) | 1,921 | (91) | 1,830 |
| | 20,884 | (986) | 19,898 |
| Sugar production | 5,274 | - | 5,274 |
| Flour production | 1,786 | - | 1,786 |
| Cereals production | 1,835 | - | 1,835 |
| Grain trading | 1,403 | - | 1,403 |
| Other | 180 | - | 180 |
| | **31,362** | **(986)** | **30,376** |

## 17 Investments in equity accounted investees

The Group’s share of loss in its equity accounted investees for the year was RUB 11 million (2009: loss of RUB 91 million).

In 2010 and 2009 the Group did not receive dividends from any of its equity accounted investees.

The following is summarised financial information for equity accounted investees:

| | **2010** | **2009** |
|---|---|---|
| | _Million RUB_ | _Million RUB_ |
| Total assets | 380 | 3,740 |
| Total liabilities | (206) | (3,191) |
| Revenue | 202 | 1,298 |
| Loss for the year | (11) | (91) |

## 18 Land lease rights

| | 2010 |
|---|---|
| | _Million RUB_ |
| Land lease rights transferred from property, plant and equipment, net of impairment loss recognized at 31 December 2008 (see note 14) | 2,041 |
| Land lease rights amortisation for 2010 | (120) |
| Impairment loss recognized as at 31 December 2010 (see note 16(f)) | (91) |
| | 1,830 |

Land lease rights comprise up-front payments made by the Group to lessors upon conclusion of land lease agreements. The value of land lease rights is amortised on a straight-line basis over the term of the respective land lease agreements (from 2 to 25 years).

## 19 Deferred tax assets and liabilities

### (a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| _Million RUB_ | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Property, plant and equipment | - | - | (903) | (893) | (903) | (893) |
| Other current assets/(liabilities), net | 7 | 32 | - | - | 7 | 32 |
| Tax loss carry-forwards | 58 | 11 | - | - | 58 | 11 |
| Tax assets/(liabilities) | 65 | 43 | (903) | (893) | (838) | (850) |
| Set off of tax | (65) | (43) | 65 | 43 | - | - |
| Net tax liabilities | - | - | (838) | (850) | (838) | (850) |

### (b) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

| | 2010 | 2009 |
|---|---|---|
| | _Million RUB_ | _Million RUB_ |
| Deductible temporary differences | 188 | 252 |
| Tax loss carry-forwards | 145 | 147 |
| | 333 | 399 |

Deductible temporary differences do not expire under current tax legislation. Tax losses expire in 2017 and 2018. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

### (c) Unrecognised deferred tax liability

A temporary difference of RUB 2,314 million (2009: RUB 3,441 million) relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future.

### (d) Movement in temporary differences during the year

| *Million RUB* | 1 January 2010 | Recognised in profit or loss | Acquisition of subsidiaries | 31 December 2010 |
|---|---|---|---|---|
| Property, plant and equipment | (893) | 20 | (30) | (903) |
| Other current assets/(liabilities), net | 32 | (25) | - | 7 |
| Tax loss carry-forwards | 11 | 47 | - | 58 |
| Net tax liabilities | (850) | 42 | (30) | (838) |

| *Million RUB* | 1 January 2009 | Recognised in profit or loss | 31 December 2009 |
|---|---|---|---|
| Property, plant and equipment | (923) | 28 | (893) |
| Other current assets/(liabilities), net | 41 | (9) | 32 |
| Tax loss carry-forwards | 56 | (45) | 11 |
| Net tax liabilities | (826) | (26) | (850) |

## 20 Inventories and biological assets

| | 2010 *Million RUB* | 2009 *Million RUB* |
|---|---|---|
| Goods for processing and resale | | |
| Grain crops | 3,343 | 1,707 |
| White sugar | 1,251 | 3,069 |
| Biological assets | | |
| Grain crops | 845 | 614 |
| Sugar beets | 276 | 523 |
| Living animals | 380 | 92 |
| Raw materials and consumables | 823 | 673 |
| | 6,918 | 6,678 |

The value of inventory pledged to secure loans is disclosed in note 25.

During the year ended 31 December 2010 the Group wrote down raw materials in the amount of RUB 72 million (2009: RUB 59 million).

***Biological assets***

In 2010 the Group cultivated sugar beet, wheat, barley, sunflower, rice, soya and other crops. During 2010 the Group harvested approximately 856 thousand tons of sugar beet (2009: 1,384 thousand tons), 322 thousand tons of wheat (2009: 334 thousand tons), 111 thousand tons of rice (2009: 119 thousand tons).

Changes in biological assets balances during 2010 and 2009 are disclosed below:

| | ***2010*** *Million RUB* | ***2009*** *Million RUB* |
|---|---|---|
| Balance as of 1 January | 1,137 | 1,303 |
| Increase due to acquisitions | 107 | - |
| Additions due to growth | 4,406 | 4,402 |
| Change in fair value less estimated costs to sell | 1,420 | 1,450 |
| Harvested crops transferred to inventory | (5,949) | (6,018) |
| Balance as of 31 December | 1,121 | 1,137 |

As at 31 December 2009 the Group had planted 98,251 hectares of winter wheat (2009: 98,020 hectares), prepared 47,208 hectares for planting sugar beet (2009: 46,529 hectares) and 16,466 hectares of rice (2009: 18,092 hectares).

The Group is exposed to a number of risks related to its crops:

*Regulatory and environmental risks*

The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems are in place to manage those risks.

*Supply and demand risk*

The Group is exposed to risks arising from fluctuations in the price and sales volume of grain and sugar products. Whenever possible the Group manages this risk by aligning its harvest volume to market supply and demand. Management performs regular industry trend analyses to ensure that the Group's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with expected demand.

*Climate and other risks*

The Group's crops are exposed to the risk of damage from climatic changes and diseases. The Group has extensive processes in place aimed at monitoring and mitigating those risks. The Group also insures itself against failure of crops (note 29(a)).

