OJSC Cherkizovo Group

Consolidated Financial Statements
Years Ended 31 December 2008 and 2007

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

For the years ended 31 December 2008 and 2007

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

Management is responsible for the preparation of the consolidated financial statements that present fairly, in all material respects, the consolidated financial position of the Group at 31 December 2008 and 2007 and the consolidated results of its operations, cash flows and changes in shareholders' equity and comprehensive income for the years then ended, in conformity with accounting principles generally accepted in the United States of America ("US GAAP").

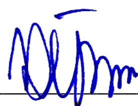
In preparing the consolidated financial statements, management is responsible for:

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

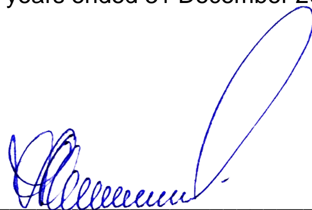
Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with US GAAP;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements for the years ended 31 December 2008 and 2007 were approved on 3 April 2009 by:



Mr. Sergei I. Mikhailov
Chief Executive Officer



Mr. Arthur M. Minosyants
Chief Operating Officer

Ms. Ludmila I. Mikhailova
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Independent auditors' report

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

We have audited the accompanying consolidated balance sheets of OJSC Cherkizovo Group and its subsidiaries (together the "Group") as of 31 December 2008 and 2007 and the related consolidated statements of income, cash flows and changes in shareholders' equity and comprehensive income for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, the Group did not maintain historical cost records for property, plant and equipment acquired prior to 31 December 2001. On 31 December 2001, the Group established the carrying value of such assets based on the estimated fair values at such date. In our opinion, accounting principles generally accepted in the United States of America require that property, plant and equipment be stated at historical cost. The information needed to quantify the effects of these items on the financial position, results of operations, and cash flows of the Group is not reasonably determinable from the accounts and records.

In our opinion, except for the effects of including property, plant and equipment based on fair values as described in the preceding paragraph, such financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2008 and 2007 and the consolidated results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche CIS

3 April 2009

Consolidated balance sheets

As of 31 December 2008 and 2007

		2008 US$000	2007 US$000
ASSETS			
Current assets:			
Cash and cash equivalents	3	49 664	16 841
Trade receivables, net of allowance for doubtful accounts of 3 135 and of 2 633 as of 31 December 2008 and 2007, respectively		88 375	88 845
Advances paid, net of allowance for doubtful accounts of 1 324 and of 834 as of 31 December 2008 and 2007, respectively		29 672	37 609
Inventory	4	133 627	154 481
Deferred tax assets	18	4 621	7 304
Other receivables, net of allowance for doubtful accounts of 562 and of 404 as of 31 December 2008 and 2007, respectively	5	28 488	20 849
Other current assets	6	34 659	43 301
Total current assets of continuing operations		**369 106**	**369 230**
Current assets of discontinued operations	23	334	6 626
Total current assets		**369 440**	**375 856**
Non-current assets:			
Property, plant and equipment, net	7	683 946	705 849
Goodwill	8	8 548	10 959
Other intangible assets, net	8	43 210	55 007
Loans receivable		7 917	8 836
Deferred tax assets	18	470	2 030
Notes receivable, net	9	7 903	8 357
VAT receivable		11 462	21 034
Total non-current assets of continuing operations		**763 456**	**812 072**
Non-current assets of discontinued operations	23	1 368	8 297
Total non-current assets		**764 824**	**820 369**
Total assets		**1 134 264**	**1 196 225**

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

Consolidated balance sheets continued

As of 31 December 2008 and 2007

	Note	2008 US$000	2007 US$000
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade accounts payable		66 283	74 716
Short-term debt and current portion of finance leases	10	236 351	229 060
Tax related payables	11	7 549	6 811
Deferred tax liabilities	18	54	177
Payroll related liability		12 233	14 334
Advances received		3 808	2 722
Payables for non-current assets		11 285	16 055
Interest payable		2 713	2 673
Other payables		4 049	3 044
Total current liabilities of continuing operations		**344 325**	**349 592**
Current liabilities of discontinued operations	23	1 705	9 210
Total current liabilities		**346 030**	**358 802**
Non-current liabilities:			
Long-term debt and finance leases	10	325 666	425 222
Deferred tax liabilities	18	28 594	42 982
Tax related payables	11	6 935	10 003
Payables to shareholders	21	929	1 167
Other liabilities		144	212
Total non-current liabilities of continuing operations		**362 268**	**479 586**
Total non-current liabilities of discontinued operations	23	819	7 087
Total non-current liabilities		**363 087**	**486 673**
Commitments and contingencies	24		
Minority interest		24 169	21 226
Shareholders' equity:			
Share capital (par value – 0.01 Russian Roubles; 31 December 2008: total authorized shares – 54 702 600; issued shares – 43 069 355, outstanding shares – 43 028 022; 31 December 2007: total authorized shares – 54 702 600, issued and outstanding shares – 39 564 300)	12	15	14
Additional paid-in capital		289 146	209 861
Treasury shares, at cost (41 333 shares as of 31 December 2008)		(496)	–
Other accumulated comprehensive (loss) income		(64 551)	20 890
Retained earnings		176 864	98 759
Total shareholders' equity		**400 978**	**329 524**
Total liabilities and shareholders' equity		**1 134 264**	**1 196 225**

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

Consolidated income statements

For the years ended 31 December 2008 and 2007

		2008 US$000	2007 US$000
Sales	13	1 166 281	820 763
Cost of sales	14	(886 839)	(598 490)
Gross profit		**279 442**	**222 273**
Selling, general and administrative expenses	15	(172 405)	(137 347)
Impairment of non-current assets	8	(2 258)	–
Other operating expense	7	(851)	(40)
Operating Income		**103 928**	**84 886**
Other income, net	16	1 195	7 451
Interest expense, net	17	(22 725)	(18 396)
Income from continuing operations before income tax and minority interest		**82 398**	**73 941**
Income tax	18	(1 409)	(7 259)
Income from continuing operations before minority interest		**80 989**	**66 682**
Minority interest		(3 994)	(2 848)
Income from continuing operations		**76 995**	**63 834**
Loss from discontinued operations, net of income tax (expense) benefit of (546) and 395 in 2008 and 2007, respectively	23	(3 489)	(2 252)
Gain on disposal of discontinued operations, net of income tax benefit of 30	23	4 599	–
Net Income		**78 105**	**61 582**
Weighted average number of shares outstanding		41 725 834	39 564 300
		US$	**US$**
Earnings per share (basic and diluted):			
Income from continuing operations		1.84	1.62
Loss from discontinued operations, net of income tax		(0.08)	(0.06)
Gain on disposal of discontinued operations, net of income tax		0.11	–
Net income per share		**1.87**	**1.56**

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

Consolidated cash flow statements

For the years ended 31 December 2008 and 2007

		2008 US$000	2007 US$000
Cash flows from operating activities:			
Income from continuing operations		76 995	63 834
Adjustments to reconcile income from continuing operations to net cash from operating activities:			
Depreciation and amortisation		45 748	31 466
Bad debt expense	15	3 685	2 135
Loss on disposal of property, plant and equipment	7	851	40
Minority interest		3 994	2 848
Foreign exchange loss (gain)	16	1 596	(3 205)
Deferred tax (benefit) expense	18	(5 557)	259
Expense (income) related to expiration of statute of limitations on tax risks accrued under FIN 48, net of penalties accrued on FIN 48 tax liabilities and new accruals	18	867	(2 528)
Impairment of non-current assets	8	2 258	–
Other adjustments		(1 693)	(953)
Changes in operating assets and liabilities			
Decrease (increase) in inventories		2 962	(38 914)
Increase in trade receivables		(17 844)	(20 640)
Decrease (increase) in advances paid		1 326	(15 535)
Decrease (increase) in value added tax receivable		7 226	(6 440)
Increase in other current assets		(4 503)	(14 431)
Increase in trade accounts payable		5 133	23 209
Increase (decrease) in taxes payable		2 287	(2 221)
Increase in other current payables		4 122	702
Net cash from operating activities of continuing operations		**129 453**	**19 626**
Cash flows of discontinued operating activities:			
Loss from discontinued operations	23	(3 489)	(2 252)
Adjustments to reconcile loss from discontinued operations to net cash (used in) from operating activities of discontinued operations:			
Bad debt expense		54	485
Minority interest in loss from discontinued operations		(1 035)	(743)
Deferred tax expense (benefit)		546	(395)
Depreciation		428	744
Foreign exchange loss (gain)		34	(12)
(Gain) loss on disposal of property, plant and equipment		(30)	116
Net change in operating assets and liabilities		2 260	2 356
Net cash (used in) from operating activities of discontinued operations		**(1 232)**	**299**
Total net cash from operating activities		**128 221**	**19 925**

