OJSC Cherkizovo Group

Consolidated Financial Statements
Years Ended 31 December 2010 and 2009

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Independent auditors' report

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

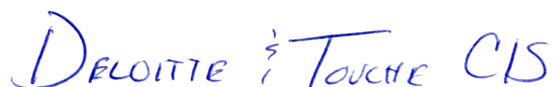
We have audited the accompanying consolidated balance sheets of OJSC Cherkizovo Group and its subsidiaries (together the "Group") as of 31 December 2010 and 2009 and the related consolidated statements of income, cash flows and changes in equity and comprehensive income for the years then ended. These 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. At 31 December 2010 and 2009, the stated amounts of such property, plant and equipment approximated US $43 220 thousands and US $47 670 thousands, respectively. 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 such adjustments, if any, as might have been determined to be necessary had we been able to examine competent evidential matter regarding the carrying value of property, plant and equipment, the financial statements referred to in the first paragraph present fairly, in all material respects the consolidated financial position of the Group as of 31 December 2010 and 2009 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.

As discussed in Note 1 to the financial statements, the Group made acquisitions during 2010 from companies owned by the majority shareholder of the Group, resulting in a change in reporting entity. The transactions were accounted for as transactions under common control. Assets and liabilities were transferred at historical cost. The change in reporting entity was accounted for in a manner similar to a pooling of interests, which has been reflected retrospectively from the first period presented herein.



25 March 2011
Moscow, Russia

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Consolidated balance sheets

As of 31 December 2010 and 2009

	Note	2010 US$000	2009 US$000 (Restated- see Note 1)
ASSETS			
Current assets :			
Cash and cash equivalents	3	68 164	39 834
Trade receivables, net of allowance for doubtful accounts of 4 808 and of 5 091 as of 31 December 2010 and 2009, respectively	4	81 300	77 188
Advances paid, net of allowance for doubtful accounts of 1 820 and of 1 634 as of 31 December 2010 and 2009, respectively		42 087	30 276
Inventory	5	183 170	142 850
Short-term deposits in banks		33 796	-
Deferred tax assets	19	5 003	5 879
Other receivables, net of allowance for doubtful accounts of 1 935 and of 1 394 as of 31 December 2010 and 2009, respectively	6	12 594	17 319
Other current assets	7	41 513	31 554
Total current assets		**467 627**	**344 900**
Non-current assets:			
Property, plant and equipment, net	8	934 904	824 159
Goodwill	9	14 108	8 677
Other intangible assets, net	9	41 821	41 892
Deferred tax assets	19	3 266	2 182
Notes receivable, net	10	1 427	1 327
Other non-current receivables		8 296	5 291
VAT receivable		-	10 620
Total non-current assets		**1 003 822**	**894 148**
Total assets		**1 471 449**	**1 239 048**

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

Consolidated balance sheets continued

As of 31 December 2010 and 2009

	Note	2010 US$000	2009 US$000 (Restated- see Note 1)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade accounts payable		73 251	65 478
Short-term debt and current portion of capital leases	11	182 467	108 993
Tax related liabilities	12	10 132	11 218
Deferred tax liabilities	19	-	28
Payroll related liability		14 159	13 883
Advances received		6 121	5 624
Payables for non-current assets		10 450	7 975
Interest payable		3 131	2 448
Other payables		6 656	5 159
Total current liabilities		**306 367**	**220 806**
Non-current liabilities:			
Long-term debt and capital leases	11	465 889	448 267
Deferred tax liabilities	19	25 728	27 436
Tax related liabilities	12	2 726	4 255
Payables to shareholders		563	632
Other liabilities		25	5
Total non-current liabilities		**494 931**	**480 595**
Commitments and contingencies	24		
Equity:			
Share capital	13	15	15
Additional paid-in capital		272 682	281 161
Treasury shares		(496)	(496)
Other accumulated comprehensive loss		(76 062)	(71 707)
Retained earnings		442 447	297 998
Total shareholders' equity		**638 586**	**506 971**
Non-controlling interests		31 565	30 676
Total equity		**670 151**	**537 647**
Total liabilities and equity		**1 471 449**	**1 239 048**

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

Consolidated income statements

For the years ended 31 December 2010 and 2009

		2010 US$000	2009 US$000 (Restated- see Note 1)
Sales	14	1 188 213	1 019 153
Cost of sales	15	(864 341)	(737 518)
Gross profit		**323 872**	**281 635**
Selling, general and administrative expenses	16	(155 722)	(140 683)
Other operating expense, net		(1 182)	(1 208)
Operating income		**166 968**	**139 744**
Other income, net	17	1 811	395
Financial expense, net	18	(15 936)	(19 896)
Income before income tax (expense) benefit		**152 843**	**120 243**
Income tax (expense) benefit	19	(4 145)	3 307
Net income		**148 698**	**123 550**
Less: Net income attributable to non-controlling interests		(4 249)	(4 108)
Net income attributable to Cherkizovo Group		**144 449**	**119 442**

Weighted average number of shares outstanding	43 028 022	43 028 022
Net income attributable to Cherkizovo Group per share – basic and diluted:	3.36	2.78

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

Consolidated cash flow statements

For the years ended 31 December 2010 and 2009

	2010 US$000	2009 US$000 (Restated- see Note 1)
Cash flows from (used in) operating activities:		
Net income	148 698	123 550
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortisation	50 544	41 340
Bad debt expense (including allowance for non-current loans receivable of nil and 2 413 for the years ended 31 December 2010 and 2009, respectively)	2 834	10 022
Foreign exchange loss	353	157
Deferred tax benefit	(1 960)	(4 470)
Recognition of previously unrecognized tax benefits (Note 19)	(1 491)	(2 366)
Share-based compensation expense	3 803	908
Other adjustments, net	999	81
Changes in operating assets and liabilities		
(Increase) decrease in inventories	(31 205)	1 065
Increase in trade receivables	(6 894)	(1 635)
Increase in advances paid	(11 571)	(1 619)
Decrease in non-current value added tax receivable	7 566	490
(Increase) decrease in other current assets	(5 991)	5 225
Increase in trade accounts payable	8 407	1 399
(Decrease) increase in taxes payable	(1 360)	3 172
Increase in other current payables	3 627	4 678
Cash flows from operating activities	**166 359**	**181 997**

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

Consolidated cash flow statements continued

For the years ended 31 December 2010 and 2009

	2010 US$000	2009 US$000 (Restated- see Note 1)
Cash flows from (used in) investing activities:		
Purchases of long-lived assets	(170 645)	(162 374)
Proceeds from sale of property, plant and equipment	448	855
Acquisitions of subsidiaries, net of cash acquired	(9 317)	(2 140)
Sale of notes receivable	2 590	10 310
Purchases of notes receivable	-	(3 260)
Issuance of long-term loans	(43)	(891)
Repayment on long-term loans issued	-	784
Issuance of short-term loans	(36 662)	(17 950)
Repayments on short-term loans issued	687	21 100
Total net cash used in investing activities	**(212 942)**	**(153 566)**
Cash flows from (used in) financing activities:		
Proceeds from long-term loans	150 485	122 010
Repayment of long-term loans	(65 449)	(130 569)
Proceeds from long-term loans from related parties	761	7 716
Repayment of long-term loans from related parties	(8 483)	(2 514)
Proceeds from short-term loans	141 169	90 733
Repayment of short-term loans	(127 571)	(115 279)
Acquisitions of entities under common control and non-contolling interests (Notes 1, 23)	(15 408)	(8 298)
Total net cash from (used in) financing activities	**75 504**	**(36 201)**
Total cash from (used in) operating, investing and financing activities	**28 921**	**(7 770)**
Impact of exchange rate difference on cash and cash equivalents	(591)	(2 064)
Net increase (decrease) in cash and cash equivalents:	**28 330**	**(9 834)**
Cash and cash at the beginning of the period	39 834	49 668
Cash and cash equivalents at the end of the period	**68 164**	**39 834**
Supplemental Information:		
Income taxes paid	7 422	4 649
Interest paid	69 229	68 572
Subsidies received	57 344	49 310
Property, plant and equipment acquired under finance leases	-	599
Property, plant and equipment acquired on account	10 450	7 975

