OJSC Cherkizovo Group

Consolidated Financial Statements
For the Year Ended 31 December 2013
and Independent Auditors' Report

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OJSC CHERKIZOVO GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of OJSC Cherkizovo Group and subsidiaries (together "the Group") as of 31 December 2013, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with accounting principles generally accepted in the United States of America ("US GAAP").

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2013 were approved by management on 5 March 2014.

On behalf of the Management:

Sergei Mikhailov
Chief Executive Officer

5 March 2014

Ludmila Mikhailova
Chief Financial Officer

5 March 2014

ZAO Deloitte & Touche CIS
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Moscow, 125047
Russia

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of OJSC Cherkizovo Group and subsidiaries (together "the Group"), which comprise the consolidated balance sheet as of 31 December 2013, and the consolidated income statement, consolidated statement of comprehensive income, consolidated cash flow statement, and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche

5 March 2014
Moscow, Russian Federation

Sedov Andrew, Partner (license no. 01-000437)
ZAO Deloitte & Touche CIS

The Entity: OJSC Cherkizovo Group

Certificate of registration in the Unified State Register № 1057748318473 of 22.09.2005, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 46.

Address: 5B, Lesnaya street, Moscow, Russian Federation, 125047

Independent Auditor: ZAO “Deloitte & Touche CIS”

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Certificate of registration in the Unified State Register № 1027700425444 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Certificate of membership in «NP «Audit Chamber of Russia» (auditors’ SRO) of 20.05.2009 № 3026, ORNZ 10201017407.

Consolidated balance sheet

As of 31 December 2013

		2013 US$000	2012 US$000
ASSETS			
Current assets:			
Cash and cash equivalents	3	64 385	41 180
Trade receivables, net of allowance for doubtful accounts of 5 357 and of 7 986 as of 31 December 2013 and 2012, respectively	4	82 656	90 978
Advances paid, net of allowance for doubtful accounts of 2 550 and 1 695 as of 31 December 2013 and 2012, respectively		39 859	35 064
Inventory	5	281 562	308 670
Deferred tax assets	19	2 794	4 791
Other receivables, net of allowance for doubtful accounts of 466 and of 2 041 as of 31 December 2013 and 2012, respectively	6	43 289	32 342
Other current assets	7	54 268	51 851
Total current assets		**568 813**	**564 876**
Non-current assets:			
Property, plant and equipment, net	8	1 377 691	1 434 263
Goodwill	9	17 368	18 452
Other intangible assets, net	9	41 635	43 828
Deferred tax assets	19	3 482	4 147
Notes receivable, net		1 690	1 681
Investments in joint venture		13 006	9 744
Long-term deposits in banks	10	20 513	22 114
Other non-current assets		2 747	3 195
Total non-current assets		**1 478 132**	**1 537 424**
Total assets		**2 046 945**	**2 102 300**

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

Consolidated balance sheet continued

As of 31 December 2013

		2013 US$000	2012 US$000
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade accounts payable		121 113	108 894
Short-term borrowings	11	317 223	367 055
Tax related liabilities	12	19 192	19 407
Deferred tax liabilities	19	153	211
Payroll related liabilities		28 274	22 340
Advances received		24 859	24 096
Payables for non-current assets		9 741	13 660
Interest payable		3 478	2 745
Other payables and accruals		9 469	6 294
Total current liabilities		**533 502**	**564 702**
Non-current liabilities:			
Long-term borrowings	11	523 812	532 697
Deferred tax liabilities	19	6 760	11 506
Tax related liabilities	12	2 241	2 728
Payables to shareholders	21	333	406
Other liabilities		1 938	1 895
Total non-current liabilities		**535 084**	**549 232**
Commitments and contingencies	24		
Equity:			
Share capital	13	15	15
Additional paid-in capital		240 112	231 402
Treasury shares		(2 406)	(2 550)
Other accumulated comprehensive loss		(144 613)	(72 812)
Retained earnings		859 373	794 908
Total shareholders' equity		**952 481**	**950 963**
Non-controlling interests		25 878	37 403
Total equity		**978 359**	**988 366**
Total liabilities and equity		**2 046 945**	**2 102 300**