## 21 Trade and other receivables

| | **2010** *Million RUB* | **2009** *Million RUB* |
|---|---|---|
| Trade receivables | 2,504 | 2,938 |
| Taxes receivable | 623 | 983 |
| Receivables from equity accounted investees | 6 | 687 |
| Advances paid | 545 | 536 |
| Deferred expenses | 155 | 163 |
| Trade receivables from related parties | 17 | 40 |
| Advances paid to related parties | 1 | 1 |
| Other receivables | 4,427 | 329 |
| Other receivables from related parties | 18 | 31 |
| Provision for doubtful accounts | (1,940) | (1,999) |
| | 6,356 | 3,709 |

At 31 December 2010 other receivables included RUB 3,373 million of advances issued in 2008 for the acquisition of agricultural land, which should have been returned to the Group because the agricultural land had not been delivered to the Group (note 14). This receivable was used to settle the acquisition described in the following paragraph.

In February 2011 the Group entered into an agreement to acquire 50% interest in ZAO Orskiy miasokombinat, ZAO Orenburgsky broiler and ZAO Uralskiy Broiler for RUB 3,500 million (see note 33).

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 29.

At 31 December 2010 the provision for doubtful accounts is attributable to trade receivables in amount of RUB 1,769 million (2009: RUB 1,807 million), advances paid of RUB 67 million (2009: RUB 84 million) and other receivables of RUB 104 million (2009: RUB 108 million).

## 22 Cash and cash equivalents

At 31 December 2010 cash and cash equivalents included a short-term RUB-denominated bank deposit in the amount of RUB 125 million. The deposit was withdrawn in full in January 2011.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 29.

## 23 Equity

### (a) Share capital

On 1 January 2008 the authorised capital of the Company comprised 120,000,000 ordinary shares with a par value of RUB 3 each, fully issued and paid.

In July 2008 the authorised capital of the Company was increased from 120,000,000 to 190,000,000 ordinary shares with a par value of 3 RUB per share each.

In July 2008 the Group sold 38,093,157 newly issued ordinary shares for USD 7.75 per share. The difference between the nominal value of the shares issued of RUB 114 million and the consideration received of RUB 6,859 million reduced by the amount of expenses incurred on issue of RUB 268 million was credited to additional paid-in capital.

In November 2010 the Group entered into an agreement to buy 11,991,050 shares for RUB 561 million from a related party, and in December 2010 the Group obtained title to the shares. The consideration payable to the seller in the amount of RUB 561 million has been recognized in trade and other payables (note 27). Subsequent to 31 December 2010 the Group has settled the payable by transferring to the buyer its receivables from third parties in the amount of RUB 561 million, recognized as other receivables at 31 December 2010 (note 21). The difference between the nominal value of the acquired shares and the consideration paid was debited to additional paid-in capital.

The holders of shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Company's shareholders.

All ordinary shares rank equally with regard to the Company's residual assets.

### (b) Dividends

In accordance with the Russian legislation the Company's distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles.

### (c) Transactions with the controlling shareholder

In March 2010 the Group acquired shares in subsidiaries from an entity controlled by the shareholder who controlled the Group at the date of the transaction (see notes 6(b)).

## 24 Earnings/(loss) per share

The calculation of earnings/(loss) per share is based upon the profit/(loss) for the year attributable to shareholders of the Company and the weighted average number of ordinary shares outstanding during the year, calculated as shown below. The Company has no dilutive potential ordinary shares.

| In thousands of shares | 2010 | 2009 |
|---|---|---|
| Issued shares at 1 January | 158,093 | 158,093 |
| Effect of own shares held in December 2010 | (1,000) | - |
| Weighted average number of shares for the year ended 31 December | 157,093 | 158,093 |

## 25 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 29.

| | 2010<br>*Million RUB* | 2009<br>*Million RUB* |
|---|---|---|
| *Non-current* | | |
| Secured bank loans | 19,432 | 19,764 |
| RUB denominated bonds: | | |
| - OOO Razgulay-Finans, issue 3 | 58 | 712 |
| Unsecured non-bank loans | 7 | 6 |
| | 19,497 | 20,482 |
| *Current* | | |
| Secured bank loans | 3,709 | 3,888 |
| Unsecured non-bank loans | 5 | 5 |
| RUB denominated bonds: | | |
| - OOO Razgulay-Finans, issue 2 | 8 | 220 |
| - OOO Razgulay-Finans, issue 4 | 2 | 1,057 |
| - OOO Razgulay-Finans, issue 5 | 245 | - |
| - OJSC Group RAZGULAY, issue BO-9 | 1,403 | - |
| | 5,372 | 5,170 |
| | 24,869 | 25,652 |

*Covenants*

The Group's loan agreements contain a number of covenants and restrictions, which include, but are not limited to, financial ratios and overdue payments of the Group's debt. Covenant breaches generally permit lenders to demand accelerated repayment of principal and interest. The Group was not in breach of any financial covenants which allow lenders to demand immediate repayment of loans and bonds both at 1 January 2010 and 31 December 2010.