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

Consolidated statements of changes in equity and comprehensive income

For the years ended 31 December 2010 and 2009

	Share capital US$000	Additional paid-in capital US$000	Retained earnings US$000	Treasury shares US$000	Other accumulated comprehensive loss US$000	Total shareholders' equity US$000	Non-controlling interests US$000	Total equity US$000
Balance at 1 January 2009 (As previously reported)	**15**	**289 146**	**176 864**	**(496)**	**(64 551)**	**400 978**	**24 169**	**425 147**
Effects of acquisitions under common control (see Note 1)	-	-	1 692	-	(195)	1 497	-	1 497
Balances at 1 January 2009 (Restated - see Note 1)	**15**	**289 146**	**178 556**	**(496)**	**(64 746)**	**402 475**	**24 169**	**426 644**
Net income	-	-	119 442	-	-	119 442	4 108	123 550
Other comprehensive loss from translation adjustment	-	-	-	-	(6 961)	(6 961)	516	(6 445)
Total comprehensive income (loss)			**119 442**		**(6 961)**	**112 480**	**4 624**	**117 105**
Contribution from shareholder (Note 13)	-	908	-	-	-	908	-	908
Sale and purchase of non-controlling interests (Note 23)	-	(841)	-	-	-	(841)	562	(279)
Purchase of subsidiary (Note 23)	-		-	-	-	-	1 321	1 321
Effect of acquisitions under common control (Notes 1)	-	(8 052)	-	-	-	(8 052)	-	(8 052)
Balances at 31 December 2009 (Restated - see Note 1)	**15**	**281 161**	**297 998**	**(496)**	**(71 707)**	**506 971**	**30 676**	**537 647**
Balances at 1 January 2010 (Restated - see Note 1)	**15**	**281 161**	**297 998**	**(496)**	**(71 707)**	**506 971**	**30 676**	**537 647**
Net income	-	-	144 449	-	-	144 449	4 249	148 698
Other comprehensive loss from translation adjustment	-	-	-	-	(4 355)	(4 355)	(234)	(4 589)
Total comprehensive income (loss)			**144 449**		**(4 355)**	**140 094**	**4 015**	**144 109**
Contribution from shareholder (Note 13)	-	3 803	-	-	-	3 803	-	3 803
Purchase of non-controlling interests (Note 23)	-	2 569	-	-	-	2 569	(3 126)	(557)
Effect of acquisitions under common control (Notes 1, 23)	-	(14 851)	-	-	-	(14 851)	-	(14 851)
Balances at 31 December 2010	**15**	**272 682**	**442 447**	**(496)**	**(76 062)**	**638 586**	**31 565**	**670 151**

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 entities (APK Mikhailovsky and Golden Rooster Co. Limited).

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 seven meat processing plants, seven pig production complexes, four poultry production complexes and two combined fodder production plants. The Group also operates three trading houses with subsidiaries in 10 major Russian cities.

The Group’s geographical reach covers Moscow, the Moscow region, the regions of Saint Petersburg, Kaliningrad, Penza, Lipetsk, Vologda, Ulyanovsk, Chelyabinsk, Tambov, Krasnodar, Ekaterinburg, Rostov-na-Donu, 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 2010 and 2009 the number of staff employed by the Group approximated 15 110 and 14 610, respectively.

During 2009, the Group was impacted by a weakened rouble, which fell further during early 2009 before beginning a gradual recovery for the rest of the year. During 2010, as a result of a summer drought in the Russian Federation grain and feed prices significantly increased adversely impacting the Group financial performance during the last quarter of 2010 and could continue to impact the Group’s financial performance in the beginning of 2011. In 2010, following an easing of macroeconomic pressures, the Group continued to have access to third party financing and low-cost, government subsidised financing, the trend is expected to continue in 2011.

Due to changes in product mix to higher margin products as well as continued implementation of cost cutting measures the meat processing segment returned to profitability in 2010.

Management expects to fund its forecasted 2011 investing cash outflow both through operating cash inflows, as well as through refinancing of its short-term debt as it becomes due. Management is confident based on current economic conditions that it will be able to refinance its borrowings and fund its ongoing operations.

1 Business and environment continued

Accounting for the 2010 reorganisation

During the fourth quarter of 2010, the Group acquired LLC RAO Penzenskaya Grain Company ("PZK") and CJSC Lipetskmyaso ("Lipetskmyaso"), entities under common control. For purposes of these consolidated financial statements, all prior periods have been retrospectively restated as if the acquisition was completed in the earliest period in which the Group's majority shareholder created these legal entities. The Group's transactions with PZK and Lipetskmyaso have been eliminated upon consolidation.

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

In accordance with the Group's accounting policy for common control transactions, assets and liabilities of the acquired companies were retrospectively reflected based on the carrying values at which they were recognised by the majority shareholder. Consideration paid is recorded as a decrease in additional paid-in capital in these consolidated financial statements.

The following table presents the significant effects of this restatement:

As of 31 December 2009:	As previously reported	Entities acquired under common control	Eliminations	As restated
Total current assets	345 400	11 319	(11 819)	344 900
Property, plant and equipment, net	754 720	69 439	-	824 159
Other intangible assets, net	41 889	3	-	41 892
Other non-current assets	28 108		(11)	28 097
Total assets	**1 170 117**	**80 761**	**(11 830)**	**1 239 048**
Total current liabilities	217 072	15 564	(11 830)	220 806
Total non-current liabilities	407 640	72 955	-	480 595
Total liabilities	**624 712**	**88 519**	**(11 830)**	**701 401**
Total shareholders' equity	514 728	(7 758)	-	506 970
Non-controlling interest	30 677			30 677
Total equity	**545 405**	**(7 758)**	**-**	**537 647**
Total liabilities and equity	**1 170 117**	**80 761**	**(11 830)**	**1 239 048**
For the year ended 31 December 2009:				
Sales	1 022 457	10 234	(13 538)	1 019 153
Operating income	140 190	(446)	-	139 744
Income before tax	120 932	(689)	-	120 243
Net income	124 279	(729)	-	123 550
Net income attributable to Group Cherkizovo	120 171	(729)	-	119 442
EPS, basic and diluted ($US)	2.79			2.78

(in thousand USD, unless noted otherwise)

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 or foreign jurisdictions 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.

Transactions under common control are accounted for in a manner similar to a pooling of interests (see Business combinations policy below).

Foreign currency translation

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

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

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

	Exchange rate
31 December 2010	30.4769
Average exchange rate for the year ended 31 December 2010	30.3692
31 December 2009	30.2442
Average exchange rate for the year ended 31 December 2009	31.7231

2 Summary of significant accounting policies continued

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 on-going 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 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.

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.

2 Summary of significant accounting policies continued

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:

Land	Indefinite life
Buildings and infrastructure	10-40 years
Machinery and equipment	3-22 years
Vehicles	3-10 years
Cattle	7 years
Sows	2 years
Other	3-10 years

Capitalised interest expense

Interest is capitalised on expenditures made in connection with capital projects in the amount of interest expense that could have been avoided if expenditures for the assets had not been made. Interest is only capitalised for the period when construction activities are actually in progress and until the resulting properties are put into operation.

Business combinations

The acquisition of businesses from third parties is accounted for using the purchase method of accounting. On acquisition, identifiable assets and liabilities of an entity are measured at their fair values as at the date of acquisition. The interest of non-controlling shareholders is stated at fair value at the date of acquisition. 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. Consideration paid is reflected as a decrease in additional paid in capital.

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. All 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 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, management has determined that each segment represents a reporting unit.

2 Summary of significant accounting policies continued

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 9. 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. In estimating the fair value, the Group is required to make a number of estimates and assumptions including assumptions related to including projections of future cash flows, estimated growth and discount rates. A change in these underlying assumptions could cause a change in the results of the tests and, as such, could result in an impairment in future periods.