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

Consolidated income statement

For the year ended 31 December 2013

		2013 US$000	2012 US$000 (as adjusted)*
Sales	14	1 654 919	1 570 319
Cost of sales	15	(1 296 472)	(1 117 470)
Gross profit		**358 447**	**452 849**
Selling, general and administrative expense	16	(264 021)	(219 334)
Other operating expense, net	8	(5 762)	(1 376)
Operating income		**88 664**	**232 139**
Other income, net	17	2 828	3 503
Financial expense, net	18	(25 095)	(18 947)
Income before income tax		**66 397**	**216 695**
Income tax	19	(2 121)	14 281
Net income		**64 276**	**230 976**
Less: Net loss (income) attributable to non-controlling interests		189	(5 761)
Net income attributable to Cherkizovo Group		**64 465**	**225 215**

Weighted average number of shares outstanding – basic:		43 843 090	43 367 512
Net income attributable to Cherkizovo Group per share – basic (in US dollars):		1.47	5.19

Weighted average number of shares outstanding – diluted:	13	43 849 900	43 374 108
Net income attributable to Cherkizovo Group per share –diluted (in US dollars):		1.47	5.19

* As required by US GAAP, comparative information for the year ended 31 December 2012 has been retrospectively adjusted for a change in accounting principle (Note 2).

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

Consolidated statement of comprehensive income

For the year ended 31 December 2013

	2013 US$000	2012 US$000 (as adjusted)*
Net income	**64 276**	**230 976**
Other comprehensive (loss) income		
Translation adjustment to presentation currency	(73 474)	49 214
Other comprehensive (loss) income	**(73 474)**	**49 214**
Total comprehensive (loss) income	**(9 198)**	**280 190**
Less: Comprehensive loss (income) attributable to non-controlling interests	2 952	(7 046)
Comprehensive (loss) income attributable to Cherkizovo Group	**(6 246)**	**273 144**

* As required by US GAAP, comparative information for the year ended 31 December 2012 has been retrospectively adjusted for a change in accounting principle (Note 2).

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

Consolidated cash flow statement

For the year ended 31 December 2013

	2013 US$000	2012 US$000 (as adjusted)*
Cash flows from (used in) operating activities:		
Net income	64 276	230 976
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortisation	91 867	81 109
Bad debt expense	5 387	5 340
Foreign exchange loss (gain)	3 000	(129)
Deferred tax benefit	(2 419)	(25 396)
Loss on disposal of property, plant and equipment	5 762	1 376
Other adjustments, net	147	(1 936)
Changes in operating assets and liabilities		
Decrease (increase) decrease in trade receivables	2 282	(20 140)
Increase in advances paid	(12 935)	(3 350)
Decrease (increase) in inventory	7 332	(75 431)
Increase in other receivables and other current assets	(19 960)	(5 752)
Decrease in other non-current receivables	338	936
Increase in trade accounts payable	17 767	17 694
Increase in tax related liabilities	1 526	7 580
Increase in other current payables	13 956	19 933
Total net cash from operating activities	**178 326**	**232 810**

* As required by US GAAP, comparative information for the year ended 31 December 2012 has been retrospectively adjusted for a change in accounting principle (Note 2).

