

OJSC Cherkizovo Group

Unaudited Condensed Consolidated Interim Financial Statements

For the Six Months Ended 30 June 2014

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OJSC CHERKIZOVO GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

Management is responsible for the preparation of condensed consolidated interim financial statements that present fairly the financial position of OJSC Cherkizovo Group and its subsidiaries (together "the Group") as of 30 June 2014, and the results of the Group's operations, cash flows and changes in equity for the six months then ended, in compliance with accounting principles generally accepted in the United States of America ("US GAAP").

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

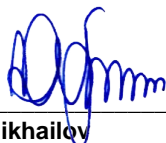
- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in US GAAP are insufficient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

Management is also responsible for:

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

The condensed consolidated interim financial statements of the Group for the six months ended 30 June 2014 were approved by management on 28 August 2014.

On behalf of the Management:



Sergei Mikhailov
Chief Executive Officer

28 August 2014



Ludmila Mikhailova
Chief Financial Officer

28 August 2014

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

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

Introduction

We have reviewed the accompanying condensed consolidated interim balance sheet of OJSC Cherkizovo Group and its subsidiaries (together "the Group") as of 30 June 2014 and the related condensed consolidated interim income statement, statement of comprehensive income, cash flow statement, and statement of changes in equity for the six months then ended, and a summary of significant accounting policies and other explanatory information (together, the "Interim Financial Statements"). Management is responsible for the preparation and presentation of these Interim Financial Statements in accordance with accounting principles generally accepted in the United States of America. Our responsibility is to express a conclusion on these Interim Financial Statements based on our review.

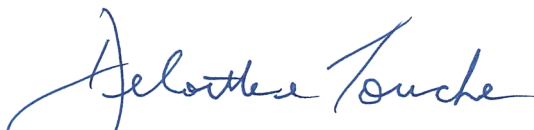
Scope of Review

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

Conclusion

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

28 August 2014



Moscow, Russia

Unaudited condensed consolidated interim balance sheet

As of 30 June 2014

		30 June 2014 US\$000	31 December 2013 US\$000
ASSETS			
Current assets:			
Cash and cash equivalents		57 574	64 385
Trade receivables, net of allowance for doubtful accounts of 2 973 and of 5 357 as of 30 June 2014 and 31 December 2013, respectively		101 336	82 656
Advances paid, net of allowance for doubtful accounts of 2 527 and of 2 550 as of 30 June 2014 and 31 December 2013, respectively		45 091	39 859
Inventory	3	295 403	281 562
Deferred tax assets		2 728	2 794
Other receivables, net of allowance for doubtful accounts of 416 and of 466 as of 30 June 2014 and 31 December 2013, respectively		40 792	43 289
Other current assets		55 380	54 268
Total current assets		598 304	568 813
Non-current assets:			
Property, plant and equipment, net	4	1 477 931	1 377 691
Goodwill		31 626	17 368
Other intangible assets, net		41 661	41 635
Deferred tax assets		3 389	3 482
Notes receivable, net	10	10 577	1 690
Investments in joint venture		8 800	13 006
Long-term deposits in banks		19 963	20 513
Other non-current assets		2 575	2 747
Total non-current assets		1 596 522	1 478 132
Total assets		2 194 826	2 046 945

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

Unaudited condensed consolidated interim balance sheet continued

As of 30 June 2014

		30 June 2014 US\$000	31 December 2013 US\$000
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade accounts payable		122 778	121 113
Short-term borrowings	5	381 785	317 223
Tax related liabilities		26 865	19 192
Deferred tax liabilities		150	153
Payroll related liabilities		29 512	28 274
Advances received		20 476	24 859
Payables for non-current assets		9 310	9 741
Interest payable		3 609	3 478
Other payables and accruals		26 943	9 469
Total current liabilities		621 428	533 502
Non-current liabilities:			
Long-term borrowings	5	487 337	523 812
Deferred tax liabilities		7 058	6 760
Tax related liabilities		2 178	2 241
Payables to shareholders		324	333
Other liabilities		2 103	1 938
Total non-current liabilities		499 000	535 084
Equity:			
Share capital		15	15
Additional paid-in capital		240 178	240 112
Treasury shares		(2 406)	(2 406)
Other accumulated comprehensive loss		(166 391)	(144 613)
Retained earnings		974 597	859 373
Total shareholders' equity		1 045 993	952 481
Non-controlling interests		28 405	25 878
Total equity		1 074 398	978 359
Total liabilities and equity		2 194 826	2 046 945