### (a) Security

Bank loans are secured by the following:

- property, plant and equipment with a carrying amount of RUB 1,334 million (2009: RUB 1,184 million);
- inventory with a carrying amount of RUB 1,792 million (2009: RUB 1,122 million);
- promissory notes with a caring amount of zero (2009: RUB 777 million);

- shares in the following subsidiaries and equity accounted investees:

| Subsidiaries | Ownership interest pledged at 31 December, in % | |
|---|---|---|
| | 2010 | 2009 |
| Agrofirma Poltavskaya, ZAO | 100 | 100 |
| Alekseevkaagroinvest, OOO | 100 | - |
| Bugulminsky elevator, ZAO | 75 | 75 |
| Bugulminsky KHP#2, ZAO | 75 | - |
| Dubovskkhleboproduct, OAO | 75 | 75 |
| Elevator Rudny Klad, OAO | 56 | 56 |
| Erkenagroinvest, OOO | 100 | - |
| Gerkules, OAO | - | 86 |
| Graivoronagroinvest, OOO | 51 | - |
| Karachaevo-Cherkessky Mukomol, ZAO | 100 | - |
| Karachaevo-Cherkessky Sakharny zavod, OAO | 90 | - |
| Khlebnaya baza 63, OAO | 52 | 52 |
| Kineshemsky mukomolny kombinat, OAO | 90 | - |
| Kolomensky KHP,ZAO | 100 | 100 |
| Krinichansky, OAO | 74 | - |
| Krivetsagro, OOO | 100 | - |
| Kshenagro, OOO | 100 | - |
| Kshensky Sakharny Kombinat, ZAO | 100 | - |
| Lgovagroinvest, OOO | 100 | - |
| Lgovsky KHP, ZAO | 100 | 100 |
| Lgovsky MKK, OAO | 99 | 99 |
| Otradaagroinvest, OOO | 100 | - |
| Plemennoiy zavod Progress, OAO | 100 | 25 |
| Podolsky EMZ, OAO | 0 | 97 |
| Poltavsky KHP, OAO | 90 | - |
| Pristen-Sakhar, ZAO | 100 | 100 |
| Rassvet, ZAO | 86 | 22 |
| Razgulay Group, OJSC | 17 | 17 |
| Rzhavskoye HPP, OAO | 97 | 97 |
| Sakharny Kombinat Alexeevsky, ZAO | - | 100 |
| Sakharny Kombinat Bolshevik, ZAO | 100 | - |
| Sakharny Kombinat Kurganinsky, ZAO | 100 | 100 |
| Sakharny Kombinat Lgovsky, OAO | 100 | - |
| Sakharny Kombinat Otradinsky, ZAO | 100 | - |
| Sakharny Kombinat Tikhoretsky, ZAO | 100 | - |
| Selkhoztekhnika, ZAO | 96 | 24 |
| Shipunovsky Elevator, OAO | 87 | 87 |
| Slavyansky KHP | 86 | - |
| Svetlogradsky elevator, OAO | 97 | 97 |
| Tikhoretskagroinvest, OOO | 100 | - |
| Tsimlyanskkhleboprodukt, OAO | 100 | 100 |
| Zelenokumsky elevator,OAO | 50 | 50 |

| Equity accounted investees | 2010 | 2009 |
|---|---|---|
| Angelinsky Elevator, OAO | - | 25 |
| Pravda, ZAO | 20 | - |

**Terms and debt repayment schedule**

| | | | | 2010 | | 2009 | |
|---|---|---|---|---|---|---|---|
| *Million RUB* | **Currency** | **Nominal Interest rate** | **Year of maturity** | **Face value** | **Carrying amount** | **Face value** | **Carrying amount** |
| Secured bank loans | RUB | 11.3%-12.0% | 2014-2017 | 18,910 | 18,910 | 18,910 | 18,910 |
| Secured bank loans | RUB | 11.3%-16.0% | 2011-2013 | 2,958 | 2,958 | 2,837 | 2,837 |
| Secured bank loans | USD | 8.75%-13.0% | 2011 | 1,273 | 1,273 | 1,905 | 1,905 |
| Unsecured non-bank loans | RUB | 0.0%-18.0% | 2011-2014 | 12 | 12 | 11 | 11 |
| Unsecured bond issues | RUB | 6.4%-17.0% | 2011-2012 | 1,724 | 1,716 | 1,965 | 1,989 |
| | | | | 24,877 | 24,869 | 25,628 | 25,652 |

## 26 Finance lease liabilities

The Group's exposure to currency and liquidity risk related to finance lease liabilities is disclosed in note 29.

Finance lease liabilities are payable as follows:

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| *Million RUB* | **Future minimum lease payments** | **Interest** | **Present value of minimum lease payments** | **Future minimum lease payments** | **Interest** | **Present value of minimum lease payments** |
| Less than one year | 146 | 28 | 118 | 85 | 23 | 62 |
| Between one and five years | 480 | 64 | 416 | 272 | 57 | 215 |
| More than five years | 360 | 44 | 316 | 308 | 52 | 256 |
| | 986 | 136 | 850 | 665 | 132 | 533 |

## 27 Trade and other payables

| | 2010 | 2009 |
|---|---|---|
| | *Million RUB* | *Million RUB* |
| Trade payables | 933 | 1,402 |
| Advances received | 877 | 497 |
| Payables for treasury shares (note 23(a)) | 561 | - |
| Taxes payable other than income tax | 491 | 325 |
| Payables to employees | 127 | 146 |
| Income tax payable | 29 | 70 |
| Payables to equity accounted investees | 20 | 228 |
| Other payables to related parties | 8 | 331 |
| Trade payables to related parties | 1 | 12 |
| Other payables and accrued expenses | 285 | 552 |
| | 3,332 | 3,563 |

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 29.

## 28 Provisions

| | 2010<br>*Million RUB* | 2009<br>*Million RUB* |
|---|---|---|
| At 1 January | 2,809 | 2,664 |
| Provisions made in respect of transactions of the current year | 62 | 85 |
| Late-payment interest accrued in the current year on previously recognised provisions | 130 | 134 |
| Reversal of previously recognised provisions | (1,611) | (74) |
| At 31 December | 1,390 | 2,809 |

Provisions as at 31 December 2010 of RUB 1,390 million (31 December 2009: RUB 2,809 million) include provisions for income and other taxes, penalties and late-payment interest in respect of the following exposures:

*Disposal of interests in subsidiaries*

In 2008 the Group disposed of its interest in certain subsidiaries. If the way in which these disposals were structured were successfully challenged by the Russian tax authorities, it could result in the assessment of additional income tax, penalties and late-payment interest in the total amount of approximately RUB 643 million (31 December 2009: RUB 1,105 million). These amounts were provided in full as at 31 December 2010 and 2009.