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

Consolidated cash flow statements continued

For the years ended 31 December 2008 and 2007

	2008 US$000	2007 US$000
Cash flows from investing activities:		
Purchases of long-lived assets	(165 231)	(172 989)
Proceeds from sale of property, plant and equipment	973	3 629
Sale of consolidated entities, net of cash surrendered	58	–
Acquisition of subsidiaries, net of cash acquired	–	(139 775)
Purchases of notes receivable	(402)	–
Issuance of long-term loans	(1 968)	(1 281)
Repayment on long-term loans issued	1 342	1 560
Issuance of short-term loans	(7 098)	(435)
Repayment on short-term loans issued	56	433
Net cash used in investing activities of continuing operations	**(172 270)**	**(308 858)**
Cash flows used in investing activities of discontinued operations:		
Purchases of property, plant and equipment	(160)	(816)
Proceeds from sale of property, plant and equipment	55	119
Net cash used in investing activities of discontinued operations	**(105)**	**(697)**
Total net cash used in investing activities	**(172 375)**	**(309 555)**
Cash flows from financing activities:		
Proceeds from long-term loans	114 103	121 825
Repayment of long-term loans	(47 248)	(23 562)
Repayment of notes payable	–	(195)
Purchase of treasury stock	(496)	–
Proceeds from short-term loans	273 950	312 323
Repayment of short-term loans	(330 665)	(215 060)
Proceeds from shares issued	82 340	–
Payments for services related to share issuance	(2 903)	–
Cash distributed to shareholders	(48)	(44)
Net cash from financing activities of continuing operations	**89 033**	**195 287**
Cash flows from financing activities of discontinued operations:		
Repayment of long-term loans	–	(14)
Proceeds from short-term loans	2 629	2 190
Repayment of short-term loans	(2 253)	(1 720)
Net cash from financing activities of discontinued operations	**376**	**456**
Total net cash from financing activities	**89 409**	**195 743**
Total cash from (used in) operating, investing and financing activities	**45 255**	**(93 887)**
Impact of exchange rate difference on cash and cash equivalents	(12 527)	3 838
Net increase (decrease) in cash and cash equivalents	**32 728**	**(90 049)**
Cash and cash equivalents of continuing operations, at the beginning of the period	**16 841**	**106 952**
Cash and cash equivalents of discontinued operations, at the beginning of the period	**98**	**36**
Cash and cash equivalents of continuing operations, at the end of the period	**49 664**	**16 841**
Cash and cash equivalents of discontinued operations, at the end of the period	**3**	**98**
Supplemental Information:		
Income taxes paid	8 521	11 404
Interest paid	71 697	47 802
Property, plant and equipment acquired under finance leases	6 494	8 376

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

Consolidated statements of changes in shareholders' equity and comprehensive income

For the years ended 31 December 2008 and 2007

	Share capital US$000	Additional paid-in capital US$000	Retained earnings US$000	Treasury shares US$000	Other accumulated comprehensive income (loss) US$000	Total shareholders' equity US$000	Total comprehensive income (loss) US$000
Balances at 1 January 2007	**14**	**209 861**	**39 841**	**–**	**(1 049)**	**248 667**	
Net income for the year			61 582			61 582	61 582
Cumulative effect of adjustment upon adoption of FIN 48			(2 664)			(2 664)	
Translation gain					21 939	21 939	21 939
Balances at 31 December 2007	**14**	**209 861**	**98 759**	**–**	**20 890**	**329 524**	
For the year ended 31 December 2007							**83 521**
Balances at 1 January 2008	**14**	**209 861**	**98 759**		**20 890**	**329 524**	
New share issuance, net of issuance costs	1	79 285				79 286	
Purchase of treasury shares				(496)		(496)	
Net income for the year			78 105			78 105	78 105
Translation loss					(85 441)	(85 441)	(85 441)
Balances at 31 December 2008	**15**	**289 146**	**176 864**	**(496)**	**(64 551)**	**400 978**	
For the year ended 31 December 2008							**(7 336)**

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

1 Business and environment

Incorporation and history

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

A restructuring of ownership interests in Group companies was performed in 2005 by transferring direct interests in Group companies to the Company and its wholly owned subsidiaries ("Restructuring"). The Restructuring was performed in order to legally consolidate control over the Group's agricultural holdings and meat processing companies. This Restructuring eliminated all direct ownership in such companies by the Control Group. This was accomplished by contributing shares of companies held by the Control Group to the share capital of wholly owned subsidiaries. Companies whose business activities were not in line with the overall business strategy of the Group were transferred to members of the Control Group (the "Spin-Off"). The Spin-Off was treated as a distribution to owners. The historical share capital and additional paid in capital presented in these consolidated financial statements represent that of the Company for all periods presented.

The business of the Group

The Group's operations are spread over the full production cycle from feed production and breeding to meat processing and distribution. The operational facilities of the Group include six meat processing plants, four pig production complexes, four poultry production complexes and one combined fodder production plant. The Group also operates two trading houses with subsidiaries in 13 major Russian cities.

The Group's geographical reach covers Moscow, the Moscow region, the regions of Saint Petersburg, Penza, Lipetsk, Vologda, Ulyanovsk, Tver, Chelyabinsk, Tambov, Voronezh, Krasnodar, Ufa, Saratov, Samara, Ekaterinburg, Perm, Briansk and Kazan. The Group is represented in the European part of Russia through its own distribution network.

The Group owns locally recognised brands which include Cherkizovsky ("Черкизовский"), Pyat Zvezd ("Пять Звезд"), Petelinka ("Петелинка"), Kurinoe Tsarstvo ("Куриное Царство") and Imperia vkusa ("Империя вкуса") and has a diverse customer base. At 31 December 2008 and 2007 the number of staff employed by the Group was 13 943 and 15 295, respectively.

During 2008 the Group was impacted by significant volatility in grain and feed prices and its financing costs were impacted by the worldwide financial crisis. During the first half of 2008, the cost of grain and feed were unusually high. To help companies offset the increased costs, the Russian government provided agricultural producers a one-time additional subsidy. This additional subsidy, which offset the majority of these increased costs, allowed the Group to maintain relatively consistent margins.

1 Business and environment continued

During the second half of 2008, while the prices of grain and feed normalized, the Russian economy was impacted by the global financial crisis and saw the rouble devalue by approximately 25%. In connection with this crisis, a number of major global financial institutions have been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding.

The Group's operations have not been directly impacted by the global economic downturn due to a lower elasticity of demand on food products. Management is assessing and making appropriate changes in the product mix to ensure that the products offered are those meeting the needs of consumers under current market conditions. In addition, the Group is continuing to pursue its cost optimization plans that it began at the end of 2007 including the disposal of loss making assets (Note 23). While the Group's operations have not been significantly impacted by the global economic slowdown, the Group (along with other companies throughout the world) has experienced a decrease in availability of credit and a significant increase in the costs of borrowing (Note 10). The Group is forecasting a further significant increase in its borrowing costs in 2009 in connection with the refinancing of its short term borrowings. However, the Group has a significant portion of its borrowings denominated in Russian roubles. Accordingly, the Group's ability to service repayment of its outstanding borrowings was not significantly impacted by the devaluation of the rouble in the second half of 2008.

Management expects to fund its forecasted 2009 investing cash outflow both through operating cash inflows, as well as through refinancing a portion of its short term debt as it becomes due. Management is confident that based on current economic conditions that it will be able to refinance its borrowings and has entered into new borrowings of 29 812 through March 2009. Management believes that the plans that it has in place are sufficient to enable the Group to be able to continue to meet its obligations and discharge its responsibilities as they become due in the normal course of business.

2 Summary of significant accounting policies

Accounting principles

The Group's companies maintain their accounting books and records in accordance with Russian or foreign statutory accounting regulations, as applicable. The accompanying consolidated financial statements have been prepared in order to present the consolidated financial position, results of operations and cash flows of the Group in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The accompanying consolidated financial statements differ from the financial statements prepared for statutory purposes in Russia in that they reflect certain adjustments that are appropriate to present the financial position, results of operations and cash flows in accordance with US GAAP.

Basis of consolidation

The consolidated financial statements of the Group include the accounts of the Company and subsidiaries controlled through direct ownership of the majority of the voting interests as described in Note 23. Companies acquired or disposed of during the periods presented are included in the consolidated financial statements from the date of acquisition or to the date of disposal.

2 Summary of significant accounting policies continued

Foreign currency translation

The Group follows a translation policy in accordance with Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation" and has determined the Russian rouble to be the Group's companies' functional currency.

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

The following table summarizes the exchange rates of the Russian rouble to 1 US dollar at 31 December 2008 and 2007.

	Exchange rate
31 December 2008	29.3804
31 December 2007	24.5462

Management estimates

The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

The principal management estimates underlying these consolidated financial statements include estimations used in assessing long lived assets for impairment, allowances for bad debts, valuation allowances for deferred tax assets and valuation of assets and liabilities of the acquired entities used in determining purchase price allocation.

Cash and cash equivalents

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

Accounts receivable and allowance for doubtful accounts

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

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

Inventory

Inventories, including work in-process, are valued at the lower of cost or market value. Cost is determined using the average cost method. Cost is the sum of the expenditures and charges, direct and indirect, in bringing goods to their existing condition or location. It includes the applicable allocation of fixed production and variable overhead costs. Write downs are made for unrealizable inventory in full.

2 Summary of significant accounting policies continued

Livestock

Animals with short productive lives, such as poultry, are classified as inventory on the balance sheet. Full cost absorption (which includes all direct and indirect costs) is used in determining the asset value of livestock. Newborn cattle and pigs, as well as other immature animals purchased for breeding are initially accounted for as inventory. Immature cattle and pigs are not considered to be in service until they reach maturity, at which time their accumulated cost becomes subject to depreciation. The Group treats breeding animals as fixed assets with costs to be depreciated over their useful lives, as follows:

	Age of transfer to property, plant and equipment, years	Depreciation, years
Sows	1	2
Cattle	2	7

Value Added Tax

Value Added Tax ("VAT") related to sales is payable based upon invoices issued to customers. Input VAT incurred on purchases may be offset, subject to certain restrictions, against VAT related to sales. Input VAT related to purchase transactions that are subject to offset against taxes payable after the financial statement date are recognized in the consolidated balance sheets on a net basis.

Property, plant and equipment

Due to the state of the records relating to the construction and acquisition of a significant portion of the assets of the Group companies, their carrying amounts as of 31 December 2001 (the date of the first US GAAP balance sheet) were determined through valuation and are stated based on estimated fair value. Certain fixed assets were adjusted for the allocation of the excess of the value of net assets acquired over the purchase price paid in business combinations or adjusted to fair value as of the date of such combinations occurring subsequent to 31 December 2001. Assets acquired subsequent to 31 December 2001 are stated at historical cost.

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

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

2 Summary of significant accounting policies continued

Business combination

The acquisition of businesses from third parties is accounted for using the purchase method. On acquisition, the assets and liabilities of an entity are measured at their fair values as at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the book values of the assets and liabilities recognized if applicable. Goodwill arising on acquisitions is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized.