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

Unaudited condensed consolidated interim income statement

For the six months ended 30 June 2014

		Six months ended 30 June 2014 US\$000	Six months ended 30 June 2013 US\$000	Year ended 31 December 2013 US\$000
Sales	7	872 256	779 560	1 654 919
Cost of sales	8	(617 148)	(628 952)	(1 296 472)
Gross profit		255 108	150 608	358 447
Selling, general and administrative expense	9	(130 501)	(123 616)	(264 021)
Other operating income (expense), net		6 241	(1 871)	(5 762)
Operating income		130 848	25 121	88 664
Other income (expense), net		1 839	(78)	2 828
Financial expense, net		(13 612)	(12 364)	(25 095)
Income before income tax		119 075	12 679	66 397
Income tax		(1 614)	(3 855)	(2 121)
Net income		117 461	8 824	64 276
Less: Net (income) loss attributable to non-controlling interests		(2 237)	201	189
Net income attributable to Cherkizovo Group		115 224	9 025	64 465
Weighted average number of shares outstanding – basic		43 846 590	43 839 590	43 843 090
Net income attributable to Cherkizovo Group per share – basic (in US dollars):		2.67	0.21	1.47
Weighted average number of shares outstanding – diluted	6	43 855 590	43 844 188	43 849 900
Net income attributable to Cherkizovo Group per share – diluted (in US dollars):		2.67	0.21	1.47

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

Unaudited condensed consolidated interim statement of comprehensive income

For the six months ended 30 June 2014

	Six months ended 30 June 2014 US\$000	Six months ended 30 June 2013 US\$000	Year ended 31 December 2013 US\$000
Net income	117 461	8 824	64 276
<i>Other comprehensive income</i>			
Translation adjustment to presentation currency	(21 488)	(71 007)	(73 474)
Other comprehensive loss	(21 488)	(71 007)	(73 474)
Comprehensive income (loss)	95 973	(62 183)	(9 198)
Less: Comprehensive (income) loss attributable to non-controlling interests	(2 527)	2 419	2 952
Comprehensive income (loss) attributable to Cherkizovo Group	93 446	(59 764)	(6 246)

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

Unaudited condensed consolidated interim cash flow statement

For the six months ended 30 June 2014

	Six months ended 30 June 2014 US\$000	Six months ended 30 June 2013 US\$000	Year ended 31 December 2013 US\$000
Cash flows from (used in) operating activities:			
Net income	117 461	8 824	64 276
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortisation	45 432	44 134	91 867
Bad debt expense	1 864	1 103	5 387
Foreign exchange loss	1 514	2 168	3 000
Deferred tax benefit	(125)	(1 300)	(2 419)
(Gain) loss on disposal of property, plant and equipment	(6 241)	1 871	5 762
Other adjustments, net	54	77	147
Changes in operating assets and liabilities			
(Increase) decrease in trade receivables	(19 285)	1 292	2 282
Increase in advances paid	(10 078)	(15 433)	(12 935)
Decrease in inventory	9 490	17 114	7 332
Decrease (increase) in other receivables and other current assets	3 882	(20 343)	(19 960)
Decrease in other non-current receivables	90	1 626	338
(Decrease) increase in trade accounts payable	(2 709)	(11 053)	17 767
Increase (decrease) in tax related liabilities	7 225	(5 418)	1 526
(Decrease) increase in other current payables	(11 502)	8 314	13 956
Total net cash from operating activities	137 072	32 976	178 326
Cash flows from (used in) investing activities:			
Purchases of long-lived assets	(77 068)	(81 745)	(165 448)
Proceeds from sale of property, plant and equipment	10 761	4 831	15 281
Acquisitions of subsidiaries, net of cash acquired (Note 12)	(60 161)	(1 130)	(1 130)
Investments in joint venture	3 706	-	(3 987)
Issuance of long-term notes (Note 10)	(10 163)	-	-
Repayment on long-term loans and notes issued	1 600	1 289	1 289
Placing of deposits and issuance of short-term loans	(3 642)	(50 726)	(51 432)
Repayment of short-term loans issued and redemption of deposits	243	407	50 363
Total net cash used in investing activities	(134 724)	(127 074)	(155 064)

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

Unaudited condensed consolidated interim cash flow statement continued

For the six months ended 30 June 2014

	Six months ended 30 June 2014 US\$000	Six months ended 30 June 2013 US\$000	Year ended 31 December 2013 US\$000
Cash flows from (used in) financing activities:			
Proceeds from long-term loans	27 618	105 408	147 025
Repayment of long-term loans	(60 988)	(62 930)	(161 328)
Repayment of long-term loans from related parties	-	(5 755)	(6 984)
Proceeds from short-term loans	153 868	126 633	294 743
Repayment of short-term loans	(125 686)	(71 824)	(266 317)
Acquisitions of entities under common control and non-controlling interests	-	(1 030)	(1 030)
Total net cash from (used in) financing activities	(5 188)	90 502	6 109
Total cash from (used in) operating, investing and financing activities			
	(2 840)	(3 596)	29 371
Impact of exchange rate difference on cash and cash equivalents	(3 971)	(2 768)	(6 166)
Net (decrease) increase in cash and cash equivalents	(6 811)	(6 364)	23 205
Cash and cash equivalents at the beginning of the period	64 385	41 180	41 180
Cash and cash equivalents at the end of the period	57 574	34 816	64 385
Supplemental Information:			
Income taxes paid	942	4 505	12 076
Interest paid	42 210	50 218	96 597
Subsidies for compensation of interest expense received	32 265	32 589	48 872
Non cash transactions:			
Property, plant and equipment acquired through vendor financing	9 310	11 714	9 741