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 were 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.

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.

Loans receivable not held for sale

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported in the balance sheet at outstanding principal adjusted for any chargeoffs, an allowance for loan losses and any deferred fees or costs on originated loans, and any unamortized premiums or discounts.

Notes receivables

Notes receivable purchased are 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 the intent and ability to hold to maturity are classified as not held for sale.

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 19.8% for the meat processing segment and 13.7% 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 to which it relates.

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 in the year to which they relate.

2 Summary of significant accounting policies continued

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. The Group also regularly receives subsidies from regional authorities based on volumes of meat production and fodder purchased. These amounts are recorded as reductions to cost of sales during the period to which they relate.

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 precluded from filing a consolidated tax return and offseting 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.

Uncertain tax positions are recognized in the consolidated financial statements for positions which are considered more likely than not of being sustained based on the technical merits of the position on audit by the tax authorities. The measurement of the tax benefit recognized in the consolidated financial statements is based upon the largest amount of tax benefit that, in management's judgment, is greater than 50% likely of being realized based on a cumulative probability assessment of the possible outcomes. The Group classifies uncertain tax positions as well as penalties and fines as non-current tax related liabilities. The Company recognizes interest and penalties accrued related to unrecognized tax positions as part of the provision for income taxes.

Concentration of credit risk

Financial instruments that potentially expose the Group to concentration of credit risk consist primarily of cash and cash equivalents, short-term deposits, accounts receivable from customers and advances paid to vendors. As of 31 December 2010 81% of total cash and cash equivalents were held in a state owned bank. As of 31 December 2009, 28%, 18% and 12% of total cash and cash equivalents were held in bank accounts at three Russian financial institutions.

As of 31 December 2010, the Group placed 97% of total short-term deposits with one Russian financial institution, having a Fitch Rating of A- (rus). Available funds were deposited with the bank to finance planned future investments.

As of 31 December 2010 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 2009, approximately 11% of the Group's net accounts receivable, were due from one customer.

As of 31 December 2010, approximately 29% of advances paid were outstanding with one third-party vendor for planned future purchases of raw materials. As of 31 December 2009, approximately 20% of advances paid were outstanding with one vendor.

The maximum amount of loss due to credit risk, based on the carrying value of trade receivables, other receivables and advances paid that the Group would incur if related parties failed to perform according to the terms of contracts, was 29 529 and 34 445 as of 31 December 2010 and 2009 respectively.

Non-controlling interest

Non-controlling interest that resulted from acquisitions that occurred before 1 January 2009 were accounted for at historical value, which is the non-controlling interest'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.

Non-controlling interest that resulted from acquisitions completed after 1 January 2009 are accounted for at fair value as of the date when control over a subsidiary is established by the Group.

(in thousand USD, unless noted otherwise)

2 Summary of significant accounting policies continued

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.

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 2% to 20% of the annual gross remuneration of each employee. Starting from 1 January 2010 the regressive rate was increased up to 26% and from 1 January 2011 up to 34% of the annual gross remuneration of each employee. The Group does not have any additional obligations other than said contributions.

Fair value of financial instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Group uses various valuation approaches. A hierarchy has been established for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market rates obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's estimates about the assumptions market participants would use in the pricing of the asset or liability based on the best information available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- 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.

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

The Group has various 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 (Note 20). Other similar debt was determined based on rates available for similar facilities in the Russian Federation at 31 December 2010. 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. Additionally, the Group has various loans and notes receivable classified as held to maturity. Solely for the purpose of presentation, the Group has estimated fair value based on expected discounted cash flows incorporating the Group's weighted average cost of capital (Note 20).

2 Summary of significant accounting policies continued

Effect of accounting pronouncements adopted

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

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

In August 2009, the FASB issued ASU No. 2009-05, "Fair Value Measurements and Disclosures (Topic 820): Measuring Liabilities at Fair Value that amends Subtopic 820-10, "Fair value measurements and disclosures – Overall" of Topic 820, of the FASB Codification. ASU No. 2009-05 provides clarification that in circumstances in which a quoted price in active market is not available, a reporting entity is required to use one or more of the following valuation techniques: valuation based on quoted price of identical liability when traded as an asset; quoted prices of similar liabilities or similar liabilities when traded as an assets, or any other technique consistent with the principles of Topic 820, such as present value technique. ASU No. 2009-05 also clarifies that a reporting entity is not required to include a separate input to existence of restriction that prevents the transfer of the liability. ASU No. 2009-05 is effective for the first reporting period (including interim periods) beginning after issuance. Early application is permitted if financial statements for prior period have not been issued. The Group adopted ASU No. 2009-05 on January 1, 2010. This adoption did not have an impact on the Group's results of operations, financial position or cash flows.

2 Summary of significant accounting policies continued

New accounting pronouncements

In December 2010, the FASB issued ASU No. 2010-29, "Disclosure of Supplementary Pro Forma Information for Business Combinations." This ASU requires that the pro forma information be presented as if the business combination occurred at the beginning of the prior annual reporting period for purposes of calculating both the current reporting period and the prior reporting period pro forma financial information. The ASU also requires that this disclosure be accompanied by a narrative description of the amount and nature of material nonrecurring pro forma adjustments. ASU No. 2010-29 is effective prospectively for business combinations occurred on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Group will adopt ASU No. 2010-29 for business combinations occurred on or after January 1, 2011. The Group does not anticipate an impact on the consolidated financial statements resulting from the adoption of this guidance, apart from disclosure.

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

In July 2010, the FASB issued ASU No. 2010-20, "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses," which amends Accounting Standards Codification ("ASC") No. 310, "Receivables." This ASU provides financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables and requires entities provide disclosures that facilitate financial statement users' evaluation of the following: 1) the nature of credit risk inherent in the entity's portfolio of financing receivables; 2) how that risk is analyzed and assessed in arriving at the allowance for credit losses; 3) the changes and reasons for those changes in the allowance for credit losses. ASU No. 2010-20 also introduces a new terminology, in particular, the term financial receivables. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. Issued in January 2011 ASU No. 2011-01 deferred effective date for other disclosure requirement. The Group will adopt ASU No. 2010-20 effective requirements from January 1, 2011. The Group does not anticipate an impact on the consolidated financial statements resulting from the adoption of this new guidance.

3 Cash and cash equivalents

Cash as of 31 December 2010 and 2009 comprised:

	2010 US$000	2009 US$000
Cash in hand	327	279
Bank accounts	67 837	39 555
Total cash and cash equivalents	**68 164**	**39 834**

Cash in bank accounts includes short-term, redeemable on-demand deposits of 43 990 and 14 215 as of 31 December 2010 and 2009, respectively.

4 Allowance for doubtful trade receivables

The following table summarized the changes in the allowance for doubtful trade receivables for the years ended 31 December 2010 and 2009:

	2010 US$000	2009 US$000
Balance at beginning of the year	**5 091**	**3 259**
Additional allowance, recognized during the year	1 276	2 704
Trade receivables written off during the year	(1 521)	(869)
Translation difference	(38)	(3)
Balance at end of the year	**4 808**	**5 091**

5 Inventory

Inventory as of 31 December 2010 and 2009 comprised:

	2010 US$000	2009 US$000
Raw materials and goods for resale	97 130	70 037
Livestock	71 844	63 468
Work in-process	7 715	4 283
Finished goods	6 481	5 062
Total inventory	**183 170**	**142 850**

(in thousand USD, unless noted otherwise)

6 Other receivables, net

Other receivables, net, as of 31 December 2010 and 2009 comprised:

	2010 US$000	2009 US$000
Subsidies receivable for interest expense reimbursement	4 830	9 723
Subsidies receivable for purchase of fodder	358	361
Subsidies receivable for meat produced	845	228
Other receivables	8 496	8 401
Allowance for other receivables	(1 935)	(1 394)
Total other receivables, net	**12 594**	**17 319**

7 Other current assets

Other current assets as of 31 December 2010 and 2009 comprised:

	2010 US$000	2009 US$000
VAT and other taxes receivable	28 464	15 873
Spare parts	5 215	4 330
Loans receivable	4 618	5 199
Prepaid expenses	3 214	3 560
Notes receivable (effective annual interest rate of 9.5% as of 31 December 2009)	-	2 590
Other assets	2	2
Total other current assets	**41 513**	**31 554**

8 Property, plant and equipment, net

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

	2010 US$000	2009 US$000
Land	7 652	3 832
Buildings, infrastructure and leasehold improvements	521 179	467 538
Machinery and equipment	180 533	166 956
Vehicles	27 761	27 268
Cattle	-	190
Sows	15 093	15 253
Advances paid for property, plant and equipment	42 004	52 765
Construction in-progress and equipment for installation	138 880	89 170
Other	1 802	1 187
Total property, plant and equipment, net	**934 904**	**824 159**

Accumulated depreciation amounted to 230 666 and 184 356 as of 31 December 2010 and 2009, respectively. Depreciation expense amounted to 49 921 and 40 901 for the years ended 31 December 2010 and 2009, respectively, which includes depreciation of leased equipment.