Acquisitions of entities under common control are accounted for on a carryover basis, which results in the historical book value of assets and liabilities of the acquired entity being combined with that of the Company. The consolidated historical financial statements of the Group are retroactively restated to reflect the effect of the acquisition as if it occurred during the period in which the entities were under common control. Any difference between the purchase price and the net assets acquired is reflected in shareholders' equity.

Goodwill and other intangible assets

Goodwill represents the purchase price for businesses acquired in excess of the fair value of identifiable net assets acquired. Goodwill is not deductible for income tax purpose in the Russian Federation.

Other intangible assets represent trademarks and computer software acquired. The fair value of the Group's acquired trademarks is determined using a relief from royalty method based on expected revenues by trademark. Certain trademarks have been determined to have an indefinite life. Management evaluates a number of factors to determine whether an indefinite life is appropriate, including product sales history, operating plans and the macroeconomic environment. Intangible assets with determinable useful lives and computer software are amortized over their useful lives.

Goodwill and intangible assets deemed to have indefinite lives are subject to annual impairment tests at fiscal year end or earlier if indications of impairment exist, in accordance with SFAS No. 142, Goodwill and Other Intangibles. In the Group's assessment of goodwill, management makes assumptions regarding estimates of future cash flows and other factors to determine the fair value of the reporting unit. For purposes of testing goodwill for impairment, the management has determined that each segment represents a reporting unit.

The goodwill impairment analysis is a two-step process. The first step used to identify potential impairment involves comparing each reporting unit's estimated fair value to its carrying value, including goodwill. The Group uses a discounted cash flow approach to estimate the fair value of its reporting units. The assumptions used are disclosed in Note 8. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is considered to not be impaired. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment.

The second step of the process involves the calculation of an implied fair value of goodwill for each reporting unit for which step one indicated impairment. The implied fair value of goodwill is determined similar to how goodwill is calculated in a business combination, by measuring the excess of the estimated fair value of the reporting unit as calculated in step one, over the estimated fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss cannot exceed the carrying value of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted.

Notes to the consolidated financial statements
continued
For the years ended 31 December 2008 and 2007

2 Summary of significant accounting policies continued

Impairment of long-lived assets, except for goodwill and intangible assets with indefinite lives

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

Notes Receivables

Notes receivable purchased valued at cost upon acquisition with any discounts or premiums arising on purchase reported in the balance sheet as direct deductions / additions to the face value. Amortisation of such discounts / premiums is recorded as additions to/ reductions from interest income. Notes receivable for which the Group has an intent and ability to hold to maturity are classified as held-to-maturity.

Revenue recognition

The Group derives its revenue from three main sources: sale of processed meat, poultry, and pork. Revenue is recognised when the products are shipped or when goods are received by its customer, title and risk of ownership have passed, the price to the buyer is fixed or determinable and recoverability is reasonably assured.

In accordance with the Group's standard sales terms, title is transferred and the customer assumes the risks and rewards of ownership upon shipment. However, on contracts with certain large retail chains, title transfers upon acceptance of goods by the customer at delivery. Sales made under these contracts are recognized upon acceptance.

Sales are recognised, net of VAT and discounts, when goods are shipped to customers. The Group grants discounts to customers primarily based on the volume of goods purchased. Discounts are based on monthly, quarterly, or annual target sales. Discounts range up to 19.5% for meat processing segment and 12% for the poultry and pork segments. The discounts are graduated to increase when actual sales exceed target sales. Discounts are accrued against sales and accounts receivable in the month earned.

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

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

Marketing expenses

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

Government subsidies

In accordance with Russian legislation, enterprises engaged in agricultural activities receive certain subsidies. The largest of such subsidies received relate to reimbursement of interest expense. The Group records interest subsidies as an offset to interest expense during the period to which they relate.

2 Summary of significant accounting policies continued

Taxation

Deferred tax assets and liabilities are recognized for the expected future tax consequences of existing differences between the financial and tax reporting bases of assets and liabilities, as well as loss carry forwards, using enacted tax rates expected to be in effect at the time these differences are realized. Under Russian tax law, the Group is not allowed to file a consolidated tax return and is not allowed to offset tax assets and tax liabilities for the different legal entities. Accordingly, deferred tax assets are offset, as appropriate, with deferred tax liabilities at each legal entity within the Group. Valuation allowances are recorded for deferred tax assets where it is more likely than not that such assets will not be realized.

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

Concentration of credit risk

Financial instruments that potentially expose the Group to concentration of credit risk consist primarily of cash and cash equivalents, accounts receivable from customers and advances paid to vendors. As of 31 December 2008, 52% and 28% of total cash balances are held on deposit in two Russian financial institutions. As of 31 December 2007, 47%, 22% and 14% of total cash balances are held on deposit in three Russian financial institutions

As of 31 December 2008, approximately 12% of the Group’s net accounts receivable were due from one customer. As of 31 December 2007 the Group’s risk associated with customers was diversified due to a large customer base, with no single customer or customer group representing greater than 10% of accounts receivable.

As of 31 December 2008, approximately 24% and 16% of advances paid were outstanding with two vendors, respectively. As of 31 December 2007, approximately 22% and 14% of advances paid were outstanding with two vendors, respectively.

The maximum amount of loss due to credit risk, based on the fair value of trade receivables and other receivables that the Group would incur if related parties failed to perform according to the terms of contracts, was 35 094 and 33 066 as of 31 December 2008 and 2007 respectively.

Minority interest

Minority interest is accounted for at historical value, which is the minority’s share in the book value of a subsidiary’s net assets on the date, when the control over a subsidiary was established by the Group.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at inception of the lease. The corresponding liability is included in the balance sheet as debt from finance leases. Lease payments are apportioned between interest expense and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Interest expense is charged directly against income, unless it is directly attributable to qualifying assets, in which case it is capitalised in accordance with the Group’s general policy on interest costs.

2 Summary of significant accounting policies continued

Pension costs

The Group makes payments for employees into the Pension fund of the Russian Federation. From 1 January 2005, all contributions to the Pension fund are calculated by the application of a regressive rate from 20% to 2% of the annual gross remuneration of each employee. The Group does not have any additional obligation other than the cash contribution described herein.

Effect of accounting pronouncements adopted

As of 1 January 2008, the Group adopted SFAS No. 157, "Fair Value Measurement" ("SFAS 157"). SFAS 157 provides a single definition of fair value, along with a framework for measurement and requires additional disclosure about using fair value to measure assets and liabilities. SFAS 157 emphasises that fair value measurement is market-based, not entity-specific, and establishes a fair value hierarchy in which the highest priority is quoted prices in active markets. Under SFAS 157, fair value measurements are disclosed according to their level within this hierarchy. While the statement does not add any new fair value measurements, it does change practice as follows: requiring entities to include their own credit standing when measuring their liabilities, modifying the transaction price assumption, prohibiting broker-dealers and investment companies from using block discounts when valuing large blocks of securities and requiring entities to adjust the value of restricted securities for the effect of the restriction even when the restriction lapses within one year. The Group adopted SFAS 157 on 1 January 2008 and the adoption only had an impact on the disclosure of the fair value of the Group's financial assets and liabilities. The effective date for SFAS 157 as it relates to fair value measurements for non-financial assets and liabilities that are not measured at fair value on a recurring basis has been deferred to fiscal years beginning after 15 December 2008 in accordance with FASB Staff Position ("FSP"), SFAS 157-2, "Effective Date of FASB Statement No. 157". The Group plans to adopt the deferred portion of SFAS 157 on 1 January 2009 and does not expect a material impact on the financial statements from adopting the statement.

As of 1 January 2008, the Group adopted SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities", ("SFAS 159"). SFAS 159 permits an entity to measure certain financial assets and liabilities at fair value. Entities that elect the fair value option will report unrealised gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis, with a few exceptions, as long as it is applied to the instrument in its entirety. The fair value option is irrevocable, unless a new election date occurs. The adoption of SFAS 159 did not have an impact on the financial statements at the date of its adoption, as the Group did not elect the fair value option for any of its financial assets or liabilities.

2 Summary of significant accounting policies continued

New accounting pronouncements
In December 2007, the FASB issued SFAS No. 141 (Revised 2007), "Business Combinations" ("SFAS 141R"). SFAS 141R significantly changes the accounting for business combinations. Under SFAS 141R, an acquiring entity will be required to recognise all the assets acquired and liabilities assumed in a transaction at the acquisition date fair value with limited exceptions. SFAS 141R will change the accounting treatment for certain specific acquisition related items including expensing acquisition related costs as incurred, valuing noncontrolling interests at fair value at the acquisition date and expensing restructuring costs associated with an acquired business. SFAS 141R also includes a substantial number of new disclosure requirements. SFAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after 1 January, 2009. The adoption of SFAS 141R will impact the accounting for business combinations completed by the Group on or after 1 January 2009. Effective January 1, 2008, the Group adopted an accounting policy of expensing acquisition-related costs incurred before the effective date of SFAS 141R for probable acquisitions not yet completed as of 31 December 2008. No such costs were expensed during 2008.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements— an amendment of Accounting Research Bulletin No. 51" ("SFAS 160"). SFAS 160 establishes accounting and reporting standards for the treatment of noncontrolling interests in a subsidiary. Noncontrolling interests in a subsidiary will be reported as a component of equity in the consolidated financial statements and any retained noncontrolling equity investment upon deconsolidation of a subsidiary is initially measured at fair value. The Group will adopt the provisions of SFAS 160 on 1 January 2009. The adoption of SFAS 160 will result in the reclassification of minority interests to equity.

In April 2008, the FASB issued FSP SFAS No. 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP SFAS 142-3"). FSP SFAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognised intangible asset under FASB Statement No. 142, "Goodwill and Other Intangible Assets". FSP SFAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, with early adoption prohibited. The Group does not expect a material impact on the consolidated financial statements from adopting FSP SFAS 142-3.