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

Unaudited condensed consolidated interim statement of changes in equity

For the six months ended 30 June 2014

	Share capital		Treasury shares		Additional paid-in capital US\$000	Retained earnings US\$000	Other accumulated comprehensive loss US\$000	Total shareholders' equity US\$000	Non-controlling interests US\$000	Total equity US\$000
	US\$000	number of shares	US\$000	number of shares						
Balances at 1 January 2013	15	43 963 773	(2 550)	(124 183)	231 402	794 908	(72 812)	950 963	37 403	988 366
Net income	-	-	-	-	-	9 025	-	9 025	(201)	8 824
Other comprehensive loss	-	-	-	-	-	-	(68 789)	(68 789)	(2 218)	(71 007)
Share-based compensation	-	-	-	-	75	-	-	75	-	75
Purchase of subsidiaries	-	-	-	-	-	-	-	-	52	52
Purchase of non-controlling interests and effect of legal restructuring	-	-	-	-	8 706	-	(1 090)	7 616	(8 625)	(1 009)
Balances at 30 June 2013	15	43 963 773	(2 550)	(124 183)	240 183	803 933	(142 691)	898 890	26 411	925 301
Balances at 1 January 2014	15	43 963 773	(2 406)	(117 183)	240 112	859 373	(144 613)	952 481	25 878	978 359
Net income	-	-	-	-	-	115 224	-	115 224	2 237	117 461
Other comprehensive loss	-	-	-	-	-	-	(21 778)	(21 778)	290	(21 488)
Share-based compensation	-	-	-	-	66	-	-	66	-	66
Balances at 30 June 2014	15	43 963 773	(2 406)	(117 183)	240 178	974 597	(166 391)	1 045 993	28 405	1 074 398

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

Notes to the unaudited condensed consolidated interim financial statements

For the six months ended 30 June 2014
(in thousand USD, unless noted otherwise)

1 Business and environment

Incorporation and history

OJSC Cherkizovo Group (the "Company") and its subsidiaries (together "the Group" or "Cherkizovo") trace their origins back to the transformation of a formerly state owned enterprise, Cherkizovsky Meat Processing Plant (Moscow), into a limited liability partnership and subsequent privatisation in the early 1990's. At the time of privatisation, one individual became the majority shareholder in the enterprise. Over the next decade, this individual continued to acquire other meat processing and agricultural entities in the Russian Federation registering shareholding amounts personally as well as in the name of other immediate family members or friends of the family, (collectively "the Control Group"). As the Control Group evolved with continuing acquisitions, two distinctive operating structures emerged consisting of meat processing and agricultural entities. The Group has continued to develop and expand its operations over the past several years both through greenfield projects in the poultry and pork segments as well as through acquisitions across all segments, both from entities under common control and from third parties.

2 Summary of significant accounting policies

Basis of preparation

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

The condensed consolidated interim financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for the preparation of interim financial information. They do not include all information and notes required by U.S. GAAP in the preparation of annual consolidated financial statements. The accounting policies used in the preparation of the condensed consolidated interim financial statements are the same as those described in the Group's audited consolidated financial statements prepared in accordance with U.S. GAAP for the year ended 31 December 2013. The condensed consolidated balance sheet as of 31 December 2013 is derived from the 31 December 2013 audited consolidated financial statements.

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

The financial results for the six months ended 30 June 2014 are not necessarily indicative of the financial results for the full year. The unaudited condensed consolidated interim financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2013.

Notes to the unaudited condensed consolidated interim financial statements continued

For the six months ended 30 June 2014

(in thousand USD, unless noted otherwise)

2 Summary of significant accounting policies continued

Taxation

The Group's effective tax rate for the six months ended 30 June 2014 was 1.35% and was calculated based on the expected effective tax rate for the full year. The gross effective tax rate differs from the statutory rate of 20% largely due to the fact that the statutory rate for entities designated as agricultural entities is 0%.

Foreign currency translation

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

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

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

	Exchange rate
30 June 2014	33.6306
31 December 2013	32.7292
30 June 2013	32.7090
Average exchange rate for the six months ended 30 June 2014	34.9796
Average exchange rate for the year ended 31 December 2013	31.8480
Average exchange rate for the six months ended 30 June 2013	31.0169

Effect of accounting pronouncements adopted

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") No. 2013-11, "Presentation of unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists", which amends Topic 740 of the Codification. The update provides that a liability related to an unrecognized tax benefit should be offset against a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. In that case, the liability associated with the unrecognized tax benefit is presented in the financial statements as a reduction to the related deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward. In situations in which a net operating loss carryforward, a similar tax loss or a tax credit carryforward is not available at the reporting date under the tax law of the jurisdiction or the tax law of the jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This amendment is effective prospectively for fiscal years, and interim periods within those years, beginning after 15 December 2013. The Group adopted the requirements of ASU No. 2013-11 from 1 January 2014. This adoption did not have an impact on the Group's results of operations, financial position or cash flows.