8 Property, plant and equipment, net continued

Net book values of vehicles and machinery and equipment include 6 141 and 11 812 of leased equipment as of 31 December 2010 and 2009, respectively. Net book values of buildings, infrastructure and leasehold improvements include 10 179 and 11 814 of leased buildings and constructions as of 31 December 2010 and 2009, respectively. Accumulated depreciation on leased property and equipment amounted to 7 504 and 6 520 as of 31 December 2010 and 2009, respectively.

Loss on disposal of property, plant and equipment of 1 182 and 1 208 was recognized in the other operating expenses, net line item in the consolidated income statement for the year ended 31 December 2010 and 2009, respectively.

9 Goodwill and other intangible assets, net

Goodwill and other intangible assets as of 31 December 2010 and 2009 comprised:

	2010 US$000	2009 US$000
Goodwill	14 108	8 677
Other intangible assets	41 821	41 892
Total goodwill and other intangible assets, net	**55 929**	**50 569**

Goodwill

The changes in the carrying amount of goodwill for 2010 and 2009 were as follows:

Balance at 31 December 2008 US$000	**8 548**
Additions	313
Translation loss	(184)
Balance at 31 December 2009 US$000	**8 677**
Additions	5 497
Translation loss	(66)
Balance at 31 December 2010 US$000	**14 108**

As of 31 December 2008, the Group had recorded goodwill of 8 548, net of translation loss of 990 from the purchase of its controlling stake in JSC BMPP (which is included in the meat processing reporting unit).

In March 2009, the Group purchased Penzensky Kombinat Hleboproductov. Goodwill in the amount of 313 arose on the purchase.

In September 2010 the Group acquired LLC PKO Otechestvenny Product (Otechestvenny Product) and LLC Zarechnaya Poultry Factory (Zarechnaya) (see Note 23). Goodwill in the amount of 5 497 arose on these purchases. For these acquisitions, the purchase price allocation is preliminary and consequently, the value of goodwill will be revised as fair values are determined.

As of 31 December 2010, 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 13% and 5% during 2011 and 2012 respectively, with an annual increase of nil in 2013 and 2014 and 3% thereafter,
- Prices are forecast to increase by 12% and 9% in 2011 and 2012 respectively, and an increase at an average of 8% per annum thereafter,
- Operating costs are forecast to increase by 29% and 15% in 2011 and 2012, respectively, and an increase of 12% in 2013 and 2014 and 8% per annum thereafter,
- After-tax discount rate of 16.9%.

9 Goodwill and other intangible assets, net continued

Management has assessed the inputs used in the fair value analysis and believes that the most sensitive input is operating expenses. Management believes that a 2.2% increase in future planned operating expenses over the amounts used in the cash flow projections, which is a key variable in determination of cash flows, would result in the carrying value of the meat processing reporting unit exceeding its fair value by 2 515, thereby indicating potential impairment.

Other intangible assets

Other intangible assets as of 31 December 2010 and 2009 comprised:

	2010 US$000			2009 US$000		
	Gross carrying amount	Accumulated amortisation	Net carrying amount	Gross carrying amount	Accumulated amortisation	Net carrying amount
Computer software	4 484	(490)	3 994	4 002	(229)	3 773
Indefinite life trademarks	37 827	-	37 827	38 119		38 119
Other intangible assets, net	**42 311**	**(490)**	**41 821**	**42 121**	**(229)**	**41 892**

Computer software

Software is amortised over its useful life ranging from two to ten years.

Kurinoe Tsarstvo (“Куриное Царство”) trademark

The carrying value of the Kurinoe Tsarstvo trademark was 23 530 and 23 711 as of 31 December 2010 and 2009, respectively.

As of 31 December 2010 and 2009, management tested the Kurinoe Tsarstvo trademark for impairment and determined that the trademark is not impaired.

The following significant unobservable inputs were used in the impairment test:

- Sales volumes of Kurinoe Tsarstvo branded products increase by 40%, 55% and 1% during 2011, 2012 and 2013, respectively, based on currently approved capital expenditure projects related to the brand and remain stable thereafter (this represents a change from 2009 assumptions of 33%, 31% and 16% during 2010, 2011 and 2012, respectively, and is based on changes made during the year in projects directed at increasing production capacity),
- Prices are forecast to increase by 7% in 2011 and grow steadily by 8% a year thereafter, based on historical trends and a shift to more expensive product types,
- After-tax discount rate of 21.9% (26.9% in 2009).

Management has assessed the inputs used in the fair value analysis and believes that the more sensitive inputs are discount rate and future planned trademark revenues. A 5% increase in the discount rate would lead to an impairment loss of 1 704; a 20% decrease in future planned trademark revenues would lead to an impairment loss of 314.

Cherkizovsky (“Черкизовский”) trademark

The carrying value of the Cherkizovsky trademark was 14 297 and 14 408 as of 31 December 2010 and 2009, respectively.

As of 31 December 2010 and 2009, management tested the Cherkizovsky trademark for impairment and determined that the trademark was not impaired.

9 Goodwill and other intangible assets, net continued

For the impairment analysis as of 31 December 2010, the Group used cash flow projections based on actual operating results and business plans approved by management.

The following significant unobservable inputs were used in the impairment test:

- Sales volumes were projected to remain stable through the period,
- Expected selling prices were projected to grow at 6%, based on historical trends.
- After-tax discount rate of 21.9% (26.9% in 2009).

Management has assessed the inputs used in the fair value analysis and believes that the more of the inputs are discount rate and future planned trademark revenues. A 18% increase in the discount rate would lead to an impairment loss of 912; a 55% decrease in future planned trademark revenues would lead to an impairment loss of 638.

Management believes that the values assigned to the key assumptions and estimates represented the most realistic assessment of future trends. The rates used in the 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.

10 Long-term notes receivable

As of 31 December 2010, the balance comprised:

	Book Value US$000	Discount US$000	Face Value US$000	Effective %
Gazprombank notes receivable with maturity in June 2014	1 427	(463)	1 890	8.36%

As of 31 December 2009, the balance comprised:

	Book Value US$000	Discount US$000	Face Value US$000	Effective %
Gazprombank notes receivable with maturity in June 2014	1 327	(577)	1 904	8.36%

(in thousand USD, unless noted otherwise)

11 Borrowings

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

				2010 US$000		2009 US$000	
	Interest rates	**WAIR***	**EIR****	**Current**	**Non-current**	**Current**	**Non-current**
Finance leases	8.30% -17.52%	15.26%	15.26%	717	4 610	2 372	5 367
Bonds	8.25% -12.75%	9.04%	9.04%	10 479	49 218	-	10 560
Bank loans	8.10% -12.00%	11.03%	0.28%	328	984	1 152	6 943
Credit lines	7.52% -15.00%	11.38%	1.62%	168 267	409 746	90 885	400 751
Loans from government	0.00% - 5.50%	4.00%	4.00%	1 815	-	12 178	16 935
Other borrowings	0.00% -16.00%	1.49%	1.49%	861	1 331	2 406	7 711
				182 467	**465 889**	**108 993**	**448 267**
Total borrowings					**648 356**		**557 260**

* 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 18 for further disclosure of government subsidies related to interest on borrowings.