3 Cash and cash equivalents

Cash as of 31 December 2008 and 2007 comprised:

	2008 US$000	2007 US$000
Cash in hand	144	1 045
Bank accounts	49 520	15 796
Total cash and cash equivalents	**49 664**	**16 841**

4 Inventory

Inventory as of 31 December 2008 and 2007 comprised:

	2008 US$000	2007 US$000
Raw materials and goods for resale	69 930	88 998
Livestock	55 316	52 879
Work in-process	5 280	7 195
Finished goods	3 101	5 409
Total inventory	**133 627**	**154 481**

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

5 Other receivables, net

Other receivables, net, as of 31 December 2008 and 2007 comprised:

	2008 US$000	2007 US$000
Subsidies receivable for interest expense reimbursement	13 961	6 840
Subsidies receivable for purchase of fodder	5 086	–
Subsidies receivable for meat produced	1 416	5 201
Other receivables	8 025	8 808
Total receivables, net	**28 488**	**20 849**

For the six months ended 30 June 2008, the Federal Budget of the Russian Federation was amended to increase the total assignment of funds for subsidies to agricultural producers by introducing subsidies designed to compensate producers for the high cost of mixed fodder used in production of poultry and pork during the first half of 2008. Of the total amount of 33 077 expected to be received, 4 524 remain receivable as at 31 December 2008. Management expects to receive the remaining portion within the next 12 months.

6 Other current assets

Other current assets as of 31 December 2008 and 2007 comprised:

	2008 US$000	2007 US$000
VAT and other taxes receivable	16 732	29 141
Notes receivable (effective annual interest rate of 9.41% and 7.52% as of 31 December 2008 and 2007, respectively)	3 160	3 678
Prepaid expenses	2 627	3 348
Loans receivable	8 303	2 807
Other current assets	3 837	4 327
Total other assets	**34 659**	**43 301**

7 Property, plant and equipment, net

The carrying amounts of property, plant and equipment as of 31 December 2008 and 2007 comprised:

	2008 US$000	2007 US$000
Land	2 373	2 711
Buildings, infrastructure and leasehold improvements	366 795	303 725
Machinery and equipment	135 832	142 360
Vehicles	27 168	30 486
Sows	7 838	10 156
Cattle	183	830
Other	1 681	1 914
Advances paid for property, plant and equipment	43 804	52 976
Construction in-progress and equipment for installation	98 272	160 691
Total property, plant and equipment, net	**683 946**	**705 849**

Accumulated depreciation amounted to 145 097 and 131 723 as of 31 December 2008 and 2007, respectively. Depreciation expense amounted to 45 269 and 31 216 for the years ended 31 December 2008 and 2007, respectively, which includes depreciation of leased equipment.

Vehicles and Machinery and equipment include 15 424 and 16 068 of leased equipment as of 31 December 2008 and 2007, respectively. Buildings, infrastructure and leasehold improvements include 13 830 and 18 556 of leased buildings and constructions as of 31 December 2008 and 2007, respectively. Accumulated depreciation on leased property and equipment amounted to 3 775 and 1 495 as of 31 December 2008 and 2007, respectively.

Loss on disposal of property, plant and equipment of 851 and 40 was recognized in the Other operating expenses line item in the consolidated income statement for the year ended 31 December 2008 and 2007, respectively.

8 Goodwill and other intangible assets, net

Goodwill

The changes in the carrying amount of goodwill for 2008 and 2007 were as follows:

	Total US$000
Balance at 31 December 2006	**9 538**
Acquisitions	728
Translation gain	693
Balance at 31 December 2007	**10 959**
Adjustment related to expiration of statute of limitations on tax risks accrued under FIN 48 upon acquisition of Golden Rooster Co. Limited (Note 18)	(608)
Translation loss	(1 803)
Balance at 31 December 2008	**8 548**

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

8 Goodwill and other intangible assets continued

As of 31 December 2006, goodwill of 9 538 arose from the purchase by the Group of its controlling stakes in JSC BMPP (which is included in the meat processing segment). During 2007, the Company purchased Golden Rooster Co. Limited (which is included in the poultry segment) and recorded goodwill of 728.

As of 31 December 2008, management performed an annual impairment test and determined that goodwill was not impaired. The following specific assumptions were used in the impairment test;

- Sales volumes increase by 6%, 5% and 4% during 2009, 2010 and 2011, respectively, and remain constant thereafter;
- Prices are forecast to increase by 4% and 15% in 2009 and 2010, respectively, and increase in line with inflation at an average of 10% per annum thereafter;
- Operating costs are forecast to increase by 7% and 21% in 2009 and 2010, respectively, and increase by 10% per annum thereafter;
- Pre-tax discount rate of 24.6%.

Management believes that a 5% increase in future planned operating expenses, which is a key variable in determination of cash flows, would result in the carrying value of the meat processing segment exceeding its fair value, thereby indicating potential impairment.

Other intangible assets

Other intangible assets as of 31 December 2008 and 2007 comprised:

	2008 US$000			2007 US$000		
	Gross carrying amount	**Accumulated amortisation**	**Net carrying amount**	**Gross carrying amount**	**Accumulated amortisation**	**Net carrying amount**
Computer software	4 034	(63)	3 971	3 567	(190)	3 377
Trademark subject to amortisation	–	–	–	720	(36)	684
Indefinite life trademarks	39,239	–	39 239	50 946	–	50 946
Other intangible assets, net	**43,273**	**(63)**	**43 210**	**55 233**	**(226)**	**55 007**

Software

Software is amortised over its useful life of two to three years, with the exception of Oracle software, which is amortised over its estimated useful life of ten years. Weighted-average useful life for software as of 31 December 2008 is 5.9 years.

Aggregate amortisation expense for the year ended 31 December 2008 and estimated amortisation expense for the following five subsequent years are as follows:

	2008 US$000	**2009 US$000**	**2010 US$000**	**2011 US$000**	**2012 US$000**	**2013 US$000**
Computer software	372	771	658	742	329	329

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

8 Goodwill and other intangible assets continued

Biruliovsky (“Бирюлевский”) trademark

The carrying value of the Biruliovsky trademark was 0 and 684 as of 31 December 2008 and 2007, respectively.

Prior to July 2007, the Biruliovsky trademark had an indefinite useful life. Based on operational plans to reposition the Biruliovsky trademark into a lower-margin market segment during the second half of 2007, management reassessed the classification of this intangible as of 1 July 2007. As a result, management determined that the trademark had a finite life and began amortisation of the asset over its estimated useful life of ten years. Amortisation expense for the Biruliovsky trademark was 107 and 35 for the years ended 31 December 2008 and 2007, respectively

As of 31 December 2008, management tested the Biruliovsky trademark for impairment and determined the trademark to be fully impaired as a result of implementation of a cost optimization plan which includes cessation of sales of products under the Biruliovsky trademark, with impairment loss of 481 recognized in Impairment of non-current assets in the consolidated income statement.

Kurinoe Tsarstvo (“Куриное Царство”) trademark

The carrying value of the Kurinoe Tsarstvo trademark was 24 408 and 33 195 as of 31 December 2008 and 2007, respectively.

In 2008, the carrying value of the Kurinoe Tsarstvo trademark decreased by 1 548 due to expiration of the statute of limitations on tax risks accrued under FIN 48 upon acquisition of Golden Rooster Co. Limited (Note 18).

As of 31 December 2008, management tested the Kurinoe Tsarstvo trademark for impairment and determined the trademark to be impaired primarily due to an increase in the Group’s weighted average cost of capital from the time of the original valuation of the trademark in August of 2007. An impairment loss in the amount of 1 777 was recognized in Impairment of non-current assets in the consolidated income statement.

The following specific assumptions were used in the impairment test:

- Sales volumes increase by 20%, 27% and 25% during 2009, 2010 and 2011, respectively, and remain stable thereafter;
- Prices are forecast to increase by 33% in 2009 and increase by 10% per annum thereafter;
- Pre-tax discount rate of 25.5%.

Management believes that a 1% increase in discount rate would increase the impairment loss by 1 552 and a 10% decrease in future planned trademark revenues increases the impairment loss by 2 441.

Cherkizovsky (“Черкизовский”) trademark

The carrying value of the Cherkizovsky trademark was 14 831 and 17 751 as of 31 December 2008 and 2007, respectively.

As of 31 December 2008, management tested the Cherkizovsky trademark for impairment and determined that the trademark was not impaired.

8 Goodwill and other intangible assets continued

Impairment summary

The impairment of non-current assets was reflected as follows as of 31 December 2008 and 2007:

	2008 US$000	2007 US$000
Impairment of Biruliovsky trademark	481	–
Impairment of Kurinoe Tsarstvo trademark	1 777	–
Total impairment of non-current assets	**2 258**	**–**

For the impairment analysis the Group used cash flow projections based on actual operating results and business plans approved by management. The discount rate used in the analysis for trademarks and goodwill reflects the time value of money and risks associated with each individual operating segment and/or asset being analyzed. A summary of the key assumption management used in their fair value calculations were as follows:

- Cash flow projections covered a period of five years;
- Cash flow projections were prepared in nominal terms;
- Cash flow projections during the forecast period were based on long-term price trends for both sales prices and input costs;
- Consumer price inflation expectations (in Russian roubles) during the forecast period were 10%; and
- Discount rates were estimated for each item based on the following weighted average cost of capital (in Russian roubles) as calculated for each segment and adjusted for any asset specific risk factors:
  - Meat processing segment 23.5%
  - Poultry and pork segments 20.5%

Values assigned to key assumptions and estimates used to measure fair value were consistent with external sources of information. Management believes that the values assigned to the key assumptions and estimates represented the most realistic assessment of future trends. The impairment analyses were sensitive to changes in key assumptions, in particular discount rates and changes in forecast revenues or expenses. The rates used in this analysis are meant to provide information regarding levels of sensitivity of assumptions used and have, therefore, been tailored to reflect the specifics of each business segment.