Notes to the unaudited condensed consolidated interim financial statements continued

For the six months ended 30 June 2014

(in thousand USD, unless noted otherwise)

2 Summary of significant accounting policies continued

New accounting pronouncements

In April 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, an amendment to FASB Accounting Standards Codification (ASC) Topic 205, Presentation of Financial Statements, and FASB ASC Topic 360, Property, Plant and Equipment. The update revises the definition of discontinued operations by limiting discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity's operations and financial results, removing the lack of continuing involvement criteria and requiring discontinued operations reporting for the disposal of an equity method investment that meets the definition of discontinued operations. The update also requires expanded disclosures for discontinued operations, including disclosure of pretax profit or loss of an individually significant component of an entity that does not qualify for discontinued operations reporting. This ASU is effective for the Group prospectively beginning in fiscal 2015, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Group's consolidated results of operations, financial position or cash flows.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, issued as a new Topic, ASC Topic 606. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle of the guidance is that a Company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU is effective for the Group beginning in fiscal 2017 and can be adopted by the Group either retrospectively or as a cumulative-effect adjustment as of the date of adoption. The adoption of this guidance is not expected to have a material impact on the Group's consolidated results of operations, financial position or cash flows.

Notes to the unaudited condensed consolidated interim financial statements continued

For the six months ended 30 June 2014

(in thousand USD, unless noted otherwise)

3 Inventory

Inventory as of 30 June 2014 and 31 December 2013 comprised:

	30 June 2014 US\$000	31 December 2013 US\$000
Raw materials	96 000	107 355
Livestock	139 358	129 592
Work in-process	41 972	23 743
Finished goods	18 073	20 872
Total inventory	295 403	281 562

4 Property, plant and equipment, net

The carrying amounts of property, plant and equipment as of 30 June 2014 and 31 December 2013 comprised:

	30 June 2014 US\$000	31 December 2013 US\$000
Land	37 019	38 667
Buildings, infrastructure and leasehold improvements	848 516	804 449
Machinery and equipment	299 305	286 106
Vehicles	56 510	51 841
Sows	21 225	23 925
Cattle	326	366
Other	1 432	1 557
Construction in-progress and equipment for installation	175 354	135 601
Advances paid for property, plant and equipment	38 244	35 179
Total property, plant and equipment, net	1 477 931	1 377 691

Accumulated depreciation amounted to 448 772 and 416 737 as of 30 June 2014 and 31 December 2013, respectively. Depreciation expense amounted to 45 432 and 44 134 for the six months ended 30 June 2014 and 2013, respectively, which includes depreciation of leased equipment.

Notes to the unaudited condensed consolidated interim financial statements continued

For the six months ended 30 June 2014

(in thousand USD, unless noted otherwise)

5 Borrowings

Borrowings of the Group as of 30 June 2014 and 31 December 2013 comprised:

	Interest rates	WAIR*	EIR**	30 June 2014 US\$000		31 December 2013 US\$000	
				Current	Non-current	Current	Non-current
Capital leases	8.25% -15.30%	13.51%	13.51%	2 184	8 680	803	7 076
Bonds	9.75% - 9.75%	9.75%	9.75%	-	74 337	-	76 384
Bank loans	8.00% - 15.00%	10.83%	2.88%	84 829	-	91 909	2 099
Lines of credit	8.00% - 15.60%	10.70%	2.57%	288 848	402 324	224 511	435 441
Other borrowings	0.00% - 11.55%	6.56%	1.09%	5 924	1 996	-	2 812
Total borrowings				381 785	487 337	317 223	523 812

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

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

The contractual maturity of long-term borrowings (excluding finance leases) for the six years ending 30 June 2020 and thereafter is as follows:

Maturity of non-current borrowings	Year ending 01.07.2015 US\$000	Year ending 01.07.2016 US\$000	Year ending 01.07.2017 US\$000	Year ending 01.07.2018 US\$000	Year ending 01.07.2019 US\$000	Year ending 01.07.2020 US\$000	>01.07.2020 US\$000	Total US\$000
Total borrowings	153 005	221 802	104 716	64 347	27 698	17 352	42 741	631 661*

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

As of 30 June 2014, the Group's borrowings are denominated in the following currencies: 863 587 in Russian roubles, 1 853 in Euro and 3 682 in USD. As of 31 December 2013, the Group's borrowings were denominated in the following currencies: 834 519 in Russian roubles, 2 626 in Euro and 3 890 in USD.

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

Bonds

Bonds due in April 2016

In April 2013, the Group placed 3 000 000 bonds in rubles (95 831) at par value (1 000 roubles or 31.62 USD at the issuance date) with a maturity date in April 2016. The Group accounts for these instruments at amortized cost. 500 000 (15 812) of these bonds were purchased by a Group company upon issuance, for the purpose of selling on the market when funds are required; such bonds have not, to date, been sold on the market.

The remaining 2 500 000 bonds (74 337 using the 30 June 2014 exchange rate) held by third parties are presented as non-current debt as of 30 June 2014. The coupon rate on the bonds, payable semi-annually, was set at 9.75% per annum.