*Grain trading operations*

During 2008 certain of the Group's subsidiaries entered into various transactions to purchase and sell grain in the process of being exported from the Russian Federation both at the date of purchase and the date of sale. As a result of these transactions, a gain of RUB 984 million was recognised by the Group in 2008. Because the subsidiaries are incorporated in a jurisdiction that has no income tax, no tax liability was recognised in respect of these gains. The Russian tax authorities may challenge the way in which such transactions were structured and, in particular, assert that the subsidiaries involved have a permanent establishment in the Russian Federation. If such challenge were successful, it could result in the assessment of additional income tax, penalties and late-payment interest for 2008 of approximately RUB 394 million as at 31 December 2010 (31 December 2009: RUB 1,143 million). These amounts were provided in full as at 31 December 2010 and 2009.

*Other transactions*

In 2008, 2009 and 2010 the Group entered into various other transactions which resulted in tax exposures relating to income and social security taxes. The Russian tax authorities may challenge the way such transactions were structured. If such challenge were successful, it could result in the assessment of additional income and uniform social taxes, penalties and late-payment interest amounting to approximately RUB 353 million as at 31 December 2010 (31 December 2009: RUB 561 million). These amounts were provided in full as at 31 December 2010 and 2009.

*Release of provision*

As at 31 December 2010 the Group has released provisions in the amount of RUB 1,610 million recognised in respect of tax risks in transactions made in 2007 as three calendar years when the 2007 year remained open for review by the Russian tax authorities have passed (note 30(c)).

## 29 Financial instruments and risk management

### (a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

**Risk management framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business.

### (b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

### *(i) Trade and other receivables*

Trade receivables relate mainly to the Group's wholesale customers. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base as these factors may have an influence on credit risk. Approximately 16% (2009: 17%) of the Group's revenue is attributable to sales transactions with three top customers. Approximately 86% of the Group's sales are in Russia, and the rest are exported to a variety of countries.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes a review of customers' financial statements and the background of customers' management. Purchase limits are established for each customer on an individual basis; compliance with these limits is reviewed regularly by management of the Grain, Sugar and Agriculture segments.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including geographic location, aging profile, maturity and existence of previous financial difficulties.

The Group does not require collateral in respect of trade receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables and investments. The main component of this allowance is a specific loss component that relates to individually significant exposures.

***(ii) Guarantees***

The Group's policy is to provide financial guarantees only to the Group subsidiaries and fellow subsidiaries.

**Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

| | Carrying amount | |
|---|---|---|
| *Million RUB* | **2010** | **2009** |
| Loans and receivables | 6,046 | 4,215 |
| Cash and cash equivalents | 412 | 401 |
| | 6,458 | 4,616 |

At 31 December 2010 there was no significant credit risk associated with amounts receivable from related parties. The total amount receivable from related parties was RUB 36 million (2009: RUB 72 million).

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region where customers are registered was:

| | Carrying amount | | | |
|---|---|---|---|---|
| *Million RUB* | **Gross 2010** | **Impairment 2010** | **Gross 2009** | **Impairment 2009** |
| Russia | 974 | 229 | 2,056 | 267 |
| British Virgin Islands | 1,540 | 1,540 | 1,540 | 1,540 |
| Kazakhstan | - | - | 31 | - |
| Turkey | 13 | - | 20 | - |
| Netherlands | - | - | 16 | - |
| Jordan | - | - | 1 | - |
| Belarus | - | - | 1 | - |
| | 2,527 | 1,769 | 3,665 | 1,807 |

Substantially all of the Group's customers are traders in agricultural products. The three most significant customers of the Group account for RUB 306 million of the trade accounts receivables carrying amount at 31 December 2010 (2009: RUB 615 million).

**Impairment losses**

The aging of trade receivables at the reporting date was:

| *Million RUB* | **Gross 2010** | **Impairment 2010** | **Gross 2009** | **Impairment 2009** |
|---|---|---|---|---|
| Not past due | 428 | (5) | 1,227 | (1) |
| Past due 0-30 days | 35 | (1) | 69 | (7) |
| Past due 31- 180 days | 144 | (19) | 314 | (59) |
| Past due 181 -365 days | 42 | (14) | 214 | (17) |
| More than one year | 1,878 | (1,730) | 1,841 | (1,723) |
| | 2,527 | (1,769) | 3,665 | (1,807) |

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

| | 2010 | 2009 |
|---|---|---|
| | *Million RUB* | *Million RUB* |
| Balance at 1 January | 1,999 | 1,870 |
| Impairment (released)/recognised, net | (59) | 129 |
| Balance at 31 December | 1,940 | 1,999 |

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables that are not past due or past due by up to 60 days.

The allowance account in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable and is written off against the financial asset directly.

As at 31 December 2009 and 2010 the Group recognised a provision for impairment of RUB 1,541 million in respect of a receivable from a customer who further supplies wheat to Egypt and other international markets. The customer failed to meet its obligations when due because of its inability to resell the wheat at the intended prices to final customers. The Group believes that it is questionable if legal action will succeed because of the delay caused by the legal routine in the jurisdictions involved, inability to control the product supplied and absence of any security over the receivable. The Group is in the process of negotiating alternative credit terms with the customer which, under different scenarios, may vary from 1 to 3 years; however, the outcome of the negotiations cannot be reliably estimated. Therefore, management decided to recognise an impairment loss on the total balance of the receivable in 2008.

At 31 December 2010, the Group believes that no impairment allowance is necessary in respect of its cash or cash equivalents.

### (c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

For the long-term perspective the Group analyzes five-year forecasts covering financial, operating and investing activities.

For the medium- and short-term periods, management considers the availability of different market instruments.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of one year, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

In addition, the Group monitors short- and medium-term maturities of its credit portfolio. It also considers replacement of existing instruments with more favourable facilities.