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

Consolidated cash flow statement continued

For the year ended 31 December 2013

	2013 US$000	2012 US$000 (as adjusted)*
Cash flows from (used in) investing activities:		
Purchases of long-lived assets	(165 448)	(183 891)
Proceeds from sale of property, plant and equipment	15 281	11 645
Acquisitions of subsidiaries, net of cash acquired (Note 23)	(1 130)	-
Investments in joint venture	(3 987)	(9 326)
Issuance of long-term loans and placing of long-term deposits	-	(20 796)
Repayment on long-term loans issued	1 289	718
Placing of deposits and issuance of short-term loans	(51 432)	(564)
Repayment of short-term loans issued and redemption of deposits	50 363	2 383
Total net cash used in investing activities	**(155 064)**	**(199 831)**
Cash flows from (used in) financing activities:		
Proceeds from long-term loans	147 025	91 711
Repayment of long-term loans	(161 328)	(131 099)
Proceeds from long-term loans from related parties	-	4 886
Repayment of long-term loans from related parties	(6 984)	(7 709)
Proceeds from short-term loans	294 743	198 440
Repayment of short-term loans	(266 317)	(153 987)
Purchase of treasury stock	-	(2 523)
Acquisitions of entities under common control and non-controlling interests (Note 23)	(1 030)	(22 092)
Total net cash used in financing activities	**6 109**	**(22 373)**
Total cash from (used in) operating, investing and financing activities	**29 371**	**10 606**
Impact of exchange rate difference on cash and cash equivalents	(6 166)	1 859
Net increase in cash and cash equivalents:	**23 205**	**12 465**
Cash and cash equivalents at the beginning of the year	41 180	28 715
Cash and cash equivalents at the end of the year	**64 385**	**41 180**
Supplemental Information:		
Income taxes paid	12 076	10 017
Interest paid	96 597	86 964
Subsidies for compensation of interest expense received	48 872	66 548
Non cash transactions:		
Property, plant and equipment acquired through vendor financing	9 741	13 660
Settlement of acquisition of entities under common control with treasury shares	-	12 828

* As required by US GAAP, comparative information for the year ended 31 December 2012 has been retrospectively adjusted for a change in accounting principle (Note 2).

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

Consolidated statement of changes in equity

For the year ended 31 December 2013

	Share capital		Treasury shares							
	US$000	number of shares	US$000	number of shares	Additional paid-in capital US$000	Retained earnings US$000	Other accumulated compre-hensive loss US$000	Total shareholders' equity US$000	Non-controlling interests US$000	Total equity US$000
Balances at 1 January 2012	**15**	**43 963 773**	**(16 195)**	**(796 449)**	**269 408**	**569 693**	**(120 741)**	**702 180**	**30 964**	**733 144**
Net income	-	-	-	-	-	225 215	-	225 215	5 761	230 976
Other comprehensive income	-	-	-	-	-	-	47 929	47 929	1 285	49 214
Share-based compensation (Note 13)	-	-	136	7 000	179	-	-	315	-	315
Purchase of treasury shares	-	-	(2 523)	(130 000)	-	-	-	(2 523)	-	(2 523)
Disposal of subsidiaries	-	-	-	-	-	-	-	-	(507)	(507)
Purchase of non-controlling interests	-	-	-	-	(143)	-	-	(143)	(100)	(243)
Effect of acquisitions under common control (Note 23)	-	-	-	-	(34 838)			(34 838)	-	(34 838)
Settlements of acquisitions under common control with treasury shares	-	-	16 032	795 266	(3 204)	-	-	12 828	-	12 828
Balances at 31 December 2012	**15**	**43 963 773**	**(2 550)**	**(124 183)**	**231 402**	**794 908**	**(72 812)**	**950 963**	**37 403**	**988 366**
Balances at 1 January 2013	**15**	**43 963 773**	**(2 550)**	**(124 183)**	**231 402**	**794 908**	**(72 812)**	**950 963**	**37 403**	**988 366**
Net income (loss)	-	-	-	-	-	64 465	-	64 465	(189)	64 276
Other comprehensive loss	-	-	-	-	-	-	(70 711)	(70 711)	(2 763)	(73 474)
Share-based compensation (Note 13)	-	-	144	7 000	4	-	-	148	-	148
Purchase of subsidiaries	-	-	-	-	-	-	-	-	52	52
Purchase of non-controlling interests and effect of legal restructuring (Note 23)	-	-	-	-	8 706	-	(1 090)	7 616	(8 625)	(1 009)
Balances at 31 December 2013	**15**	**43 963 773**	**(2 406)**	**(117 183)**	**240 112**	**859 373**	**(144 613)**	**952 481**	**25 878**	**978 359**