9 Long-term notes receivable

During June 2006, the Group purchased Russian rouble denominated notes receivable from Gazprombank with a maturity date of June 2014 and a face value of 12 851 at the issuance date for total cash consideration of 6 762. In addition, the Group purchased Russian rouble denominated notes receivable from Sberbank in December 2008 at par value for a total cash consideration of 357. The maturity date of those notes is December 2010. As of 31 December 2008, the balance comprised:

	Carrying Value US$000	Discount US$000	Face Value US$000	Effective %
Gazprombank notes receivable	7 563	(4 198)	11 761	8.36%
Sberbank notes receivable	340	–	340	11.00%
Total long-term notes receivable	**7 903**	**(4 198)**	**12 101**	

As of 31 December 2007, the balance comprised:

	Carrying Value US$000	Discount US$000	Face Value US$000	Effective %
Gazprombank notes receivable	8 357	(5 723)	14 080	8.36%

10 Borrowings

Borrowings of the Group as of 31 December 2008 and 2007 comprised:

				2008 US$000		2007 US$000	
	Interest rates	WAIR*	EIR**	Short-term***	Long-term	Short-term***	Long-term
Finance leases	8.30% - 16.9%	14.22%	14.22%	4 179	7 476	4 533	9 657
Bonds	8.85%	8.85%	8.85%	68 073	–	–	81 479
Bank loans	8.00%-19.00%	11.65%	4.71%	5 058	7 206	76 593	10 564
Credit lines	8.00%-24.55%	13.13%	4.38%	129 449	305 686	124 224	309 144
Loans from government	3.00%-6.00%	4.16%	4.16%	27 308	5 054	19 545	13 653
Other borrowings	0.00%-7.00%	2.34%	2.34%	2 284	244	4 165	725
				236 351	**325 666**	**229 060**	**425 222**
Total borrowings					**562 017**		**654 282**

* WAIR represents the weighted average interest rate on outstanding loans.
** EIR represents the effective rate on borrowings at year end, adjusted by government subsidies for certain qualifying debt. Since approvals for subsidies are submitted annually by the Group as required by law, the existence of such subsidies in any given year is not necessarily indicative of their existence in future periods. See Note 17 for further disclosure of government subsidies related to interest on borrowings.

10 Borrowings continued

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

	2010 US$000	2011 US$000	2012 US$000	2013 US$000	2014 US$000	>2014 US$000	Total US$000
Total borrowings	77 106	98 801	29 097	51 048	50 894	11 244	**318 190**

As of 31 December 2008, the Group's borrowings are denominated in the following currencies: 542 042 in Russian roubles, 663 in Euro and 19 312 in US dollars. As of December 31 2007, the Group's borrowings are denominated in the following currencies: 552 502 in Russian roubles, 1 983 in Euro and 99 797 in US dollars.

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

Finance leases

As of 31 December 2008 and 2007, the Group used certain fixed assets under leasing contracts that qualified for treatment as finance leases. The lower of the incremental borrowing and the rate implicit in the lease agreement was used in capitalizing the leases.

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

	2008		2007	
Payments falling due	**Total minimum lease payments US$000**	**Portion related to interest US$000**	**Total minimum lease payments US$000**	**Portion related to interest US$000**
Within one year	5 525	1 346	6 243	1 710
In year two	3 051	910	4 090	1 192
In year three	1 319	720	1 807	910
In year four	869	675	1 045	837
In year five	858	647	1 026	808
After year five	7 932	3 601	10 521	5 085
	19 554	**7 899**	**24 732**	**10 542**

Bonds

During June 2006, the Group raised two billion roubles (74 881 at the issuance date) through an issue of putable bonds with a face value of 1 000 roubles (37 at the issuance date). The issuance was completed in June 2006 with the bonds issued at par value and the Group incurring 378 related to issuance costs that are being amortized into the income statement over the life of the borrowing. The bonds will mature in 2011, unless redeemed in 2009.

The coupon rate on the bonds, payable semi-annually, is set at 8.85% per annum for the first three years. In 2009, the Group will bid a coupon rate to be paid for an additional two years. At that point, the investors in the bonds have the right to redeem the bonds at their par amount or may accept the Group's bid, causing the maturity to be extended to June 2011. The investors' decision to redeem will be decided by each individual bondholder therefore it is possible that either a portion, or the entirety, of the outstanding principle may become due in June 2009.

10 Borrowings continued

Bank loans

Gazprombank

Borrowings from Gazprombank consist of two long-term rouble denominated loans with interest of 12% per annum. Notes receivable with a carrying value of 7 563 were pledged as collateral under these loan agreements (Note 9). Principal payment is due on maturity in 2014. Amount outstanding was 6 127 and 7 333 as of 31 December 2008 and 2007, respectively.

Lipetzkkombank

Borrowings from Lipetzkkombank consist of one short-term rouble denominated loan with interest of 16% per annum. The loan is guaranteed by a Group company and a related party. Principal payment is due on maturity in 2009. Amount outstanding was 681 and 2 037 as of 31 December 2008 and 2007, respectively.

Savings Bank of Russia

Borrowings from Saving Bank of Russia consist of three short-term rouble denominated loans with interest ranging from 16% to 19% per annum. The loan is guaranteed by a Group company. Principal payment is due on maturity in 2009. Amount outstanding was 1 293 and 1 548 as of 31 December 2008 and 2007, respectively.

Lines of credit

Savings Bank of Russia

Borrowings from the Savings Bank of Russia consist of fifty five rouble denominated lines of credit with interest ranging from 11.5% to 17.25% per annum. Several of these instruments are guaranteed by a related party. Principal payments are due from 2009 to 2014. Amount outstanding was 206 812 and 168 583 as of 31 December 2008 and 2007, respectively.

Gazprombank

Borrowings from Gazprombank consist of five rouble denominated lines of credit with interest ranging from 11.5% to 14% per annum. Some of these facilities are guaranteed by Group companies and related parties. Principal payments are due from 2009 to 2016. Amount outstanding was 133 772 and 160 932 as of 31 December 2008 and 2007, respectively.

Lipetzkkombank

Borrowings from Lipetzkombank consist of five rouble denominated and one US dollar denominated lines of credit with interest ranging from 8% to 15% per annum. Principal payment is due on maturity in 2009. Amount outstanding was 11 201 and 11 997 as of 31 December 2008 and 2007, respectively.

Raiffeisen

Borrowings from Raiffeisen consist of one rouble denominated and one US dollar denominated unsecured loan facilities bearing interest equal to the MosPrime one-month rate which at 31 December 2008 was 24.55% per annum. Principle payment is due on maturity in 2009. Amount outstanding was 16 257 and 37 061 as of 31 December 2008 and 2007, respectively.

Bank Zenith

Borrowings from Bank Zenith consist of two rouble denominated lines of credit with interest ranging from 11.5% to 12.8% per annum. Notes receivable with a carrying value of 3 160 were pledged as collateral under these agreements. Some of these facilities are guaranteed by Group companies and related parties. Principal payment is due on maturity in 2011. Amount outstanding was 66 699 and 54 469 as of 31 December 2008 and 2007, respectively.

The total amount of unused credit on lines of credit as of 31 December 2008 is 59 609. The unused credit can be utilized from 2009 to 2015 with varying expiration of available amounts.

10 Borrowings continued

Loans from government

Department of Food Supply of the City of Moscow

Borrowings from the Department of Food Supply of the City of Moscow consist of one rouble denominated long-term and two rouble denominated short-term loans with interest ranging from 3.4% to 4.0% per annum. Principal payments are due on maturity in 2009. Amount outstanding was 24 851 and 15 483 as of 31 December 2008 and 2007, respectively.

Department of Taxes and Financial Policies, Moscow City Government

Borrowings from the Department of Taxes and Financial Policies of the Moscow City Government consist of two rouble denominated long-term loans with interest ranging from 5.5% to 6% per annum. Principal payments are due from 2010 to 2011. Amount outstanding was 6 603 and 9 859 as of 31 December 2008 and 2007, respectively.

Other borrowings

Other borrowings primarily represent unsecured loans from shareholders and contractors with interest rates ranging from 0% to 7% per annum. Principal payments are due from 2008 to 2011.

Collateral under borrowings

Shares of and participating interests in the following Group companies are pledged as collateral under certain borrowings as of 31 December 2008:

- JSC Vasiljevskaya – 92%;
- CJSC Petelinskaya – 76%;
- JSC Lipetskmyasoprom – 51%;
- LLC Budenovets Agrifirm – 51%;
- LLC Mikhailovsky Feed Milling Plant – 51%;
- LLC Kuznetsovsky Kombinat – 51%;
- LLC Ardymsky Feed Milling Plant – 51%;
- CJSC Botovo – 51%;
- JSC MPP Ulyanovsky – 35%;
- LLC AIC Mikhailovsky – 51%;
- JSC Biruliovsky meat processing plant – 51%.

Inventory with carrying value of 19 916 and 37 348 was pledged under certain borrowings as of 31 December 2008 and 2007, respectively.

Property, plant and equipment with carrying value of 151 166 and 136 747 was pledged under loan agreements as of 31 December 2008 and 2007, respectively.

11 Tax related payables

Short-term tax related payables as of 31 December 2008 and 2007 comprised:

	2008 US$000	2007 US$000
Value added tax	3 312	1 857
Property tax payable	1 342	1 142
Payroll related taxes	1 180	1 520
Personal income tax withheld	1 067	1 296
Corporate income tax	461	774
Transportation tax	79	71
Other taxes	108	151
Total short-term taxes payable	**7 549**	**6 811**

Long-term tax related payables as of 31 December 2008 and 2007 comprised:

	2008 US$000	2007 US$000
Corporate income tax	6 890	9 949
Payroll related taxes	34	38
Value added tax	11	
Other taxes	–	16
Total long-term taxes payable	**6 935**	**10 003**

12 Shareholders' equity

Share capital

On 10 July 2007, issued shares of OJSC Cherkizovo Group were split by converting each issued share with a par value of 1 rouble into 100 shares with a par value of 0.01 roubles. This increased the number of authorized shares to 54 702 600 and the number of issued and outstanding shares to 39 564 300. All share amounts have been adjusted retroactively to reflect the stock split.