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

Maturity of non-current borrowings	2011 US$000	2012 US$000	2013 US$000	2014 US$000	2015 US$000	2016 US$000	>2016 US$000	Total US$000
Total borrowings	93 834	110 361	172 225	64 062	49 034	48 136	17 461	555 113

As of 31 December 2010, the Group's borrowings are denominated in the following currencies: 642 982 in Russian roubles, 615 in Euro and 4 759 in USD. As of 31 December 2009, the Group's borrowings were denominated in the following currencies: 550 986 in Russian roubles, 713 in Euro and 5 561 in USD.

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

11 Borrowings continued

Capital leases

As of 31 December 2010 and 2009, the Group used certain fixed assets under leasing contracts that qualified for treatment as finance leases. The lower of the incremental borrowing rate and the rate implicit in the lease agreement was used in capitalizing the leases.

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

	2010 US$000		2009 US$000	
Payments falling due	**Total minimum lease payments US$000**	**Portion related to interest US$000**	**Total minimum lease payments US$000**	**Portion related to interest US$000**
Within one year	1 427	710	3 304	932
In year two	884	654	1 437	715
In year three	827	624	892	659
In year four	827	593	833	629
In year five	827	557	833	597
After year five	5 994	2 321	6 873	2 901
	10 786	**5 459**	**14 172**	**6 433**

Bonds

Bonds due in June 2011

As of 31 December 2010, the Group had outstanding 320 000 bonds (10 479) with a maturity date in June 2011. The Group is accounting for these instruments at amortized cost.

Bonds due in November 2013

In November 2010, the Group placed 3 000 000 bonds at par value (1 000 roubles or 33 at the issuance date) with a maturity date in November 2013. 1 500 000 of these bonds were purchased by a Group company upon issuance, for the purpose of selling on the market when funds are required. The remaining 1 500 000 of bonds (49 218) held by third parties are presented as non-current debt as of 31 December 2010. The coupon rate on the bonds, payable semi-annually, was set at 8.25% per annum.

Bank Loans

Gazprombank

Borrowings from Gazprombank consist of one long-term rouble denominated loan with interest rate 12% per annum. Notes receivable with a carrying value of 1 427 were pledged as collateral under this loan. Principal payment is due on maturity in 2014. Amount outstanding was 984 and 5 952 as of 31 December 2010 and 31 December 2009, respectively.

Savings Bank of Russia

Borrowings from Savings Bank of Russia consist of one short-term rouble denominated loan with interest rate 8.1% per annum. Amount outstanding was 328 and 876 as of 31 December 2010 and 31 December 2009, respectively.

11 Borrowings continued

Lines of credit

Savings Bank of Russia
Borrowings from the Savings Bank of Russia consist of fifty rouble denominated lines of credit with interest ranging from 7.52% to 14.25% per annum. Several of these instruments are guaranteed by related parties. Principal payments are due from 2011 to 2018. Amount outstanding was 306 070 and 231 743 as of 31 December 2010 and 31 December 2009, respectively.

Gazprombank
Borrowings from Gazprombank consist of four rouble denominated lines of credit with an interest ranging from 8% to 13.0% per annum. Some of these facilities are guaranteed by related parties. Principal payments are due from 2011 to 2016. Amount outstanding was 126 093 and 122 999 as of 31 December 2010 and 31 December 2009, respectively.

Bank Zenith
Borrowings from Bank Zenith consist of four rouble denominated lines of credit with an interest rate 13% per annum. Some of these facilities are guaranteed by related parties. Principal payment is due on maturity in 2013 and 2014. Amount outstanding was 77 108 and 77 701 as of 31 December 2010 and 31 December 2009, respectively.

Raiffeisenbank
Borrowings from Raiffeisenbank consist of three rouble denominated loan facilities bearing interest at the rate on the date of tranche issuance which ranged from 7.52% to 11.59% per annum. Amount outstanding was 17 037 and 16 541 as of 31 December 2010 and 31 December 2009, respectively.

Rosselhozbank
Borrowings from Rosselhozbank consist of four rouble denominated lines of credit with interest ranging from 13.23% to 15.0% per annum. Some of these facilities are guaranteed by related parties. Principal payment is due on maturity in 2017 and 2018. Amount outstanding was 43 503 and 42 556 as of 31 December 2010 and 31 December 2009, respectively.

The total amount of unused credit on lines of credit as of 31 December 2010 is 77 332. The unused credit can be utilized from 2011 to 2015 with expiration of available amounts varying as follows: 61 576 expires by 31 December 2011 and 15 756 by the year 2015.

Loans from governmental agencies

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 one rouble denominated long-term loans with an interest rate of 5.5% per annum. Principal payments are due through 2011. The amount outstanding was 984 and 4 034 as of 31 December 2010 and 31 December 2009, respectively.

Other loans from government agencies are individually insignificant and will be repaid in 2011.

Other borrowings

Other borrowings primarily represent unsecured loans from shareholders and contractors with interest rates ranging from 0% to 16.00% per annum. Principal payments are due from 2011 to 2020.

11 Borrowings continued

Collateral under borrowings

Shares of and participating interests in the following Group companies are pledged as collateral under certain borrowings as of 31 December 2010:

- JSC Vasiljevskaya – 51%;
- CJSC Petelinskaya – 51%;
- JSC Lipetskmyasoprom – 99%;
- LLC Budenovets Agrofirm – 51%;
- LLC Mikhailovsky Feed Milling Plant – 51%;
- LLC Kuznetsovsky Kombinat – 51%;
- LLC Ardymsky Feed Milling Plant – 51%;
- CJSC Botovo – 51%;
- JSC MPP Ulyanovsky – 35%;
- LLC AIC Mikhailovsky – 51%;
- LLC Tambovmyasoprom – 51%;
- LLC Kurinoe Tsarstvo – Bryansk – 99%;
- CJSC Agroresurs-Voronezh – 100%;
- LLC Resurs (Tambov) – 100%;
- LLC RAO PZK – 100%;
- CJSC LipetskMyaso – 100%.

Inventory with a carrying value of 52 113 and 25 687 was pledged under certain borrowings as of 31 December 2010 and 31 December 2009, respectively.

Property, plant and equipment with a carrying value of 331 849 and 238 023 was pledged under loan agreements as of 31 December 2010 and 31 December 2009, respectively.

Certain significant loan agreements with Gazprombank and Savings Bank of Russia contain financial covenants requiring the maintenance of minimum revenue turnover through accounts at the respective banks as well as maintenance of specific debt to EBITDA ratios. The Group believes that it is in compliance with these covenants as of December 31, 2010.

12 Tax related liabilities

Short-term tax related liabilities as of 31 December 2010 and 2009 comprised:

	2010 US$000	2009 US$000
Value added tax	3 670	5 982
Property tax payable	2 309	1 872
Payroll related taxes	1 687	1 296
Personal income tax withheld	1 374	1 157
Corporate income tax	812	617
Transportation tax	83	102
Other taxes	197	192
Total short-term tax related liabilities	**10 132**	**11 218**

Long-term tax related liabilities as of 31 December 2010 and 2009 comprised:

	2010 US$000	2009 US$000
Corporate income tax	2 692	4 212
Payroll related taxes	23	33
Value added tax	11	10
Total long-term tax related liabilities	**2 726**	**4 255**

(in thousand USD, unless noted otherwise)

13 Shareholders' equity

Share capital

As of 31 December 2010, issued shares of OJSC Cherkizovo Group had a par value of 0.01 roubles. The total number of authorized shares was 54 702 600 and the number of issued and outstanding shares was 43 069 355 and 43 028 022, respectively.