Notes to the unaudited condensed consolidated interim financial statements continued

For the six months ended 30 June 2014

(in thousand USD, unless noted otherwise)

5 Borrowings continued

Lines of credit

Sberbank of Russia

Borrowings from the Sberbank of Russia consist of twenty-five rouble denominated lines of credit with interest ranging from 8.60% to 13.00% per annum. Several of these instruments are guaranteed by related parties. Principal payments are due from 2014 to 2020. The amount outstanding was 338 412 and 375 382 as of 30 June 2014 and 31 December 2013, respectively.

Gazprombank

Borrowings from Gazprombank consist of ten rouble denominated lines of credit with interest ranging from 9.05% to 13.00% per annum. Principal payments are due from 2014 to 2022. Amount outstanding was 131 522 and 109 841 as of 30 June 2014 and 31 December 2013, respectively.

Bank Zenith

Borrowings from Bank Zenith consist of four long-term and one short-term rouble denominated lines of credit with interest ranging from 10.25% to 13.00% per annum. Principal is due upon maturity from 2014 to 2017. The amount outstanding was 52 283 and 34 506 as of 30 June 2014 and 31 December 2013, respectively.

Rosselkhozbank

Borrowings from Rosselkhozbank consist of thirty rouble and three Euro denominated lines of credit with fixed interest rates ranging from 9% to 15% per annum. Principal payments are due from 2014 to 2021. The amount outstanding was 123 951 and 137 748 for rouble denominated and 1 248 and 2 475 for Euro denominated lines of credit as of 30 June 2014 and 31 December 2013, respectively.

Bank VTB

Borrowings from Bank VTB consist of thirty-one rouble denominated lines of credit with interest ranging from 9.02% to 15.60% per annum. Principal is due upon maturity from 2014 to 2018. The amount outstanding was 43 756 as of 30 June 2014.

The total amount of unused credit on lines of credit as of 30 June 2014 is 495 413. The unused credit can be utilized from 2014 to 2016

Major covenants

Certain significant loan agreements contain covenants requiring the maintenance of minimum revenue turnover through accounts at the respective banks. Certain significant loan agreements with the Sberbank of Russia and Rosselkhozbank contain financial covenants requiring maintenance of specific debt to EBITDA and debt service coverage ratios. The Group is in compliance with these covenants as of 30 June 2014.

Notes to the unaudited condensed consolidated interim financial statements continued

For the six months ended 30 June 2014

(in thousand USD, unless noted otherwise)

6 Shareholders' equity

Earnings per share

Earnings per share for the six months ended 30 June 2014 and 2013 and for the year ended 31 December 2013 have been determined using the weighted average number of Group shares outstanding over the period.

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

	Six months ended 30 June 2014	Six months ended 30 June 2013	Year ended 31 December 2013
Weighted average number of shares outstanding - basic	43 846 590	43 839 590	43 843 090
Add back incremental treasury shares in respect of share options	9 000	4 598	6 810
Weighted average number of shares outstanding - diluted	43 855 590	43 844 188	43 849 900

7 Sales

Sales for the six months ended 30 June 2014 and 2013 and for the year ended 31 December 2013 comprised:

	Six months ended 30 June 2014 US\$000	Six months ended 30 June 2013 US\$000	Year ended 31 December 2013 US\$000
Produced goods and goods for resale	903 699	798 950	1 697 273
Other sales	20 158	26 923	53 911
Sales volume discounts	(44 074)	(38 810)	(81 402)
Sales returns	(7 527)	(7 503)	(14 863)
Total sales	872 256	779 560	1 654 919

8 Cost of sales

Cost of sales for the six months ended 30 June 2014 and 2013 and for the year ended 31 December 2013 comprised:

	Six months ended 30 June 2014 US\$000	Six months ended 30 June 2013 US\$000	Year ended 31 December 2013 US\$000
Raw materials and goods for resale	436 065	448 686	929 262
Personnel (excluding pension costs)	73 901	77 884	153 738
Depreciation	40 213	40 683	85 393
Utilities	40 194	36 409	74 715
Pension costs	13 245	14 313	27 539
Other	13 530	10 977	25 825
Total cost of sales	617 148	628 952	1 296 472

Raw materials and goods for resale are offset by subsidies received from local governments in the amount of 337, 25 717 and 24 793 for the six months ended 30 June 2014 and 2013 and for the year ended 31 December 2013, respectively. These targeted subsidies are received based on the amount of meat and eggs produced.