The Group has credit lines with a number of banks to ensure sufficient liquidity levels are available on demand. At 31 December 2010 total unused credit facilities amounted to RUB 33 million (31 December 2009: RUB 250 million). Refer to note 33 for details of the new loans and borrowings which became available to the Group subsequent to the balance sheet date.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

| **2010** | **Average interest rate** | | | | | | |
|---|---|---|---|---|---|---|---|
| *Million RUB* | **Contractual %** | **Effective %** | **0-12 months** | **1-2 years** | **2-3 years** | **Over 3 years** | **Total** |
| *Non-derivative financial liabilities* | | | | | | | |
| Secured bank loans - RUB, fixed | 11.3-16.0 | 11.3-16.0 | 2,897 | 61 | 17,710 | 1,200 | 21,868 |
| Secured bank loans - USD, fixed | 8.6-13.0 | 8.6-13.0 | 812 | 461 | - | - | 1,273 |
| Trade and other payables | | | 2,455 | - | - | - | 2,455 |
| Unsecured bond issues - RUB, fixed | 0.0-17.0 | 6.2-13.8 | 1,658 | 58 | - | - | 1,716 |
| Finance lease - RUB, fixed | 4.0 | 4.0 | 118 | 114 | 117 | 501 | 850 |
| Unsecured non-bank loans | 0.0 | 0.0 | 5 | - | - | 7 | 12 |
| | | | 7,945 | 694 | 17,827 | 1,708 | 28,174 |

| **2009** | **Average interest rate** | | | | | | |
|---|---|---|---|---|---|---|---|
| *Million RUB* | **Contractual %** | **Effective %** | **0-12 months** | **1-2 years** | **2-3 years** | **Over 3 years** | **Total** |
| *Non-derivative financial liabilities* | | | | | | | |
| Secured bank loans - RUB, fixed | 12.0-20.0 | 12.0-20.0 | 1,984 | 829 | 26 | 18,909 | 21,748 |
| Secured bank loans - USD, fixed | 13.0-14.5 | 13.0-14.5 | 1,360 | - | - | - | 1,360 |
| Secured bank loans - USD, fixed | 2.3-3.8 | 2.3-3.8 | 544 | - | - | - | 544 |
| Trade and other payables | | | 3,066 | - | - | - | 3,066 |
| Unsecured bond issues - RUB, fixed | 17.0 | 12.2-13.8 | 1,277 | 712 | - | - | 1,989 |
| Finance lease - RUB, fixed | 4.0 | 4.0 | 62 | 59 | 56 | 356 | 533 |
| Unsecured non-bank loans | 0.0 | 0.0 | 5 | - | - | 6 | 11 |
| | | | 8,298 | 1,600 | 82 | 19,271 | 29,251 |

## (d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

### *(i) Currency risk*

The Group is exposed to currency risk on sales of grain, purchases of cane sugar and borrowings that are denominated in a currency other than the Russian Rouble (RUB). The currency in which these transactions primarily are denominated in U.S. Dollar (USD). The Group does not use derivatives to hedge currency risk.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

| *Million RUB* | **USD-denominated 2010** | **USD-denominated 2009** |
|---|---|---|
| Trade and other receivables | 3 | 53 |
| Cash and cash equivalents | 2 | 9 |
| Trade and other payables | (14) | (51) |
| Loans and borrowings | (1,273) | (1,905) |
| | (1,282) | (1,894) |

The following significant exchange rates applied during the year:

| **In RUB** | **Average rate** | | **Reporting date spot rate** | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| USD 1 | 30.3692 | 31.7231 | 30.4769 | 30.2442 |

**Sensitivity analysis**

A 20% strengthening of the RUB against the USD at 31 December 2010 would have increased profit for the year ended 31 December 2010 by RUB 256 million. There would have been no impact directly on equity. A 20% strengthening of the RUB against the USD at 31 December 2009 would have decreased loss for the year ended 31 December 2009 by RUB 379 million. There would have been no impact directly on equity.

A 20% weakening of the RUB against the above currencies at 31 December 2010 and 31 December 2009 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010 and 2009.

### *(ii) Interest rate risk*

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

_Profile_

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

| | Carrying amount | |
|---|---|---|
| _Million RUB_ | **2010** | **2009** |
| _Fixed rate instruments_ | | |
| Financial assets | 284 | 1,206 |
| Financial liabilities | (25,719) | (26,185) |
| | (25,435) | (24,979) |

_Fair value sensitivity analysis for fixed rate instruments_

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

### (e) Fair values versus carrying amounts

At 31 December 2010 and 31 December 2009, the carrying values of the Group's financial assets and liabilities approximated their fair values, except for the carrying values of financial liabilities measured at amortised cost. The basis for determining fair values is disclosed in note 4.

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

| _Million RUB_ | **Carrying Amount 2010** | **Fair value 2010** | **Carrying Amount 2009** | **Fair value 2009** |
|---|---|---|---|---|
| Loans and receivables | 6,046 | 6,040 | 4,215 | 4,208 |
| Available-for-sale financial assets | 63 | 63 | 63 | 63 |
| Cash and cash equivalents | 412 | 412 | 401 | 401 |
| Trade and other payables | (3,332) | (3,332) | (3,563) | (3,563) |
| Financial liabilities measured at amortised cost | (1,716) | (1,724) | (1,989) | (1,965) |
| | 1,473 | 1,459 | (873) | (856) |

### (f) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital.

There were no changes in the Group's approach to capital management during the year.

Neither the Company not any of its subsidiaries is subject to any externally imposed capital requirements.

## 30 Contingencies

### (a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available.

In 2010 the Group had insurance coverage for its property, plant and equipment and inventories for a total amount of RUB 2,698 million and RUB 1,183 million, respectively (2009: RUB 7,492 million and RUB 775 million, respectively).

The Group does not have full insurance coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

### (b) Litigation

The Group is involved in various other claims and legal proceedings arising in the normal course of business. Management does not believe that the ultimate resolution of such matters will have a material adverse impact on the Group's operating results or financial condition.