In May 2008, the Group issued an additional 3 505 055 ordinary shares, of which 493 447 ordinary shares were acquired by OJSC Cherkizovo Group's existing shareholders (including holders of global depository receipts (GDRs) acting through the depositary) pursuant to their statutory pre-emptive rights. This issuance increased the number of issued and outstanding shares to 43 069 355. The net proceeds from the offering, after share issuance costs of 3 054, were 79 286. Share issuance costs of 122 remained unpaid as at 31 December 2008 and were recorded in other accounts payable.

In October 2008 the Group purchased 62,000 global depository receipts, which equates to 41 333 ordinary shares, for 496. These treasury shares were accounted for using the cost method. This transaction decreased the number of outstanding shares to 43 028 022.

All issued and outstanding shares have equal voting rights. As of 31 December 2008, MB Capital Partners Ltd. (formerly, Cherkizovsky Group Ltd.) owned 61.1% of the outstanding share capital of OJSC Cherkizovo Group. The Group is authorized to issue preferred shares not exceeding 25% of its ordinary share capital. No such shares are currently issued.

12 Shareholder’s equity continued

In accordance with Russian legislation, earnings available for dividends are limited to retained earnings of OJSC Cherkizovo Group, calculated in accordance with statutory rules in local currency. No dividends were declared or paid for the years ended 31 December 2008 and 2007.

Earnings per share

Earnings per share for the years ended 31 December 2008 and 2007 have been determined using the weighted average number of Group shares outstanding over the period.

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

The Group has no securities which should be considered for dilution.

13 Sales

Sales for the years ended 31 December 2008 and 2007 comprised:

	2008 US$000	2007 US$000
Produced goods and goods for resale	1 203 637	849 079
Other sales	13 785	3 900
Sales volume discounts	(41 743)	(24 887)
Sales returns	(9 398)	(7 329)
Total sales	**1 166 281**	**820 763**

14 Cost of sales

Cost of sales for the years ended 31 December 2008 and 2007 comprised:

	2008 US$000	2007 US$000
Raw materials and goods for resale	704 588	479 623
Personnel (excluding pension costs)	79 988	52 520
Depreciation	39 719	26 667
Utilities	31 212	17 931
Pension costs	12 448	7 566
Other	18 884	14 183
Total cost of sales	**886 839**	**598 490**

Raw materials and goods for resale are offset by subsidies received from local governments in the amount of 34 433 and 5 970 for the years ended 31 December 2008 and 2007, respectively. These targeted subsidies are received based on the amount of meat produced.

15 Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended 31 December 2008 and 2007 comprised:

	2008 US$000	**2007 US$000**
Personnel (excluding pension costs)	67 815	56 699
Transportation	20 810	11 288
Materials and supplies	14 360	10 935
Pension costs	9 127	7 061
Taxes (other than income tax)	7 930	6 122
Security services	7 329	4 400
Depreciation and amortisation	6 029	4 799
Audit, consulting and legal fees	4 905	3 977
Advertising and marketing	4 339	8 236
Utilities	3 006	1 676
Bad debt expense	3 685	2 135
Repairs and maintenance	2 800	2 190
Veterinary services	2 548	2 147
Bank charges	2 014	1 347
Information technology and communication services	1 619	844
Insurance	1 080	699
Other	13 009	12 792
Total selling, general and administrative expenses	**172 405**	**137 347**

16 Other income, net

Other income and expenses for the years ended 31 December 2008 and 2007 comprised:

	2008 US$000	**2007 US$000**
Interest income	1 983	3 899
Gain from expiration of payables	1 011	467
Other financial loss	(203)	(120)
Foreign exchange (loss) gain	(1 596)	3 205
Total other income, net	**1 195**	**7 451**

17 Interest expense, net

Interest expense for the years ended 31 December 2008 and 2007 comprised:

	2008 US$000	2007 US$000
Interest expense, net	20 742	17 669
Finance lease interest expenses	1 975	710
Amortisation of discount	8	17
Total interest expense, net	**22 725**	**18 396**

In accordance with Russian legislation, enterprises engaged in agricultural activities and enterprises involved in purchasing meat receive subsidies on certain qualifying loans. The Group has accounted for such subsidies by reducing the interest expense on the associated loans by 18 433 and 9 730 for the years ended 31 December 2008 and 2007, respectively.

Interest capitalized in the years ended 31 December 2008 and 2007 was 7 910 and 4 475, respectively.

18 Income tax

The income tax expense for the years ended 31 December 2008 and 2007 comprised:

	2008 US$000	2007 US$000
Current provision	6 966	7 000
Deferred tax (benefit) expense	(5 557)	259
Provision for income tax	**1 409**	**7 259**

All of the Group's taxes are levied and paid in the Russian Federation.

The statutory income tax rates for all operations in the meat processing and non-agricultural operations in the poultry/pork segments are 24% and 0% for agricultural operations within the poultry/pork segments for the years presented under Russian legislation.

In July 2008, the government of the Russian Federation delayed the introduction of income taxes for agricultural companies until 2013. In November 2008 the government also decreased the statutory tax rate applicable to non-agricultural entities from 24% to 20% effective from 1 January 2009. These changes in tax rates resulted in a reduction of net deferred income tax liability in the amount of 5 911 as of 31 December 2008.

18 Income tax continued

The agricultural operations within the poultry and pork segments will be subject to income tax starting 1 January 2009 as follows:

Years	Income tax rate
2013-2015	18%
Thereafter	20%

Income tax charge reconciled to the theoretical tax provision at the statutory rate for the years ended 31 December 2008 and 2007 is:

	2008 US$000	2007 US$000
Income from continuing operations before income tax and minority interest	82 398	73 941
Income from continuing operations before income tax and minority interest of entities taxed at agricultural rates	87 601	58 692
(Loss) income from continuing operations before income tax and minority interest of generally taxed entities	(5 203)	15 249
Statutory tax rate (Agricultural)	0%	0%
Statutory tax rate (General)	24%	24%
Theoretical income tax (benefit) expense at statutory rate	(1 249)	3 660
Impact from agricultural temporary differences calculated at enacted future tax rates	2 094	2 693
Adjusted theoretical income tax expense at statutory rates	845	6 353
Expenses not deductible for Russian statutory taxation purposes, net	4 481	3 933
Change in tax rates	(5 911)	411
Impact from reversal of FIN 48 accruals related to expiration of statute of limitation, net of penalties accrued on FIN 48 tax liabilities	867	(2 528)
Other permanent differences	691	(829)
Change in valuation allowance	436	(81)
Actual income tax provision	**1 409**	**7 259**

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

18 Income tax continued

Deferred tax assets/(liabilities) arising from tax effect of temporary differences:	2008 US$000	2007 US$000
Property, plant and equipment	(30 687)	(44 192)
Intangibles	(3 089)	(4 312)
Other non-current assets	43	52
Other non-current liabilities	1 115	2 039
Other current liabilities	1 389	2 484
Other current assets	3 179	4 545
Loss carry forwards	6 162	7 115
Valuation allowance	(1 669)	(1 556)
Net deferred tax liability	**(23 557)**	**(33 825)**

Deferred tax assets/(liabilities) arising from tax effect of temporary differences:	2008 US$000	2007 US$000
Deferred tax asset – long-term portion	470	2 030
Deferred tax liability – long-term portion	(28 594)	(42 982)
Long-term deferred tax liability, net	**(28 124)**	**(40 952)**
Deferred tax asset – current	4 621	7 304
Deferred tax liability – current	(54)	(177)
Current deferred tax asset, net	**4 567**	**7 127**
Total deferred tax liability, net	**(23 557)**	**(33 825)**

The valuation allowance is attributable to loss carryforwards which are not expected to be utilised by management. As the Group does not have a legal right to offset deferred tax assets and deferred tax liabilities between different legal entities, management expects that the Group will not be able to utilize all of the tax loss carryforwards as certain of the Group's subsidiaries are expected to have operating losses in the future.

The Group's tax loss carry forwards expire as follows:

	2012 US$000	2013 US$000	2014 US$000	2015 US$000	2016 US$000	2017 US$000	2018 US$000	Total US$000
Tax loss carry forwards	55	–	438	2 298	11 481	8 375	8 899	**31 546**

The movements in net deferred tax liability for the years ended 31 December 2008 and 2007 comprised:

	2008 US$000	2007 US$000
Net deferred tax liability, beginning of the year	**(33 825)**	**(14 088)**
Impact of translation loss on beginning balance	4 711	(1 781)
Deferred tax expense (benefit)	5 557	(259)
Deferred tax acquired on acquisition of new consolidated entities	–	(17 697)
Net deferred tax liability, end of the year	**(23 557)**	**(33 825)**

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

18 Income tax continued

Unrecognized income tax benefits

As of 31 December 2008, the Group included accruals for unrecognized income tax benefits of approximately 6 584 as a component of long-term tax related payables (of which approximately 729 and 922 were penalties and fines, respectively).

As of 31 December 2007, the Group included accruals for unrecognized income tax benefits of approximately 9 582 as a component of long-term tax related payables (of which approximately 732 and 1 040 were penalties and fines, respectively).

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

	2008 US$000	2007 US$000
Balance at 1 January	7 810	2 048
Purchase of Golden Rooster Co. Limited (Note 23)	–	7 214
Translation (gain) loss	(1 405)	395
Additions based on tax positions related to the current year	521	45
Additions based on tax positions related to prior years	–	–
Reductions related to settlements with taxing authorities	–	–
Reductions as a result of a lapse of the applicable statute of limitations	(1 993)	(1 892)
Balance at 31 December	**4 933**	**7 810**

As of 31 December 2008, it is estimated that 4 933 of the unrecognized tax benefit will affect future effective tax rates.