Notes to the unaudited condensed consolidated interim financial statements continued

For the six months ended 30 June 2014

(in thousand USD, unless noted otherwise)

9 Selling, general and administrative expense

Selling, general and administrative expense for the six months ended 30 June 2014 and 2013 and for the year ended 31 December 2013 comprised:

	Six months ended 30 June 2014 US\$000	Six months ended 30 June 2013 US\$000	Year ended 31 December 2013 US\$000
Personnel (excluding pension costs)	50 213	51 615	102 072
Transportation	14 819	13 115	29 755
Pension costs	9 261	9 075	16 671
Rent expenses	6 921	7 197	12 083
Taxes (other than income tax)	6 803	7 126	13 759
Materials and supplies	6 677	6 768	15 443
Security services	5 865	6 710	13 729
Advertising and marketing	5 430	1 948	7 705
Depreciation and amortization	5 219	3 451	6 474
Audit, consulting and legal fees	1 958	1 992	5 437
Bad debt expense	1 864	1 103	5 387
Utilities	1 861	1 624	3 978
Information technology and communication services	1 558	1 055	2 860
Veterinary services	1 528	1 643	3 205
Insurance	1 242	597	1 606
Bank charges	652	872	1 588
Repairs and maintenance	648	827	1 762
Other	7 982	6 898	20 507
Total selling, general and administrative expense	130 501	123 616	264 021

10 Related parties

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

Trading transactions

Trading transactions with related parties comprise mostly of purchases of grain crops from and rendering of storage services to TZK NAPKO, Agrarnaya Gruppya and CJSC Penzamyasoprom. All noted related parties are entities under common ownership and control with the Group. The Group also sells sausages, raw meat and poultry to a retail chain "Myasnov".

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

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

Financing transactions

Certain shareholders as of 30 June 2014 have personally guaranteed certain of the bank loans and lines of credit for a total amount of 51 322.

During the six months ended 30 June 2014, the Group loaned 10 577 to its joint venture Tambovskaya Indeika. The notes are unsecured, denominated in RUR with a fixed interest rate of 2.75% per annum. The notes are payable, together with interest, after 8 years.

Notes to the unaudited condensed consolidated interim financial statements continued

For the six months ended 30 June 2014

(in thousand USD, unless noted otherwise)

10 Related parties continued

As of 30 June 2014 and 31 December 2013, balances with companies under common control are summarized as follows:

Balances	30 June 2014 US\$000	31 December 2013 US\$000 (restated)*
	Trade receivables	5 927
Other non-current receivables	1 647	2 134
Advances paid	7 623	556
Other receivables	209	193
Trade payables	593	1 010
Other payables	20	86
Long-term borrowings	1 002	1 020

For the six months ended 30 June 2014 and 2013, and for the year ended 31 December 2013, transactions with companies under common control are summarized as follows:

Transactions	Six months ended 30 June 2014 US\$000	Six months ended 30 June 2013 US\$000 (restated)*	Year ended 31 December 2013 US\$000 (restated)*
	Sales	26 689	23 753
Rent income	2 533	1 368	2 986
Purchases of security services	541	199	830
Purchases of property, plant and equipment	1 144	171	171
Purchases of goods and other services	1 744	2 300	18 702

* the Group identified an error in comparative information in the related party note related to omission of disclosure of transactions and balances with related party "Myasnov". As required by US GAAP, comparative information in the note for the six months ended 30 June 2013 and for the year ended 31 December 2013 has been retrospectively adjusted for a correction of the error.

As of 30 June 2014 and 31 December 2013 balances with the Group's joint ventures are summarized as follows:

Balances	30 June 2014 US\$000	31 December 2013 US\$000
	Trade receivables	190
Advances paid	2 654	666
Trade payables	256	186
Advances received	14 273	14 666
Notes receivable, net	10 577	-
Other payables	-	47

For the six months ended 30 June 2014 and for the year ended 31 December 2013, transactions with the Group's joint ventures are summarized as follows (there were no transactions in the six months ended 30 June 2013):

Transactions	Six months ended 30 June 2014 US\$000	Year ended 31 December 2013 US\$000
	Sales	99
Rent income	68	23
Purchases of goods and other services	1 912	766

Notes to the unaudited condensed consolidated interim financial statements continued

For the six months ended 30 June 2014

(in thousand USD, unless noted otherwise)

11 Segment reporting

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

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

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

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

Starting from the annual financial statements for the year ended 31 December 2013, the Group changed presentation of corporate recharges in the segment note to exclude these recharges from the operating expenses of the reportable segments, and correspondingly decrease corporate revenues for such amounts. The comparative information for the six months ended 30 June 2013 has been retrospectively adjusted to reflect the change in the segment reporting.

Notes to the unaudited condensed consolidated interim financial statements continued

For the six months ended 30 June 2014

(in thousand USD, unless noted otherwise)

11 Segment reporting continued

Segment information for the six months ended 30 June 2014:

	Meat- Processing US\$000	Poultry US\$000	Pork US\$000	Grain US\$000	Corporate US\$000	Intersegment US\$000	Total consolidated US\$000
Total sales	267 449	478 320	210 172	4 703	293	(88 681)	872 256
including other sales	4 363	15 015	2 251	466	293	(2 230)	20 158
including sales volume discounts	(27 940)	(16 134)	-	-	-	-	(44 074)
Intersegment sales	(153)	(9 739)	(76 000)	(2 789)	-	88 681	-
Sales to external customers	267 296	468 581	134 172	1 914	293	-	872 256
Cost of sales	(224 043)	(357 012)	(118 493)	(4 102)	(1 024)	87 526	(617 148)
Gross profit	43 406	121 308	91 679	601	(731)	(1 155)	255 108
Operating expenses	(37 326)	(59 049)	(10 545)	(3 693)	(14 802)	1 155	(124 260)
Operating income	6 080	62 259	81 134	(3 092)	(15 533)	-	130 848
Other income (expense), net	(134)	4 752	(53)	9	6 508	(9 243)	1 839
Financial expense, net	(4 333)	(4 569)	(5 872)	(2 223)	(5 858)	9 243	(13 612)
Segment profit	1 613	62 442	75 209	(5 306)	(14 883)	-	119 075
Supplemental information:							
Expenditure for segment property, plant and equipment	8 600	40 353	23 336	6 557	1 487	-	80 333
Depreciation and amortisation expense	5 191	23 652	15 047	988	554	-	45 432
Income tax expense (benefit)	(563)	1 898	278	1	-	-	1 614

Operating expenses include selling, general and administrative expense and other operating expense, net.

Corporate does not represent a segment. Items included within Corporate represent reconciling items between the balances of the reportable segments, and the consolidated totals for the Group, and include payroll and other expenses of the holding company.

Segment information for the six months ended 30 June 2013:

	Meat- Processing US\$000	Poultry US\$000	Pork US\$000	Grain US\$000	Corporate US\$000	Intersegment US\$000	Total consolidated US\$000
Total sales	272 128	419 924	137 167	4 700	294	(54 653)	779 560
including other sales	743	26 176	3 319	-	-	(3 315)	26 923
including sales volume discounts	(24 680)	(14 130)	-	-	-	-	(38 810)
Intersegment sales	(14)	(9 864)	(41 762)	(3 012)	-	54 653	-
Sales to external customers	272 114	410 060	95 405	1 688	293	-	779 560
Cost of sales	(203 777)	(348 325)	(127 580)	(3 593)	(3)	54 326	(628 952)
Gross profit	68 351	71 599	9 587	1 107	291	(327)	150 608
Operating expenses	(41 529)	(53 143)	(15 836)	(976)	(14 330)	327	(125 487)
Operating income	26 822	18 456	(6 249)	131	(14 039)	-	25 121
Other income (expense), net	(402)	5 581	(258)	1	4 481	(9 481)	(78)
Financial expense, net	(5 168)	(3 774)	(6 451)	(534)	(5 918)	9 481	(12 364)
Segment profit	21 252	20 263	(12 958)	(402)	(15 476)	-	12 679
Supplemental information:							
Expenditure for segment property, plant and equipment	16 943	42 900	19 925	-	1 253	-	81 021
Depreciation and amortisation expense	5 450	22 114	15 726	468	376	-	44 134
Income tax expense (benefit)	3 975	63	(179)	(4)	-	-	3 855

Notes to the unaudited condensed consolidated interim financial statements continued

For the six months ended 30 June 2014

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11 Segment reporting continued

Segment information for the year ended 31 December 2013 comprised:

	Meat- Processing US\$000	Poultry US\$000	Pork US\$000	Grain US\$000	Corporate US\$000	Intersegment US\$000	Total consolidated US\$000
Total sales	571 593	844 350	338 770	26 765	566	(127 125)	1 654 919
including other sales	269	44 433	15 161	2 015	-	(7 967)	53 911
including sales volume discounts	(51 744)	(29 658)	-	-	-	-	(81 402)
Intersegment sales	(229)	(16 229)	(97 203)	(13 428)	(36)	127 125	-
Sales to external customers	571 364	828 121	241 567	13 337	530	-	1 654 919
Cost of sales	(431 332)	(692 308)	(281 577)	(18 566)	(525)	127 836	(1 296 472)
Gross profit	140 261	152 042	57 193	8 199	41	711	358 447
Operating expense	(88 135)	(114 844)	(33 936)	(5 283)	(26 874)	(711)	(269 783)
Operating income	52 126	37 198	23 257	2 916	(26 833)	-	88 664
Other income (expense), net	(858)	8 371	(221)	11	14 282	(18 757)	2 828
Financial expense, net	(10 139)	(8 812)	(10 481)	(881)	(13 539)	18 757	(25 095)
Segment profit	41 129	36 757	12 555	2 046	(26 090)	-	66 397
Supplemental information							
Expenditure for segment property, plant and equipment	28 963	75 832	36 296	17 968	2 050	-	161 109
Depreciation and amortisation expense	9 211	43 846	35 725	2 185	900	-	91 867
Income tax expense (benefit)	1 333	608	45	69	66	-	2 121

The reconciliation between segment assets and total assets per the consolidated balance sheets as of 30 June 2014 and 31 December 2013 is as follows:

	30 June 2014 US\$000	31 December 2013 US\$000
Meat processing	275 878	284 298
Poultry	1 084 642	884 387
Pork	755 702	736 997
Grain	93 109	69 574
Total for reportable segments	2 209 331	1 975 256
Corporate assets and intersegment eliminations	(14 505)	71 689
Total assets	2 194 826	2 046 945

Corporate assets comprise cash in bank received from both the issuance of new shares and bond issues and certain other assets.