All issued and outstanding shares have equal voting rights. As of 31 December 2010, MB Capital Partners Ltd. (formerly part of the Control Group) owned 50.1% of the outstanding share capital of OJSC Cherkizovo Group. The Group is authorized to issue preferred shares not exceeding 25% of its ordinary share capital. No such shares are currently issued.

In accordance with Russian legislation, earnings available for dividends are limited to retained earnings of OJSC Cherkizovo Group, calculated in accordance with statutory rules in local currency. No dividends were declared or paid for the years ended 31 December 2010 and 2009.

Shares granted to employees

In previous years the controlling shareholder of the Group has entered into two share compensation agreements directly with members of management relating to shares that it owned and controlled. The total amount of shares covered by the option agreements was 400 000 (600 000 GDR's) with multiple service / derived service periods ranging through May 2014 as follows:

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

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

The portion of the awards containing a cash payment option at the choice of the shareholder was exercised by granting of shares subsequent to 31 December 2010. The 200 000 shares containing market conditions fully vested during 2010 due to having met the requisite conditions. This resulted in all share based options granted to employees in previous years being vested as of 31 December 2010. Management remuneration expense of 3 803 was accordingly recognized during the period.

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

There were no other share based compensation agreements outstanding as of 31 December 2010.

Earnings per share

Earnings per share for the years ended 31 December 2010 and 2009 have been determined using the weighted average number of Group shares outstanding over the period.

The Group has no securities which should be considered for dilution. The shares granted to employees did not have any dilutive impact as outstanding shares held by the majority shareholder were used in granting these awards.

14 Sales

Sales for the years ended 31 December 2010 and 2009 comprised:

	2010 US$000	2009 US$000
Produced goods and goods for resale	1 233 602	1 053 860
Other sales	8 125	10 543
Sales volume discounts	(41 212)	(35 406)
Sales returns	(12 302)	(9 844)
Total sales	**1 188 213**	**1 019 153**

15 Cost of sales

Cost of sales for the years ended 31 December 2010 and 2009 comprised:

	2010 US$000	2009 US$000
Raw materials and goods for resale	667 335	577 992
Personnel (excluding pension costs)	78 387	66 974
Depreciation	46 438	37 185
Utilities	42 718	29 288
Pension costs	11 827	9 758
Other	17 636	16 321
Total cost of sales	**864 341**	**737 518**

Raw materials and goods for resale are offset by subsidies received from local governments in the amount of 1 098 and 1 055 for the years ended 31 December 2010 and 2009, respectively. These targeted subsidies are received based on the amount of meat produced.

(in thousand USD, unless noted otherwise)

16 Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended 31 December 2010 and 2009 comprised:

	2010 US$000	2009 US$000
Personnel (excluding pension costs)	61 830	51 640
Transportation	17 932	16 797
Taxes (other than income tax)	12 387	7 590
Materials and supplies	10 418	9 674
Security services	8 088	7 067
Pension costs	7 420	6 427
Audit, consulting and legal fees	4 926	4 222
Depreciation and amortization	4 106	4 068
Bad debt expense	2 834	7 609
Utilities	2 523	2 160
Repairs and maintenance	2 122	2 071
Veterinary services	2 009	1 841
Bank charges	1 672	1 988
Information technology and communication services	1 264	1 235
Advertising and marketing	1 226	2 992
Insurance	965	932
Other	14 000	12 370
Total selling, general and administrative expenses	**155 722**	**140 683**

17 Other income, net

Other income, net for the years ended 31 December 2010 and 2009 comprised:

	2010 US$000	2009 US$000
Interest income	(1 220)	(1 123)
Foreign exchange loss	353	157
Gain on early retirement of bonds	-	(1 123)
Reserve on loans receivable	-	2 413
Other financial income	(944)	(719)
Total other income, net	**(1 811)**	**(395)**

(in thousand USD, unless noted otherwise)

18 Financial expense, net

Financial expense, net for the years ended 31 December 2010 and 2009 comprised:

	2010 US$000	2009 US$000
Interest expense, net	15 004	18 544
Finance lease expenses	928	1 345
Amortization of discount	4	7
Total financial expenses, net	**15 936**	**19 896**

In accordance with Russian legislation, enterprises engaged in agricultural activities and enterprises involved in purchasing of meat receive subsidies on certain qualifying loans. The Group has accounted for such subsidies by reducing the interest expense on associated loans by 42 653 and 31 894 for the years ended 31 December 2010 and 2009, respectively.

Interest (net of subsidies) capitalized in the years ended 31 December 2010 and 2009 was 2 586 and 3 851, respectively.

19 Income tax

The income tax expense for the years ended 31 December 2010 and 2009 comprised:

	2010 US$000	2009 US$000
Current provision	6 105	1 163
Deferred tax expense (benefit)	(1 960)	(4 470)
Income tax expense (benefit)	**4 145**	**(3 307)**

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

Under Russian legislation, the statutory income tax rate for entities designated as agricultural entities is 0%. The statutory tax rate for non-agricultural entities is 20%.

19 Income tax continued

The agricultural operations within the poultry and pork segments will be subject to income tax 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 2010 and 2009 is:

	2010 US$000	2009 US$000
Income before income tax	152 843	120 243
Income before income tax of entities taxed at agricultural rates	139 690	129 471
Income (loss) before income tax of generally taxed entities	13 153	(9 228)
Statutory tax rate (General)	20%	20%
Statutory tax rate (Agricultural)	0%	0%
Theoretical income tax expense (benefit) at statutory rate	2 631	(1 846)
Impact from agricultural temporary differences calculated at enacted future tax rates	(208)	(1 378)
Expenses not deductible for Russian statutory taxation purposes, net	2 971	2 063
Impact from recognition of previously unrecognized tax benefits, net of penalties accrued	(1 491)	(2 366)
Other permanent differences	(216)	(304)
Change in valuation allowance	458	524
Actual income tax provision	**4 145**	**(3 307)**

Deferred tax assets/(liabilities) arising from tax effect of temporary differences:	2010 US$000	2009 US$000
Property, plant and equipment	(22 848)	(24 930)
Construction in-process	755	786
Intangibles	(2 884)	(2 930)
Long-term loans	286	292
Other non-current liability	838	939
Trade receivables	1 971	1 852
Advances	164	201
Inventory	1 030	1 229
Payroll accruals	771	866
Other current liabilities	88	361
Other current assets	981	1 342
Loss carry forward	4 143	2 904
Valuation allowance	(2 754)	(2 315)
Net deferred tax liability	**(17 459)**	**(19 403)**

19 Income tax continued

At 31 December 2010 and 2009, temporary differences associated with undistributed earnings of subsidiaries were not recognized in these consolidated financial statements, because the Group is in a position to control the timing of the reversal of such temporary differences and it is probable that such differences will not reverse in the foreseeable future.

The valuation allowance is attributable to tax 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 recognized tax loss carryforwards expire as follows:

	2012 US$000	2013 US$000	2014 US$000	2015 US$000	2016 US$000	2017 US$000	2018 US$000	2019 US$000	2020 US$000	Total US$000
Tax loss carry forwards	76	-	368	1 743	1 737	1 546	3 331	3 316	8 599	**20 716**

Total unrecognized tax loss carryforwards equalled 13 770 as of 31 December 2010.

	2010 US$000	2009 US$000
Deferred tax asset – long-term portion	3 266	2 182
Deferred tax liability – long-term portion	(25 728)	(27 436)
Long-term deferred tax liability, net	**(22 462)**	**(25 254)**
Deferred tax asset – current	5 003	5 879
Deferred tax liability – current	-	(28)
Current deferred tax asset, net	**5 003**	**5 851**
Total deferred tax asset (liability), net	**(17 459)**	**(19 403)**

The movements in net deferred tax liability for the years ended 31 December 2010 and 2009 comprised:

Net deferred tax liability, beginning of the year	**(19 403)**	**(23 749)**
Impact of translation loss on beginning balance	(16)	850
Deferred tax benefit	1 960	4 470
Deferred tax acquired on acquisition of new consolidated entities	-	(974)
Net deferred tax liability, end of the year	**(17 459)**	**(19 403)**

19 Income tax continued

Unrecognized income tax benefits

As of 31 December 2010, the Group included accruals for unrecognized income tax benefits of approximately 2 397 as a component of long-term tax related payables (of which approximately 246 and 322 were penalties and fines, respectively).