In 2008 certain unrecognised tax benefits were recognised due to the expiration of the statutes of limitations. Tax benefits which arose in OJSC Kurinoe Tsarstvo prior to its purchase by the Group were recognised by reducing the amount of goodwill to zero with the remainder reducing the carrying amount of the trademark “Куриное Царство” (Kurinoe Tsarstvo).

The Group considers it reasonably possible that approximately 2 870 of the unrecognized income tax benefit (including interest and penalties) will be reversed within the next year, due to the expiration of the statute of limitations.

The Group recognizes accrued penalties related to unrecognized tax benefits and fines in income tax expenses. During the years ended 31 December 2008 and 2007, the Group recognized approximately 827 and 732 in penalties, respectively.

As of 31 December 2008, the tax years ended 31 December 2006, 2007 and 2008 remained subject to examination by the Russian tax authorities.

19 Fair value of financial instruments

Effective 1 January 2008, the Group adopted the provisions of SFAS 157 applicable to financial assets and liabilities.
SFAS 157 provides a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Group's assumptions with respect to how market participants would price an asset or liability. These two inputs used to measure fair value fall into the following three different levels of the fair value hierarchy:

- Level One: Quoted prices for identical instruments in active markets that are observable.
- Level Two: Quoted prices for similar instruments in active markets; quote prices for identical or similar instruments in markets that are non-active; inputs other than quoted prices that are observable and derived from or corroborated by observable market data.
- Level Three: Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

This hierarchy requires the use of observable market data when available.

As of 31 December 2008 and 31 December 2007, there were no financial instruments measured at fair value.

The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables reported in the consolidated balance sheet approximate fair value due to the short maturity of those instruments.

As of 31 December 2008, the Group had various long term borrowings that are measured at amortised cost. Solely for the purpose of presentation, the Group has estimated fair value based on expected discounted cash flows incorporating interest rates on other similar debt adjusted for the Group's estimated non-performance risk, including credit risk. Other similar debt was determined based on rates available for similar facilities in the Russian Federation at 31 December 2008. Non-performance risk was estimated based on spreads between debt obtained by the Group and average interest rates in the Russian Federation on other similar debt at the reporting date.

The carrying values and fair values of the Group's long term borrowings, with the exception of finance leases, as of 31 December 2008 and 31 December 2007 are as follows:

	2008 US$000		2007 US$000	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Loans receivable*	**16 220**	**14 163**	**11 643**	**11 753**
Notes receivable, net (Note 9)	**7 903**	**3 680**	**8 357**	**3 566**
Borrowings other than finance leases (Note 10)	**550 362**	**505 743**	**640 092**	**645 394**

* This amount includes both the long-term loans to affiliates and short-term loans receivable

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

20 Related parties

Related parties include shareholders, entities under common ownership and control with the Group, members of key management personnel and affiliated companies. The Company and its subsidiaries enter into various transactions such as the sale and purchase of inventory. In addition, the Group enters into financing transactions with related parties. The amounts recognised are not necessarily indicative of the amounts that would be recognised for transactions with third parties.

Trading transactions

Trading transactions with related parties comprise mostly of sales of mixed fodder to LLC RAO Penzenskaya Grain Company and CJSC Penzamyasoprom and purchases of raw materials from these companies.

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

Financing transactions

During 2008 and 2007, certain shareholders issued loans to the Group (Note 10) and, as of 31 December 2008, have personally guaranteed certain of the bank loans and lines of credit for a total amount of 168 142.

As of 31 December 2008 and 2007, and for the years then ended, balances and transactions with related parties are summarized as follows:

	2008 US$000	2007 US$000
Balances		
Short-term loan receivable	8 235	2 703
Trade receivables	15 314	9 962
Advances issued	7 319	7 786
Other receivables and prepayments	2 187	2 940
Long-term loans receivable	2 039	9 675
Trade payables	2 380	3 023
Short-term loans	937	77
Other payables	548	409
Current portion of long-term loans payable	34	163
Long-term loans payable	5	725
Long-term payables to shareholders related to lease agreements	929	1 167
Transactions		
Sales	17 836	12 076
Rental income	135	109
Purchases of IT services	582	224
Purchases of security services	1 241	912
Purchases of goods and services	24 288	18 083
Purchases of property, plant and equipment	40	2 632

21 Long-term payables to shareholders

To retain the use of assets necessary for the Group's business in companies disposed to shareholders as part of the restructuring undertaken in 2005, the Group entered into finance leasing agreements with these entities. The assets under such leases were accounted for at their historical book value and the liability incurred at origination of the lease agreements was accounted for as a distribution to shareholders. The lease terms include bargain options for the Group to continue the agreement over the life of the underlying equipment. For the purposes of calculating the lease term, the Group used the remaining useful life of the underlying assets. The value of property, plant and equipment at lease inception was 4 137 and the related deferred tax asset was 229.

Payables to shareholders for leased property, plant and equipment as of 31 December 2008 and 2007 amounted to 975 and 1 215, respectively, including a long-term portion of 929 and 1 167, respectively.

Movements in the total liability for the years ended 31 December 2008 and 2007 were:

	2008 US$000	2007 US$000
Liability incurred to shareholders in term of lease of this equipment as of 1 January	1 215	1 175
Interest accrued at 14% on leasing liability	166	167
Repayment	(213)	(207)
Translation gain (loss)	(193)	80
Liability incurred to shareholders in term of lease of this equipment as of 31 December	**975**	**1 215**

22 Segment reporting

The Group's operations are divided into three segments by types of products produced: meat processing, poultry and pork. Substantially all of the Group's operations are located within the Russian Federation. The pork and poultry segments share a common legal and organizational structure. All segments share a common chief operating decision maker. For the purpose of determining reportable segments, the Group has determined the chief operating decision maker to be the individual responsible for allocating resources to and assessing the performance of each component of the business.

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

Pork and poultry are strategic segments that produce and offer distinctive products, such as semi-finished poultry products, raw meat, eggs and other poultry meat products in the poultry segment and live pigs in the pork segment.

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

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

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

22 Segment reporting continued

Segment information at 31 December 2008 and for the year then ended comprised:

	Meat-processing	Poultry	Pork	Corporate assets/ expenditures	Intersegment	Consolidated
	US$000	US$000	US$000	US$000	US$000	US$000
Total sales	577 919	505 204	112 507	1 028	–	1 196 658
including other sales	4 581	39 773	6 148	–	–	50 502
including sales volume discount	(26 363)	(15 380)	–	–	–	(41 743)
Intersegment sales	(271)	(19 859)	(9 223)	(1 024)	–	(30 377)
Sales to external customers	577 648	485 345	103 284	4	–	1 166 281
Cost of sales	(484 571)	(366 330)	(64 939)	(40)	29 041	(886 839)
Gross profit	**93 348**	**138 874**	**47 568**	**988**	**(1 336)**	**279 442**
Operating expenses	(85 935)	(70 498)	(8 292)	(12 125)	1 336	(175 514)
Operating income	**7 413**	**68 376**	**39 276**	**(11 137)**	–	**103 928**
Other income and expenses, net	71	(2 477)	(102)	26 536	(22 833)	1 195
Interest expenses	(14 763)	(14 611)	(1 724)	(14 460)	22 833	(22 725)
Segment profit	**(7 279)**	**51 288**	**37 450**	**939**	**–**	**82 398**
Supplemental information:						
Expenditure for long-lived assets	12 233	74 994	65 473	5 624	–	158 324
Depreciation and amortisation expense	17 217	22 248	6 271	12	–	45 748
Income tax expense	1 398	(264)	(59)	334	–	1 409

Segment information at 31 December 2007 and for year then ended comprised:

	Meat-processing	Poultry	Pork	Corporate assets/ expenditures	Intersegment	Consolidated
	US$000	US$000	US$000	US$000	US$000	US$000
Total sales	467 216	296 803	69 869	660	–	834 548
including other sales	1 521	19 872	3 317	–	–	24 710
including sales volume discount	(17 670)	(7 217)	–	–	–	(24 887)
Intersegment sales	(2 776)	(5 165)	(5 186)	(658)	–	(13 785)
Sales to external customers	464 440	291 638	64 683	2	–	820 763
Cost of sales	(367 539)	(203 381)	(40 684)	(4)	13 118	(598 490)
Gross profit	**99 677**	**93 422**	**29 185**	**656**	**(667)**	**222 273**
Operating expenses	(78 149)	(46 256)	(4 680)	(8 969)	667	(137 387)
Operating income	**21 528**	**47 166**	**24 505**	**(8 313)**	**–**	**84 886**
Other income and expenses, net	1 583	2 248	(64)	22 095	(18 411)	7 451
Interest expenses	(13 890)	(10 659)	(1 390)	(10 868)	18 411	(18 396)
Segment profit	**9 221**	**38 755**	**23 051**	**2 914**	**–**	**73 941**
Supplemental information:						
Expenditure for long-lived assets	13 815	47 911	124 616	14	–	186 356
Depreciation and amortisation expense	15 695	11 267	4 502	2	–	31 466
Income tax expense	3 271	280	2 644	1 064	–	7 259

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

22 Segment reporting continued

The reconciliation between net segment profit and net income per the consolidated income statements for the years ended 31 December 2008 and 2007 is as follows:

	2008 US$000	2007 US$000
Total net segment profit	82 398	73 941
Minority interest	(3 994)	(2 848)
Income taxes	(1 409)	(7 259)
Loss from discontinued operations, net of income tax	(3 489)	(2 252)
Gain on disposal of discontinued operations (Note 23)	4 599	–
Consolidated net income	**78 105**	**61 582**

The reconciliation between segment assets and total assets per the consolidated balance sheets as of 31 December 2008 and 2007 is as follows:

	2008 US$000	2007 US$000
Meat processing	292 196	336 853
Poultry	404 582	390 651
Pork	334 204	333 886
Corporate assets	308 517	355 667
Intersegment	(206 937)	(235 755)
Assets of discontinued operations (Note 23)	1 702	14 923
Total assets	**1 134 264**	**1 196 225**

23 Subsidiaries, acquisitions, divestitures

Subsidiaries

As of 31 December 2008 and 2007 the Group controlled the meat processing and agricultural companies through its 100% ownership in AIC Cherkizovsky Ltd. and AIC Mikhailovsky Ltd. and in Golden Rooster Co. Limited.