Notes to the unaudited condensed consolidated interim financial statements continued

For the six months ended 30 June 2014

(in thousand USD, unless noted otherwise)

12 Subsidiaries, acquisitions, divestitures

Acquisition of LSKO Broiler

On 24 March 2014, the Group completed an acquisition of 100% of the share capital of ZAO LSKO Broiler ("LSKO") for cash consideration of 89 356 of which 65 116 has been paid as of 30 June 2014 (presented in the cash flow statement net of cash acquired of 4 955) and the balance is payable in installments until 31 December 2014.

LSKO is the largest poultry producer in the Voronezh Region and one of the market leaders in the Central and Southern Federal Districts. Based on Russian Poultry Union data, LSKO ranks seventh among top poultry producers with a 2% nationwide market share in volume. Its production capacity is approximately 95,000 tonnes (live weight) per year. LSKO's full-cycle production assets that will be integrated to Cherkizovo Group include (all LSKO production facilities are built in accordance with modern standards and are highly efficient):

- 7 poultry production facilities;
- 4 parent flock sites with a slaughtering facility of 4,000 heads per hour;
- 2 reproduction flock sites;
- Slaughtering complex with capacity of 9,000 heads per hour;
- Hatchery with capacity of 80 million eggs per year;
- Feed mill with 40 tonnes per hour capacity;
- Grain storage facility with overall storage capacity of 100,000 tonnes;
- Meat and bone meal production facility;
- Rendering facility

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

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

The provisional purchase price allocation was as follows:

Purchase price	89 356
Inventory	25 924
Other current assets	8 917
Property, plant and equipment	97 515
Goodwill	14 002
Trademarks	-
Short-term loans and finance leases	(12 304)
Other current liabilities	(7 889)
Long-term loans and finance leases	(36 810)

Notes to the unaudited condensed consolidated interim financial statements continued

For the six months ended 30 June 2014

(in thousand USD, unless noted otherwise)

12 Subsidiaries, acquisitions, divestitures continued

The following pro forma financial information presents consolidated income statements as if the acquisition occurred as of the beginning of the prior annual reporting period (1 January 2013). In determining proforma amounts, all non-recurring costs were determined to be immaterial. Pro forma information is presented for all preceding comparative periods:

	For the six months ended 30 June 2014 US\$000	For the six months ended 30 June 2013 US\$000	For the year ended 31 December 2013 US\$000
Pro forma Information			
Sales	903 633	852 656	1 806 607
Operating income	136 254	25 870	92 131
Net income	122 380	7 655	68 692
Weighted average number of shares outstanding	43 846 590	43 839 590	43 843 090
Earnings per share (USD)	2.79	0.17	1.57

These unaudited pro forma results have been prepared for comparison purposes only. The unaudited pro forma information does not purport to represent what the Group's financial position or results of operations would actually have been if these transactions had occurred at the beginning of the period or to project the Group's future results of operations. The actual results of operations of LISKO are included in the consolidated financial statements of the Group only from the date of acquisition and were:

Actual results of LISKO Broiler from the date of acquisition (24 March 2014) to 30 June 2014	US\$000
Sales	48 087
Operating income	10 090
Net income	9 796

13 Contingencies

Legal

As of 30 June 2014 and 31 December 2013, several Group companies reported negative net assets in their statutory financial statements. In accordance with the Civil Code of the Russian Federation, under certain circumstances a liquidation process may be initiated against a company reporting negative net assets. Management believes that it is remote that the liquidation process will be initiated against those companies.

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

Operating environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

Notes to the unaudited condensed consolidated interim financial statements continued

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(in thousand USD, unless noted otherwise)

13 Contingencies continued

Taxation

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

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

Environmental remediation costs

The Group's management believes that the Group is in compliance with applicable legislation and is not aware of any potential environmental claims; therefore, no liabilities associated with such costs are recorded as of 30 June 2014.

14 Fair value of financial instruments

The carrying values and fair values of the Group's notes receivable and borrowings with the exception of finance leases, as of 30 June 2014 and 31 December 2013 are as follows:

	30 June 2014		31 December 2013	
	US\$000		US\$000	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Notes receivable, net	10 577	6 414	1 690	1 282
Borrowings other than finance leases *	858 258	829 841	833 156	800 178

* Cost of debt of 12.69% was applied, which did not include the effect of subsidies for interest expense

The fair value of long-term deposits in banks approximately equals their carrying value as of 30 June 2014, as market rates have not significantly changed since the date of investing in the fixed-rate long-term deposits. Solely for the purpose of presentation, the Group has estimated fair value of notes receivable and borrowings (Level 3) based on expected discounted cash flows incorporating the Group's weighted average cost of capital.

15 Subsequent events

The Group obtained 70 862 and repaid 67 923 on lines of credit, bank loans and other loans for the period from 1 July through 28 August 2014.

The Group has evaluated subsequent events through 28 August 2014, the date on which the consolidated financial statements are available to be issued.