As of 31 December 2009, the Group included accruals for unrecognized income tax benefits of approximately 3 914 as a component of long-term tax related payables (of which approximately 490 and 534 were penalties and fines, respectively).

A reconciliation of the beginning and ending amount of unrecognized tax benefits (excluding penalties and fines) is as follows:

	2010 US$000	2009 US$000
Balance at 1 January	**2 890**	**4 933**
Translation loss	(18)	(229)
Additions based on tax positions related to the current year	673	704
Reductions of tax positions from prior years	(1 716)	(2 518)
Balance at 31 December	**1 829**	**2 890**

As of 31 December 2010, it is estimated that the entire amount of unrecognized tax benefits will affect future effective tax rates.

The Group considers it reasonably possible that approximately 557 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 2010 and 2009, the Group recognized approximately 146 and 578 in penalties, respectively.

As of 31 December 2010, the tax years ended 31 December 2008, 2009 and 2010 remained subject to examination by the Russian tax authorities.

20 Fair value of financial instruments

The carrying values and fair values of the Group's loans and notes receivable and borrowings with the exception of finance leases, as of 31 December 2010 and 2009 are as follows:

	2010 US$000		2009 US$000	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Loans receivable*	5 003	4 532	5 344	4 954
Notes receivable, net (Note 10)	1 427	902	1 327	736
Borrowings other than finance leases ** (Note 11)	643 029	624 937	549 521	513 591

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

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

21 Related parties

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

Trading transactions

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

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

Financing transactions

As of 31 December 2010, shareholders have guaranteed certain bank loans and lines of credit for an amount totalling 284 293.

As of 31 December 2010 and 2009, and for the years then ended, balances and transactions with related parties are summarized as follows:

	2010 US$000	2009 US$000
Balances		
Short-term loan receivable	3 909	4 390
Trade receivables	13 540	10 787
Other non-current receivables	2 593	2 584
Advances paid	6 170	15 784
Other receivables	3 188	776
Long-term loans receivable	129	124
Trade payables	4 447	2 215
Short-term loans	521	794
Other payables	421	400
Current portion of long-term loans payable	39	5
Long-term loans payable	1 232	8 524
Long-term payables to shareholders related to lease agreements	563	632
Transactions		
Sales	8 430	12 928
Rent income	439	174
Purchases of goods and services	29 948	33 496
Purchases of property, plant and equipment	868	2 364
Purchases of security services	27	1 074
Purchases of IT services	14	25

(in thousand USD, unless noted otherwise)

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

The meat processing segment is involved in the production of a wide range of meat products, including sausages, ham and raw meat. Pork and poultry segments produce and offer distinctive products, such as semi-finished poultry products, raw meat, eggs and other poultry meat products in the poultry segment and raw pork meat in the pork segment. All three segments are involved in other business activities, including production of dairy, crop cultivation and other services, which are non-core business activities.

The Group evaluates segment performance based on income before income tax (expense) benefit. The Group accounts for inter-segment sales and transfers as if the sales or transfers were to third parties. Corporate assets comprise cash in bank received from both the issuance of new shares and bond issues, and loans to Group companies.

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

Segment information at 31 December 2010 and for the year then ended comprised:

	Meat-Processing US$000	**Poultry US$000**	**Pork US$000**	**Corporate US$000**	**Intersegment US$000**	**Combined US$000**
Total Sales	529 354	500 961	222 239	4 856	(69 197)	1 188 213
including other sales	2 670	61 410	14 436	-	-	78 516
including sales volume discounts	(21 308)	(19 904)	-	-	-	(41 212)
Intersegment Sales	(616)	(35 962)	(27 773)	(4 846)	69 197	-
Sales to external customers	528 738	464 999	194 466	10	-	1 188 213
Cost of Sales	(441 725)	(354 805)	(132 198)	(10)	64 397	(864 341)
Gross profit	**87 629**	**146 156**	**90 041**	**4 846**	**(4 800)**	**323 872**
Operating expenses	(61 805)	(64 742)	(15 614)	(19 543)	4 800	(156 904)
Operating income	**25 824**	**81 414**	**74 427**	**(14 697)**		**166 968**
Other income and expenses, net	1 081	(399)	422	7 669	(6 962)	1 811
Financial expense, net	(8 473)	(6 436)	(5 438)	(2 551)	6 962	(15 936)
Segment profit	**18 432**	**74 579**	**69 411**	**(9 579)**		**152 843**
Supplemental information						
Expenditure for segment property, plant and equipment	4 764	85 242	79 751	3 921	-	173 678
Depreciation expense	10 994	23 799	15 521	230	-	50 544
Income Tax expense (benefit)	6 584	(1 972)	60	(527)	-	4 145

22 Segment reporting continued

Segment information at 31 December 2009 and for year then ended comprised:

	Meat-Processing US$000	Poultry US$000	Pork US$000	Corporate US$000	Intersegment US$000	Combined US$000
Total Sales	460 158	470 058	142 746	2 438	(56 247)	1 019 153
including other sales	3 693	55 816	11 186	-	-	70 695
including sales volume discounts	(17 862)	(17 544)	-	-	-	(35 406)
Intersegment Sales	(307)	(28 104)	(25 402)	(2 434)	56 247	-
Sales to external customers	459 851	441 954	117 344	4	-	1 019 153
Cost of Sales	(392 603)	(307 352)	(91 138)	(2)	53 577	(737 518)
Gross profit	**67 555**	**162 706**	**51 608**	**2 436**	**(2 670)**	**281 635**
Operating expenses	(59 393)	(62 366)	(9 160)	(13 642)	2 670	(141 891)
Operating income	**8 162**	**100 340**	**42 448**	**(11 206)**	**-**	**139 744**
Other income and expenses, net	(141)	(1 888)	(187)	14 793	(12 182)	395
Financial expense, net	(11 841)	(9 682)	(5 131)	(5 424)	12 182	(19 896)
Segment profit	**(3 820)**	**88 770**	**37 130**	**(1 837)**	**-**	**120 243**
Supplemental information						
Expenditure for segment property, plant and equipment	5 906	72 092	85 247	343	-	163 588
Depreciation expense	10 966	20 585	9 683	106	-	41 340
Income Tax expense (benefit)	973	(5 560)	1 756	(476)	-	(3 307)

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

	2010 US$000	2009 US$000
Meat processing	256 658	262 151
Poultry	578 594	490 410
Pork	532 579	447 090
Corporate assets	274 716	228 633
Intersegment	(171 098)	(189 236)
Total assets	**1 471 449**	**1 239 048**

23 Subsidiaries, acquisitions, divestitures

Subsidiaries

As of 31 December 2010 and 2009, the Company controlled all meat processing and agricultural companies through its 100% ownership in AIC Cherkizovsky Ltd., 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 2010 and 2009, the following principal companies were included in AIC Cherkizovsky Ltd.:

Name of company	Legal form	Nature of business	% 31.12.2010	% 31.12.2009
JSC MPP Babaevskiy	Closed Joint Stock Company	Meat processing plant	85%	85%
JSC Biruliovsky meat processing plant (JSC BMPP)	Open Joint Stock Company	Meat processing plant	89%	89%
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%

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 that are registered and operating in the Russian Federation. As of 31 December 2010 and 2009, the following principal companies were included in AIC Mikhailovsky Ltd.:

Name of company	Legal form	Nature of business	% 31.12.2010	% 31.12.2009
CJSC Petelinskaya	Closed Joint Stock Company	Raising poultry	88%	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 Agrofirm	Limited Liability Company	Pig breeding	100%	100%
CJSC Lipetskmyaso	Closed Joint Stock Company	Pig breeding	100%	100%
LLC RAO Penzenskaya Grain Company (PZK)	Limited Liability Company	Pig breeding	100%	100%

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 frozen poultry products under the “Chicken Kingdom” brand name.