### (c) Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

*Acquisition of machinery and equipment*

In 2008, the Group entered into transactions to acquire certain items of machinery and equipment for a total consideration of RUB 2,400 million. If the structure of these transactions were successfully challenged by the Russian tax or other authorities, such challenge could have very significant operational and financial consequences for the Group, including forfeiture of the machinery and equipment involved, assessment of additional customs duties and value added tax, penalties of up to two times the customs value of the equipment and fines.

Management has not provided any amounts in respect of such obligations in these consolidated financial statements as it believes that it is possible, but not probable, that an outflow of economic benefits will be required to settle such obligations.

*Acquisition of shares in subsidiaries*

In 2008 the Group entered into structured transactions to acquire shares in certain subsidiaries for a total consideration of RUB 577 million, respectively. If the structure of these transactions were successfully challenged by the tax or other authorities, such challenge could potentially have significant operational and financial consequences for the Group. Management has not provided any amounts in respect of these obligations in these consolidated financial statements as it believes that it is possible, but not probable, that an outflow of economic benefits will be required to settle such obligations.

*Trading operations*

In 2008 several of the Group's subsidiaries entered into various transactions to purchase and sell grain crops in the process of being exported from the Russian Federation both at the date of purchase and the date of sale.

In addition to the exposure to assessment of the additional income taxes (note 28), the Group is also exposed to the risk of value added tax of approximately RUB 1,448 million (including penalties) being assessed on the Group as a consequence of the way the transactions were structured because the Tax Code does not contain specific rules for the taxation of transactions of this type. Management has not provided any amounts in respect of these obligations in these consolidated financial statements as it believes that it is possible, but not probable, that an outflow of economic benefits will be required to settle such obligations.

*Acquisition of land assets*

In the reporting period the Group has completed acquisition of certain agricultural land plots in Russia. The way this acquisition was structured could be challenged by the Russian tax authorities. Should the challenge be successful, the Group may become liable to additional income tax payments. Management has not provided any amounts in respect of these obligations in these consolidated financial statements because it believes that it is possible, but not probable, that an outflow of economic benefits will be required to settle such obligations. Management of the Group believes that it is not practicable to estimate the financial effect of potential tax liabilities which ultimately could be imposed on the Group due to the land acquisition.

*Tax compliance of the Group's suppliers*

The Group entered into transactions with various suppliers in which it did not hold any direct or indirect equity interest. These entities are fully responsible for their own tax and accounting compliance. However, due to existing tax authorities' practice, if these entities' tax compliance is challenged by the tax authorities as not being in full conformity with applicable tax legislation, this may result in additional tax risks for the Group. Should these suppliers be successfully challenged, the Group may become liable to additional tax payments, although management of these entities is primarily responsible for the correctness and timeliness of the entities' tax payments. Management has not provided any amounts in respect of these obligations in these consolidated financial statements because it believes that it is possible, but not probable, that an outflow of economic benefits will be required to settle such obligations. Management of the Group believes that it is not practicable to estimate the financial effect of potential tax liabilities which ultimately could be imposed on the Group due to transactions with such suppliers.

*Transfer pricing*

The Group structured some its operations through transfer-pricing arrangements, including arrangements between Group entities and arrangements of Group entities with related parties, thereby decreasing its overall tax liability. In management's opinion, the Group is in substantial compliance with the tax laws of the Russian Federation and other countries where foreign Group companies are registered. However, relevant tax authorities could take different positions with regard to interpretative issues or court practice could develop adversely to positions taken by the Group and the effect could be significant.

### (d) Bankruptcy law

The bankruptcy law in Russia is relatively new, often unclear and subject to interpretations. Application of bankruptcy procedures in practice is often contradictory, and the legality of such procedures is often challenged by different groups of stakeholders even after all bankruptcy procedures have been completed.

## 31 Related party transactions

### (a) Control relationships

As at 31 December 2010 the Group did not have an ultimate controlling party.

### (b) Transactions with management and close family members

Key management (Chairman of the Board of Directors, General Director, Deputy General Director and Finance Director of the Company, Directors of sugar, grain and agricultural business segments) received RUB 87 million of remuneration during the year (2009: RUB 61 million), which is included in personnel costs (see note 11).

### (c) Transactions with other related parties

#### *(i) Transactions with shares*

In March 2010 the Group acquired controlling interests from fellow subsidiary controlled by the controlling shareholder of the Group at the date of transaction. The details of the transactions are disclosed in note 6(b).

#### *(ii) Revenues*

| *Million RUB* | **Transaction 2010** | **Outstanding balance 2010** | **Transaction 2009** | **Outstanding balance 2009** |
|---|---|---|---|---|
| Sale of goods to | | | | |
| - Fellow subsidiaries | 62 | 36 | 89 | 72 |
| - Equity accounted investees | 88 | 6 | 826 | 687 |
| | 150 | 42 | 915 | 759 |

All outstanding balances with related parties are to be settled in cash within 1 year of the balance sheet date. None of the balances are secured.

#### *(iii) Expenses*

| *Million RUB* | **Transaction 2010** | **Outstanding balance 2010** | **Transaction 2009** | **Outstanding balance 2009** |
|---|---|---|---|---|
| Purchases of goods from fellow subsidiaries and equity accounted investees | (5) | (29) | (930) | (571) |
| | (5) | (29) | (930) | (571) |

All outstanding balances with related parties are to be settled in cash within 1 year of the balance sheet date. None of the balances are secured.

### *(iv) Loans*

| *Million RUB* | Amount loaned 2010 | Outstanding balance 2010 | Amount loaned 2009 | Outstanding balance 2009 |
|---|---|---|---|---|
| Loans given to fellow subsidiaries | 43 | 43 | 24 | 24 |
| Loans given to equity accounted investees | - | - | 576 | 576 |
| Loans received from related parties | (5) | (5) | (5) | (5) |
| | 38 | 38 | 595 | 595 |

Loans given to equity accounted investees and fellow subsidiaries are unsecured, bear interest at rates that vary from 1% to 16% per annum and mature in 2011.