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

Notes to the consolidated financial statements

For the year ended 31 December 2013

(In thousands of USD, unless noted otherwise)

1 Business and environment

Incorporation and history

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

The business of the Group

The Group's operations are spread over the full production cycle from grain and feed production and breeding to meat processing and distribution. The operational facilities of the Group include six meat processing plants, eleven pig production complexes, seven poultry production complexes, three combined fodder production plants and three grain farming complexes and swine nucleus unit. The Group also operates three trading houses with subsidiaries in several 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, Voronezh, Belgorod, Kursk, Orel 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 2013 and 2012 the number of staff employed by the Group approximated 20 349 and 20 600, respectively.

(In thousands of USD, unless noted otherwise)

2 Summary of significant accounting policies

Accounting principles

The Group's subsidiaries 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.

Change in accounting principles

During the year ended 31 December 2013 the Group changed its accounting policy in relation to the presentation of revenues and costs associated with sales of sows. Pursuant to the Group's revised accounting policy, the Group now presents the profit arising on the sale of sows within Other operating expense, net. Prior to this change, sales proceeds were presented in Sales and the associated cost was included in Cost of sales as sows were classified as Inventory (having been reclassified from Property, Plant and Equipment) at the point of sale. Management believes that the new policy is preferable to the previous policy, because the nature of a sows sale transaction is closer to a sale of fixed assets rather than inventory sale.

The Group has retrospectively applied the new accounting policy and, therefore, comparative information has been retrospectively adjusted.

The following table presents the significant effects of the retrospective adjustment on the consolidated income statement for the year ended 31 December 2012:

	2012 US$000 (as previously reported)	Effect of the change in accounting policy	2012 US$000 (as adjusted)
Sales	1 581 685	(11 366)	1 570 319
Cost of sales	(1 129 633)	12 163	(1 117 470)
Gross profit	**452 052**	**797**	**452 849**
Other operating expense, net	(579)	(797)	(1 376)
Operating income	**232 139**	**-**	**232 139**

The following table presents the significant effects of the retrospective adjustment on the consolidated cash flow statement for the year ended 31 December 2012:

	2012 US$000 (as previously reported)	Effect of the change in accounting policy	2012 US$000 (as adjusted)
Increase in inventory	(63 268)	(12 163)	(75 431)
Loss on disposal of property, plant and equipment	579	797	1 376
Total net cash from operating activities	**244 176**	**(11 366)**	**232 810**
Proceeds from sale of property, plant and equipment	279	11 366	11 645
Total net cash used in investing activities	**(211 197)**	**11 366**	**(199 831)**

(In thousands of USD, unless noted otherwise)

2 Summary of significant accounting policies continued

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. Subsidiaries 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.

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

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 the weighted average rates of exchange prevailing during the reporting period. The resulting translation adjustment is recorded as a separate component of other comprehensive (loss) income.

The following table summarizes the exchange rates of the Russian rouble to 1 US dollar at 31 December 2013 and 2012:

	Exchange rate
31 December 2013	32.7292
Average exchange rate for the year ended 31 December 2013	31.8480
31 December 2012	30.3727
Average exchange rate for the year ended 31 December 2012	31.0930

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 sales 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, recognition of subsidies receivable from regional and federal authorities 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.

Trade receivables, advances paid and allowance for doubtful accounts

Trade receivables and advances paid are stated at their originally recorded value less allowance for doubtful debts, which approximates their fair value. Advances paid represent prepayments to suppliers for goods and services which are expected to be realized within twelve months. 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.

(In thousands of USD, unless noted otherwise)

2 Summary of significant accounting policies continued

Inventory

Inventory, including work in-process, is 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 property, plant and equipment with costs to be depreciated over their useful lives, as follows:

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

Value added tax

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

Property, plant and equipment

Property, plant and equipment 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.