23 Subsidiaries, acquisitions, divestitures continued

Acquisition of entities under common control

PZK and Lipetskmyaso

In the fourth quarter of 2010, the Group acquired 100% of the share capital of the companies PZK and Lipetskmyaso, pork farms in the Lipetsk and Penza regions of Russia, from NAPKo, a related party under common control. These acquisitions have been accounted for as common control transactions at carrying amount. Consideration paid of 325 009 roubles (10 686 as of the date of the transaction) and has been recorded as a decrease in additional paid-in capital of the Group (see Note 1 for a full discussion).

Additional acquisitions

Additional acquisitions under common control were made during the year for total cash consideration of 660. Both companies acquired represent greenfield pork farms at an early construction stage. The accounting impacts on previous periods are included in the disclosures in Note 1.

Acquisition of entities from third parties

Otechestvenny Product

On 15 September 2010 the Group acquired 100% of the share capital of Otechestvenny Product in exchange for 4 106 in cash. Otechestvenny Product is a meat processing plant, located in the Kaliningrad region. The plant's production will focus on delicacy products, including smoked products, hams and cooked sausages.

Zarechnaya

On 16 September 2010 the Group acquired 100% of the share capital of Zarechnaya in exchange for 5 211 in cash. Located in the Penza region of Russia, the acquired poultry complex comprises 41 bird houses, with a combined capacity of 1.55 million broiler places. The site will be integrated into the existing Penza project, created in late 2009, thereby further increasing capacity at the cluster.

The results of Otechestvenny product and Zarechnaya operations have been included in the consolidated financial statements from their respective acquisition dates. In the consolidated financial statements for the year ended 31 December 2010 the acquisitions were accounted for using historical book values as provisional fair values based on the assumption that the historical book values were equivalent to fair value at the date of acquisition since there was no other information available at that time. The Group is in the process of obtaining a third party valuation report on the fair value of the assets and liabilities acquired including obtaining third-party valuation of the property, plant and equipment and accordingly, these amounts will change.

The following table summarizes the consideration paid for Otechestvenny Product and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date (at provisional values):

Consideration paid for Otechestvenny Product	**4 106**
Other current assets	46
Property, plant and equipment	3 176
Goodwill	884

The following table summarizes the consideration paid for Zarechnaya and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date (at provisional values):

Consideration paid for Zarechnaya	**5 211**
Other current assets	100
Property, plant and equipment	539
Goodwill	4 572

23 Subsidiaries, acquisitions, divestitures continued

The following unaudited pro forma financial information presents consolidated income statements as if the acquisitions of Otechestvenny Product and Zarechnaya occurred at the beginning of the respective period:

Pro forma Information	For the year ended 31 December 2010 (UNAUDITED) US$000	For the year ended 31 December 2009 (UNAUDITED) US$000
Sales	1 188 213	1 019 171
Net income	147 882	122 995
Net income attributable to Group Cherkizovo	143 633	118 887

These unaudited pro forma results have been prepared for comparative purposes only. The unaudited pro forma information does not purport to represent what the Group's financial position or results of operations would actually have been if these transactions had occurred at the beginning of the period or to project the Group's future results of operations.

The actual results of operations of Otechestvenny Product and Zarechnaya are included in the consolidated financial statements of the Group only from the date of acquisition and were:

Sales	3
Operating loss	(249)
Net loss attributable to Group Cherkizovo	(241)

Penzensky Kombinat Hleboproductov

On 3 March 2009, the Group acquired 57.29% of the share capital of OJSC Penzensky Kombinat Hleboproductov in exchange for 1 867 in cash with no significant transaction costs. Penzensky Kombinat Hleboproductov ("Penzensky") is an elevator and mixed fodder producer situated near JSC Vasiljevskaya poultry producing company in the Penza region of the Russian Federation. The Group acquired this entity in order to gain access to its grain storage facilities.

23 Subsidiaries, acquisitions, divestitures continued

The results of Penzensky's operations have been included in the consolidated financial statements since the acquisition date.

The following table summarizes the consideration paid for Penzensky and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date, as well as the fair value at the acquisition date of the non-controlling interest:

Purchase price	**1 867**
Inventory	441
Other current assets (including cash of 14)	298
Property, plant and equipment	6 150
Goodwill	313
Deferred tax assets	57
Short-term loans and finance leases	(3 103)
Other current liabilities	(219)
Deferred tax liability	(912)
Non-controlling interest	(1 158)

A major factor contributing to Goodwill is the expected synergies arising due to the close proximity of Penzensky to a large poultry production facility. All of the Goodwill is assigned to the Poultry segment. Goodwill is not deductible for tax purposes.

The fair value of the non-controlling interest in Penzensky, a private company, was estimated by applying the income approach. This fair value measurement is based on significant inputs that are not observable in the market and thus represents a Level 3 measurement (Note 19). Key assumptions include (a) a discount rate of 18.87%, (b) a terminal value based on long-term sustainable growth rates of 3.5%, and (c) adjustments because of the lack of control or lack of marketability that market participants would consider when estimating the fair value of the non-controlling interest based on discounts observed on similar transactions in public markets.

Other acquisitions and divestitures

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

During 2009, the Group acquired a further 11.7% of Ardymskoe Hlebopriyomnoe Predpriyatie (AHP) for a cash consideration of 102. The purchase was accounted for as an equity transaction. The carrying amount of the non-controlling interest was adjusted to reflect the change in its ownership interest in AHP. The difference between the fair value of the consideration paid and the amount of the adjustment to the non-controlling interest was recognized in equity attributable to the Group.

Subsequent to the acquisition of 57.29% of Penzensky Kombinat Hleboproductov the Group acquired a further 4.91% of it for cash consideration of 185. The purchase was accounted for as an equity transaction. The carrying amount of the non-controlling interest was adjusted to reflect the change in its ownership interest in Penzensky. The difference between the fair value of the consideration paid and the amount of the adjustment to the non-controlling interest was recognized in equity attributable to the Group.

In December 2009, the Group sold 6% of JSC Biruliovsky meat processing plant (JSC BMPP) for 12 thousand roubles. Since there was no loss of control the transaction was accounted for as a capital transaction. The carrying amount of the noncontrolling interest was adjusted to reflect the change in its ownership interest in JSC BMPP. The difference between the fair value of the consideration received and the amount of the adjustment to the non-controlling interest was recognized in equity attributable to the Group.

24 Commitments and contingencies

Legal

As of 31 December 2010 and 2009, several Group companies reported negative net assets in their statutory financial statements. In accordance with the Civil Code of the Russian Federation, a liquidation process may be initiated against a company reporting negative net assets. Management believes that it is remote that the liquidation process will be initiated against those companies.

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

Taxation

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

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 2010.

Capital commitments

At 31 December 2010, the Group had large capital projects in progress at JSC Lipetskmyasoprom, LLC Tambovmyasoprom, LLC Kurinoe Tsarstvo – Bryansk, JSC Vasiljevskaya, CJSC Petelinskaya, LLC Resurs (Tambov), LLC Agroresurs (Voronezh) and CJSC Lipetskmyaso. As part of these projects, commitments had been made to contractors of approximately 130 929 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 1 919 towards completion of the project.

Operating lease commitments

At 31 December 2010, the Group had the following obligations under non-cancellable operating lease agreements:

	2011 US$000	2012 US$000	2013 US$000	2014 US$000	2015 US$000	>2015 US$000	Total US$000
Total commitments	2 117	2 746	2 802	2 860	2 919	12 706	**26 150**

25 Subsequent events

The Group obtained 36 045 and repaid 31 732 on lines of credit, bank loans and other loans for the period from 1 January through 25 March 2011.

The Group has evaluated subsequent events through 25 March 2011, the date on which the financial statements are available to be issued.