### (d) Pricing policies

Normally, when goods are transferred between related parties prior to the sale of the same goods to an independent party, the transfer price is determined based on the ultimate sales price, reduced by a margin sufficient to cover costs and allow the related party to make an appropriate profit. Certain non-trading transactions may not be based on market prices.

## 32 Significant subsidiaries

| | Country of incorporation | Effective ownership, in % 2010 | 2009 |
|---|---|---|---|
| ***Holding companies*** | | | |
| Razgulay-Finans, OOO | Russia | 100 | 100 |
| Razguliay UkrRos Group Limited | Cyprus | 100 | 100 |
| Secure Global Solutions | British Virgin Islands | 100 | 100 |
| AgroServicGrup, OOO | Russia | 100 | 100 |
| Razguliay Capital Limited | Cyprus | 100 | 100 |
| Razgulay-Market, OOO | Russia | 100 | 100 |
| Invest-Alliance, OOO | Russia | - | 100 |
| Kingfisher Global Business Limited | British Virgin Islands | 100 | 100 |
| Razguliay-Agro, OOO | Russia | 100 | 100 |
| ***Grain segment*** | | | |
| Zernovaya kompaniya Razguliay, ZAO | Russia | 100 | 100 |
| Azovskaya zernovaya kompaniya, OOO | Russia | 100 | 100 |
| Bugulminsky elevator, ZAO | Russia | 75 | 75 |
| Bugulminsky KHP#2, ZAO | Russia | 75 | 75 |
| Davlekanovsky KHP#1, OOO | Russia | 100 | 100 |
| Dubovskkhleboproduct, OAO | Russia | 89 | 88 |
| Elevator Rudny Klad, OAO | Russia | 56 | 56 |
| Exim Grain Swiss S.A. | Switzerland | 100 | - |
| Exim Grain Trade B.V. | Netherlands | 100 | 100 |
| Gerkules, OAO | Russia | 89 | 88 |
| Karachaevo-Cherkessky Mukomol, ZAO | Russia | 100 | 100 |
| Khlebnaya baza 63, OAO | Russia | 77 | 77 |
| Kineshemsky mukomolny kombinat, OAO | Russia | 90 | 90 |
| Kolomensky KHP,ZAO | Russia | 100 | 100 |

| | Country of incorporation | Effective ownership, in % 2010 | 2009 |
|---|---|---|---|
| Kondopozhsky KHP, OAO | Russia | 95 | 95 |
| Kuban-Ris, OOO | Russia | 50 | 50 |
| Lgovsky KHP, ZAO | Russia | 100 | 100 |
| Podolsky EMZ, OAO | Russia | 98 | 97 |
| Poltavsky KHP, OAO | Russia | 90 | 90 |
| Razguliay-Krupa, OOO | Russia | 100 | 100 |
| Razguliay-Muka, OOO | Russia | - | 100 |
| Russko-Polyanskiy elevator, OAO | Russia | 89 | 85 |
| Rzhavskoye HPP, OAO | Russia | 98 | 97 |
| Shipunovsky Elevator, OAO | Russia | 95 | 95 |
| Slavyanskaya Khlebnaya Kompania, OOO | Russia | 100 | 100 |
| Slavyansky KHP, OAO | Russia | 87 | 86 |
| Starodubsky elevator, OAO | Russia | 100 | 100 |
| Svetlogradsky elevator, OAO | Russia | 96 | 96 |
| Torgovy Dom Razgulay-Zerno, OOO | Russia | 100 | 100 |
| Tsimlyanskiy kombinat khlebnikh produktov, OAO | Russia | 100 | 100 |
| Ultimate Global Investment Limited | British Virgin Islands | - | 100 |
| Zelenokumsky elevator,OAO | Russia | 50 | 50 |
| Bashkirskaya zernovaya kompaniya, OOO | Russia | 100 | 100 |
| Voronezhskaya zernovaya kompaniya, OOO | Russia | 100 | 100 |
| Zapadno-Sibirskaya zernovaya kompaniya, OOO | Russia | 100 | 100 |
| Kurskaya zernovaya kompaniya, OOO | Russia | 100 | 100 |
| Razguliay-Kuban, OOO | Russia | 100 | 100 |
| Stavropolskoye zerno, OOO | Russia | 100 | 100 |
| Tambovskaya zernovaya kompaniya, OOO | Russia | 100 | 100 |
| Torgovyi Dom Gerkules, OOO | Russia | 100 | 100 |
| Torgovyi Dom Kubanris, OOO | Russia | - | 100 |
| Yuzhno-Donskoe zerno, OOO | Russia | 100 | 100 |
| ***Sugar segment*** | | | |
| Sakharnaya kompaniya Razguliay, ZAO | Russia | 100 | 100 |
| Burge, OOO | Russia | 100 | 100 |
| Chishminsky sakharny zavod, OAO | Russia | 84 | 84 |
| Karachaevo-Cherkessky sakharny zavod, OAO | Russia | 90 | 90 |
| Krivets-Sakhar, OAO | Russia | 97 | 97 |
| Kshensky sakharny kombinat, ZAO | Russia | 100 | 100 |
| Lgovsky MKK, OAO | Russia | 99 | 99 |
| Pristen-Sakhar, ZAO | Russia | 100 | 100 |
| Sakharny kombinat Alexeevsky, ZAO | Russia | 100 | 100 |
| Sakharny kombinat Bolshevik, ZAO | Russia | 100 | 100 |
| Sakharny kombinat Kurganinsky, ZAO | Russia | 100 | 100 |
| Sakharny kombinat Lgovsky, OAO | Russia | 100 | 100 |
| Sakharny kombinat Otradinsky, ZAO | Russia | 100 | 100 |
| Sakharny kombinat Tikhoretsky, ZAO | Russia | 100 | 100 |
| Torgovy Dom RSK, OOO | Russia | 100 | 100 |
| ***Agricultural segment*** | | | |
| Blagovar-agroinvest, OOO | Russia | - | 100 |
| AkBulak-agroivest, OOO | Russia | - | 100 |