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. For material common control transactions the consolidated historical financial statements of the Group are retroactively restated to reflect the effect of the acquisition as if it occurred at the beginning of the earliest period presented. Consideration paid is reflected as a decrease in additional paid in capital.

(In thousands of USD, unless noted otherwise)

2 Summary of significant accounting policies continued

Investments in joint venture

During the year ended 31 December 2012 the Group, together with Grupo Corporativo Fuertes, S.L., established a joint venture, LLC Tambovskaya Indeika. A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control. The Group reports its interests in joint venture using the equity method of accounting whereby an interest in the joint venture is initially recorded at cost and adjusted thereafter for post-acquisition changes in the Group's share of net assets of the joint venture. When a Group transacts with its jointly controlled entity, profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture entity that are not related to the Group.

Goodwill and other intangible assets

Goodwill arising on acquisitions is recognized as an asset and initially measured at cost, being the excess of the consideration paid over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities 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 sales 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 reviewed for impairment at least annually or earlier if indications of impairment exist. For purposes of testing goodwill for impairment, management has determined that each segment represents a reporting unit.

The Group first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, the Group determines it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the Group performs the two-step impairment test. 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. 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 projected 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 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.

(In thousands of USD, unless noted otherwise)

2 Summary of significant accounting policies continued

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 receivable

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 held to maturity.

Revenue recognition

The Group derives its revenue from four main sources: sale of processed meat, poultry, pork and grain crops. Revenue is recognised when the products are shipped or when goods are received by its customer, title and risk of ownership has 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 by customer.

Sales are recognised, net of VAT, discounts and returns. 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 30.7% for the meat processing segment and 12% for the poultry segment. No discounts are offered in the pork or grain 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, are included in the consolidated income statements as a deduction 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 period to which sales relate.

Marketing expenses

Marketing costs are expensed as incurred. Marketing expenses are reflected in selling, general and administrative expense 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 on qualifying loans. 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.

(In thousands of USD, unless noted otherwise)

2 Summary of significant accounting policies continued

Taxation

Deferred tax assets and liabilities are recognized for the expected future tax consequences of existing differences between the financial and tax reporting bases of assets and liabilities, as well as loss carry forwards, using enacted tax rates expected to be in effect at the time these differences are realized. Under Russian tax law, the Group is precluded from filing a consolidated tax return and offsetting 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. The effect on deferred tax assets and liabilities of changes in tax rates is recognized in the statement of operations in the period in which the enactment date changes. Deferred tax assets are reduced through the establishment of a valuation allowance at such time as, based on available evidence, it is more likely than not that the deferred tax assets will not be realized. The Group adjusts valuation allowances to measure deferred tax assets at the amount considered realizable in future periods if the Group's facts and assumptions change. In making such determination, the Group considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations.

Positions taken in the tax returns of the subsidiaries forming part of the Group may be subject to challenge by the taxing authorities upon examination. The Group recognises the benefit of uncertain tax positions 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 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, long-term deposits, accounts receivable from customers and advances paid to vendors. As of 31 December 2013 95% of total cash and cash equivalents were held in two of top 10 banks by assets in Russia and 95% of total long-term deposits were held in Gazprombank, which is one of top 5 banks by assets in Russia.

As of 31 December 2013, approximately 42% of accounts receivables were outstanding with three third-party customers.

As of 31 December 2013, approximately 11% of advances paid were outstanding with three third-party vendor for planned future purchases of raw materials.

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 5 307 as of 31 December 2013.

Non-controlling interest

Non-controlling interest that resulted from acquisitions that occurred before 1 January 2009 was 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 has been accounted for at fair value as of the date when control over a subsidiary is established by the Group.

Leases

Leases are classified as capital 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 capital 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 capital 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.