AIC Cherkizovsky Ltd. is a holding company under 100% control of the Company. AIC Cherkizovsky Ltd. includes the meat-processing segment, which consists of meat processing plants, distribution companies and other companies registered and operating in the Russian Federation. As of 31 December 2008 and 2007 the following principal companies were included in AIC Cherkizovsky Ltd.:

Name of company	Legal form	Nature of business	% 31.12.2008	% 31.12.2007
JSC MPP Babaevskiy	Closed Joint Stock Company	Meat processing plant	85%	85%
JSC Belmyaso	Open Joint Stock Company	Meat processing plant	0%	75%
JSC Biruliovsky meat processing plant (JSC BMPP)	Open Joint Stock Company	Meat processing plant	95%	95%
JSC Meat and Poultry Processing Plant Penzensky (JSC MPPP Penzensky)	Open Joint Stock Company	Meat processing plant	95%	95%
JSC Meat Processing Plant Ulyanovsky (JSC MPP Ulyanovsky)	Open Joint Stock Company	Meat processing plant	85%	85%
JSC Cherkizovsky meat processing plant (JSC CMPP)	Open Joint Stock Company	Meat processing plant	87%	87%
LLC MPP Salsky	Limited Liability Company	Meat processing plant	81%	81%
TIC Cherkizovo Ltd. (Cherkizovo-2)	Limited Liability Company	Procurement company	100%	100%
LLC Cherkizovo-Kashira (Cherkizovo-Kashira Ltd.)	Limited Liability Company	Meat processing plant	99%	99%
LLC Cherkizovsky (Saint Petersburg)	Limited Liability Company	Trading company	100%	100%
JSC Trading Company of Agroindustrial Complex Cherkizovsky (JSC Trading Company of AIC Cherkizovsky)	Open Joint Stock Company	Trading company: distribution of products of AIC Cherkizovsky	100%	100%

23 Subsidiaries, acquisitions, divestitures continued

AIC Mikhailovsky Ltd. is a holding company under 100% control of the Company. AIC Mikhailovsky Ltd. includes the pork and poultry segments that consist of companies engaged in the production of various types of compound feed, raising of poultry, pigs and cattle and the distribution of meat registered and operating in the Russian Federation. As of 31 December 2008 and 2007 the following principal companies were included in the AIC Mikhailovsky Ltd.:

Name of company	Legal form	Nature of business	% 31.12.2008	% 31.12.2007
CJSC Petelinskaya	Closed Joint Stock Company	Raising poultry	84%	84%
JSC Vasiljevskaya	Open Joint Stock Company	Raising poultry	100%	100%
LLC Petelino Trade House	Limited Liability Company	Trading company: distribution of products of AIC Mikhailovsky	84%	84%
CJSC Botovo	Closed Joint Stock Company	Pig breeding	76%	76%
LLC Petelinsky Poultry Factory	Limited Liability Company	Meat processing	84%	84%
LLC Trading House Petelino-Samara	Limited Liability Company	Trading company: distribution of products of AIC Mikhailovsky	100%	100%
JSC Lipetskmyasoprom	Open Joint Stock Company	Pig breeding	100%	100%
LLC Mikhailovsky Feed Milling Plant	Limited Liability Company	Mixed fodder production	100%	100%
LLC Kuznetsovsky Kombinat	Limited Liability Company	Pig breeding	100%	100%
LLC Tambovmyasoprom	Limited Liability Company	Pig breeding	99%	99%
LLC Budenovets Agrifirm	Limited Liability Company	Pig breeding	100%	100%

Acquisitions
Golden Rooster

On 28 August 2007, the Group completed an acquisition of 100% of the share capital of Golden Rooster Co. Limited. Golden Rooster Co. Limited is a company registered in Cyprus that holds 100% of the share capital of OJSC Kurinoe Tsarstvo. OJSC Kurinoe Tsarstvo is a poultry producer with a fully integrated poultry production cycle and operations in both the Lipetsk and Bryansk regions of the Russian Federation. The company produces chilled and frozen poultry products under the “Chicken Kingdom” brand name.

The purchase consideration was 142 466 including 673 of transaction costs. The acquisition was accounted for using the purchase method with goodwill of 697 recognized as a result of the purchase price allocation. No adjustments were made to the purchase price in 2008.

23 Subsidiaries, acquisitions, divestitures continued

Divestitures

2007 discontinued operations (LLC MPP Salsky)

In November 2007, management of the Group made a decision to dispose of a subsidiary in the meat processing segment – LLC MPP Salsky ("Salsky"). The disposal was classified as an asset held for sale and reflected as a discontinued operation in 2007. The assets and liabilities classified as discontinued operations were recorded at lower of cost or market. At the time of the classification as an asset held for sale, the Group had a plan for disposal. Subsequent to that time, primarily due to the deterioration in the worldwide economy and lack of available financing, the Group was unable to close the sale of Salsky. While the Group actively solicited offers during the period, it did not receive any other reasonable offers to purchase Salsky and in response, reduced the price. The Group continues to actively market Salsky at a price that is reasonable given the change in market conditions. As at 31 December 2008, management has determined that the Group has met the conditions for an exception to the one-year sale requirement under SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets".
As a result, Salsky continues to be classified as held for sale as of 31 December 2008.

2008 discontinued operations (JSC Belmyaso)

In November 2008, management of the Group received an offer from a third party to purchase JSC Belmyaso, a subsidiary in the meat processing segment located on the Ukrainian border in southwest Russia. Management accepted the offer as the sale was consistent with its plan to optimize the cost structure of the meat processing segment. The sale was completed in December 2008, with the Group selling its 75% share ownership in JSC Belmyaso for proceeds of 68. The Group will not have any significant continuing involvement with the entity. The gain on the sale of the subsidiary amounted to 4 599.

Net assets of discontinued operations were as follows as of 31 December 2008 and 2007

	2008 US$000	2007 US$000
Cash	3	98
Trade and other receivables, net	–	3 096
Inventory	243	2 170
Deferred tax assets	156	1 266
Property, plant and equipment	1 258	7 299
Other assets	42	994
Total assets	**1 702**	**14 923**
Trade and other payables	(504)	(5 432)
Short and long-term loans	(2 020)	(10 865)
Total liabilities	**(2 524)**	**(16 297)**
Minority interest	**–**	**(1 065)**
Net liabilities of discontinued operations	**(822)**	**(2 439)**

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

23 Subsidiaries, acquisitions, divestitures continued

Results from discontinued operations were as follows for 2008 and 2007:

	2008 US$000	2007 US$000
Sales	15 675	26 405
Cost of sales	(16 131)	(24 980)
Gross (loss) profit	**(456)**	**1 425**
Operating expenses	(2 897)	(3 676)
Gain (loss) from disposal of property, plant and equipment	30	(116)
Operating loss	**(3 323)**	**(2 367)**
Other expenses, net	(655)	(1 023)
Loss before income tax and minority interest	**(3 978)**	**(3 390)**
Income tax (expense) benefit	(546)	395
Minority interest	1 035	743
Loss from discontinued operations	**(3 489)**	**(2 252)**

24 Commitments and contingencies

Legal

As of 31 December 2008 and 2007 several Group companies reported negative net assets in their statutory financial statements. In accordance with the Civil Code of the Russian Federation, a liquidation process may be initiated against a company reporting negative net assets. Management believes that it is remote that the liquidation process will be initiated against those companies.

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

Taxation

Laws and regulations affecting businesses in the Russian Federation continue to change rapidly. These changes are characterized by different interpretations and arbitrary application by the authorities. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Under certain circumstances reviews may cover longer periods. Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects could be significant. Management believes that the total amount of possible tax risks, in accordance with FAS 5 "Accounting for Contingencies," is 4 578 as of 31 December 2008.

Environmental remediation costs

The Group's management believes that it is in compliance with applicable legislation and is not aware of any potential environmental claims; therefore, no liabilities associated with such costs are recorded as of 31 December 2008.

24 Commitments and contingencies continued

Capital commitments

At 31 December 2008, the Group had large capital projects in progress at JSC Lipetskmyasoprom, LLC Tambovmyasoprom, and CJSC Petelinskaya. As part of these projects, commitments had been made to contractors of approximately 51 699 towards completion of the projects.

Also the Group is in the process of implementing an integrated management planning and accounting system related to the meat processing segment of the business. As part of this project, commitments have been made to contractors of approximately 1 849 towards completion of the project.

Operating lease commitments

At 31 December 2008, the Group had the following obligations under non-cancellable operating lease agreements:

	2009 US$000	2010 US$000	2011 US$000	2012 US$000	2013 US$000	>2013 US$000	Total US$000
Total commitments	314	314	314	314	254	2 780	**4 290**

25 Subsequent events

Acquisitions

In March 2009, the Group acquired 57.29% of the share capital of OAO Penzensky Kombinat Khleboproductov (“Penzensky”) from a third party for cash consideration of 1 886. Penzensky is involved in grain processing and production of bread products in the Penza region of Russia. Penzensky will be a part of operations in the poultry segment of the Group. As of 31 March 2009, the purchase price allocation was not finalised as the Group had not completed its assessment of the fair value of the acquired net assets. As of the date of acquisition, Penzensky did not prepare financial statements in accordance with US GAAP. As a result, the Group has not provided the disclosures as required by SFAS 141, Business Combinations, as the disclosure would be impracticable.

Borrowings

In the first quarter of 2009, the Group entered into several new credit facilities with Sberbank in the amount of 8 975 bearing interest rates ranging from 16.75% to 17.5%. The Group drew down on existing credit facilities with Sberbank in the amount of 20 837, repaid 15 991 on these facilities and fully paid down the Raiffeisen facility in the amount of 16 257.

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