| | | Effective ownership, in % | |
|---|---|---|---|
| | **Country of incorporation** | **2010** | **2009** |
| Dubovsk-agroinvest, OOO | Russia | - | 100 |
| Donskaya agrarnaya Gruppa, ZAO (note 6(b)) | Russia | 100 | 25 |
| Selkhoztekhnika, ZAO | Russia | 98 | 24 |
| Degtevskoe, OOO | Russia | 98 | 25 |
| Invest-agro,OOO | Russia | 100 | 100 |
| Rassvet, ZAO | Russia | 86 | 22 |
| Rusagroservis, OOO | Russia | 100 | 100 |
| Krinichansky, OAO | Russia | 75 | 19 |
| Plemennoiy zavod Progress, OAO | Russia | 100 | 25 |
| DonAgro, OOO | Russia | 100 | 25 |
| Rostan, ZAO | Russia | 100 | 100 |
| Shentala-agroinvest, OOO | Russia | - | 100 |
| Svetly-agroinvest, OOO | Russia | 100 | 100 |
| St.Buzdyak-agroinvest, OOO | Russia | - | 100 |
| Shipunovo-agroinvest, OOO | Russia | 100 | 100 |
| Tsimlyanskoe, OOO | Russia | 100 | 100 |
| Kavkaz, OAO | Russia | 75 | 75 |
| Agrofirma Poltavskaya, ZAO | Russia | 100 | 100 |
| Graivoron-agroivest, OOO | Russia | 100 | 100 |
| Anastasievskoe, ZAO | Russia | 100 | 97 |
| Alekseevka-agroinvest, OOO | Russia | 100 | 100 |
| Izobilie, OOO | Russia | 100 | 100 |
| Kshenagro, OOO | Russia | 100 | 100 |
| Krivets-Agro, OOO | Russia | 100 | 100 |
| Korzhevskoe, OOO | Russia | 100 | - |
| Kurganinskagroinvest, OOO | Russia | - | 100 |
| Kurganinskagro, OOO (note 6(a)) | Russia | 100 | - |
| Lgovagroinvest, OOO | Russia | 100 | 100 |
| Nurlatagroinvest, OOO | Russia | 100 | 100 |
| Otradaagroinvest, OOO | Russia | 100 | 100 |
| Chelnovershinyagroinvest, OOO | Russia | 100 | 100 |
| Bashkiragroinvest, OOO | Russia | 100 | 100 |
| Erkenagroinvest, OOO | Russia | 100 | 100 |
| Ilara, OOO | Russia | 100 | 100 |
| Tikhoretskagroinvest, OOO | Russia | 100 | 100 |
| Pochaevo-Agro, OOO | Russia | 100 | 100 |
| Kucherbay-agroinvest, OOO | Russia | - | 25 |

All ownership interests in the above table are rounded to whole percentages.

## 33 Events subsequent to the reporting date

### (a) Bonds

In May 2011 the Group issued 3-year RUB denominated bonds with a nominal value of RUB 3,000 million. The coupons are payable twice a year. The coupon rate is set at 12% per annum for the first three payments.

The bondholders have the right to require the Group to redeem the bonds in November 2012. Also bonds issued contain a number of covenants and restrictions related to certain financial ratios. Covenants breaches generally permit lenders to demand accelerated repayment of principal and interest.

**(b) Changes in shareholder structure**

In May 2011 entities ultimately controlled by Avangard Asset Management acting for AVG CIS Agricultural Opportunities Fund acquired an additional 8.6% interest in the Company and therefore increased its ownership interest in the Company to 29.99%. As a result of this transaction, Avangard Asset Management became the largest shareholder of the Company.

**(c) Agreement to acquire subsidiaries**

In February 2011 the Group entered into an agreement to acquire a 50% interest in ZAO Orskiy miasokombinat, ZAO Orenburgsky broiler and ZAO Uralsky Broiler. Under the terms of the agreement, the Group can obtain control over the shares any time starting from 1 January 2012. The purchase consideration of RUR 3,500 million was settled by the Group's other receivables (note 21).

# Supplementary Financial Information

## Earnings before interest, tax, depreciation and amortisation

| | 2010 | 2009 |
|---|---|---|
| | *Million RUB* | *Million RUB* |
| Profit/(loss) for the year | 143 | (1,568) |
| *Adjustments for:* | | |
| Income tax (benefit)/expense | (1,387) | 338 |
| Depreciation and amortisation | 1,715 | 1,382 |
| Impairment losses on property, plant and equipment (note 16) | 986 | - |
| Property, plant and equipment write off | - | 126 |
| Interest income and expense, net | 2,763 | 2,955 |
| Foreign exchange gain/(loss) | 72 | (231) |
| | 4,292 | 3,002 |

## Reconciliation of reportable segment EBITDA

| | 2010 | 2009 |
|---|---|---|
| | *Million RUB* | *Million RUB* |
| Total EBITDA for reportable segments | 5,095 | 3,443 |
| Effect of recognizing fair value of biological assets: | | |
| Change in fair value of biological assets recognised for the year ended 31 December | 1,420 | 1,450 |
| Effect of recognising fair value of biological assets as at 1 January | (774) | (689) |
| Effect of recognising fair value of biological assets as at 31 December | (800) | (676) |
| Eliminations | (718) | (294) |
| Reversal of impairment 2008 | 775 | 133 |
| Land lease rights write off | (120) | - |
| VAT recovered | (494) | - |
| Loss on disposal of property, plant and equipment | (114) | (163) |
| Other, net | 22 | (202) |
| Consolidated EBITDA for the year | 4,292 | 3,002 |