(In thousands of USD, unless noted otherwise)

2 Summary of significant accounting policies continued

Pension costs

The Group makes payments for employees into the Pension fund of the Russian Federation. Effective 1 January 2012, for agro entities all contributions to the Pension fund were calculated by application of a fixed rate of 16% and taxable annual gross remuneration of each employee limited to 512 000 roubles (16 thousand USD). For all other entities of the Group contributions to the Pension fund were calculated by application of a fixed rate of 22% and taxable annual gross remuneration of each employee limited to 512,000 roubles (16 thousand USD) plus annual gross remuneration above the limit were taxable at 10%. Effective 1 January 2013 the limit for all entities increased to 568,000 roubles (18 thousand USD), the rate for agro entities increased to 21% and for all other entities of the Group remained unchanged. The Group does not have any additional pension 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: Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.
- Level Three: Unobservable inputs for the asset or liability.

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 and accruals 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 2013. Non-performance risk was estimated based on spreads between the rates 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 the fair value of these instruments based on the expected discounted cash flows incorporating the Group's weighted average cost of capital (Note 20).

(In thousands of USD, unless noted otherwise)

2 Summary of significant accounting policies continued

Effect of accounting pronouncements adopted

In December 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-11, "Disclosures about Offsetting Assets and Liabilities," which amends Topic 210 of the Codification. This ASU enhances disclosures by requiring improved information about financial instruments and derivative instruments that are either (1) offset by a debtor having a valid right of setoff or allowed to do so under other defined circumstances or (2) subject to an enforceable master netting arrangement or similar agreement. This guidance requires disclosure of both gross and net information about both instruments and transactions eligible for offset in the balance sheet and transactions subject to an agreement similar to a master netting agreement. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this ASU. ASU No. 2011-11 is effective for fiscal years and interim periods within those years, beginning on or after 1 January 2013 and should be applied retrospectively. In January 2013, the FASB amended this guidance to reduce the scope of assets and liabilities covered by the disclosure requirements. The Group adopted the requirements of ASU No. 2011-11 from 1 January 2013.This adoption did not have an impact on the Group's results of operations, financial position or cash flows.

In July 2012, the FASB issued ASU No. 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment", which amends Topic 350 of the Codification. This ASU reduces complexity and costs by allowing an entity the option of performing a qualitative assessment before calculating the fair value of the asset. There will no longer be a requirement to perform an annual indefinite-lived intangible asset impairment quantitative test if, based on a qualitative assessment, it is determined to be more likely than not (more than 50 percent) that the fair value of the indefinite-lived intangible asset is greater than its carrying amount. The amendments also enhance the consistency of impairment testing guidance among long-lived asset categories. ASU No. 2012-02 is effective for fiscal years, and interim periods within those years, beginning after 15 September 2012 and should be applied prospectively. The Group adopted the requirements of ASU No. 2012-02 from 1 January 2013. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

In February 2013, the FASB issued ASU No. 2013-02, "Comprehensive Income (Topic 220)," that requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. An entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under US GAAP to be reclassified to net income in its entirety in the same reporting period. ASU No. 2013-02 is effective for reporting periods beginning after 15 December 2012. The Group adopted the requirements of ASU No. 2013-02 from 1 January 2013. This adoption did not have an impact on the Group's results of operations, financial position or cash flows.

New accounting pronouncements

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

(In thousands of USD, unless noted otherwise)

3 Cash and cash equivalents

Cash and cash equivalents as of 31 December 2013 and 2012 comprised:

	2013 US$000	2012 US$000
Cash in hand	205	336
Bank accounts, including bank deposits	64 180	40 844
Total cash and cash equivalents	**64 385**	**41 180**

Bank accounts, including bank deposits, includes short-term bank deposits with original maturity of less then 3 months of 52 674 and 24 808 as of 31 December 2013 and 2012, respectively.

4 Allowance for doubtful trade receivables

The following table summarizes the changes in the allowance for doubtful trade receivables for the years ended 31 December 2013 and 2012:

	2013 US$000	2012 US$000
Balance at beginning of the year	**7 986**	**5 150**
Additional allowance, recognized during the year	2 273	4 189
Trade receivables written off during the year	(4 384)	(1 731)
Translation difference	(518)	378
Balance at end of the year	**5 357**	**7 986**

5 Inventory

Inventory as of 31 December 2013 and 2012 comprised:

	2013 US$000	2012 US$000
Raw materials	107 355	122 296
Livestock	129 592	144 966
Work in-process	23 743	18 346
Finished goods	20 872	23 062
Total inventory	**281 562**	**308 670**

(In thousands of USD, unless noted otherwise)

6 Other receivables, net

Other receivables, net, as of 31 December 2013 and 2012 comprised:

	2013 US$000	2012 US$000
Subsidies receivable for interest expense reimbursement	36 715	21 440
Subsidies receivable for purchase of fodder	173	1 306
Subsidies receivable for meat produced	-	104
Other receivables	6 867	11 533
Allowance for doubtful other receivables	(466)	(2 041)
Total other receivables, net	**43 289**	**32 342**

7 Other current assets

Other current assets as of 31 December 2013 and 2012 comprised:

	2013 US$000	2012 US$000
VAT and other taxes receivable	34 039	34 905
Spare parts	10 655	9 966
Prepaid expenses	2 979	4 750
Loans receivable	1 029	348
Notes receivable	31	170
Other assets	5 535	1 712
Total other current assets	**54 268**	**51 851**

8 Property, plant and equipment, net

The carrying amounts of property, plant and equipment as of 31 December 2013 and 2012 comprised:

	2013 US$000	2012 US$000
Land	38 667	30 428
Buildings, infrastructure and leasehold improvements	804 449	858 481
Machinery and equipment	286 106	297 777
Vehicles	51 841	57 199
Sows	23 925	30 933
Cattle	366	390
Other	1 557	1 229
Construction in-progress and equipment for installation	135 601	120 351
Advances paid for property, plant and equipment	35 179	37 475
Total property, plant and equipment, net	**1 377 691**	**1 434 263**

Accumulated depreciation amounted to 416 737 and 374 478 as of 31 December 2013 and 2012, respectively. Depreciation expense amounted to 91 196 and 79 462 for the years ended 31 December 2013 and 2012, respectively, which includes depreciation of leased equipment.

(In thousands of USD, unless noted otherwise)

8 Property, plant and equipment, net continued

Net book values of vehicles and machinery and equipment include 5 265 and 3 539 of leased equipment as of 31 December 2013 and 2012, respectively. Net book values of buildings, infrastructure and leasehold improvements include 6 055 and 7 727 of leased buildings and infrastructure as of 31 December 2013 and 2012, respectively. Accumulated depreciation on leased property and equipment amounted to 10 113 and 9 933 as of 31 December 2013 and 2012, respectively.

Loss on disposal of property, plant and equipment of 5 762 and 1 376 was recognized in other operating expense, net in the consolidated income statement for the years ended 31 December 2013 and 2012, respectively.

9 Goodwill and other intangible assets, net

Goodwill and other intangible assets as of 31 December 2013 and 2012 comprised:

	2013 US$000	2012 US$000
Goodwill	17 368	18 452
Other intangible assets	41 635	43 828
Total goodwill and other intangible assets, net	**59 003**	**62 280**

Goodwill

The changes in the carrying amount of goodwill for 2013 and 2012 were as follows:

Balance at 31 December 2011 US$000	**17 407**
Translation gain	1 045
Balance at 31 December 2012 US$000	**18 452**
Translation (loss)	(1 084)
Balance at 31 December 2013 US$000	**17 368**

As of 31 December 2013, management performed an annual impairment test for the meat processing and poultry reporting units and determined that goodwill was not impaired.

Other intangible assets

Other intangible assets as of 31 December 2013 and 2012 comprised:

	2013 US$000			2012 US$000		
	Gross carrying amount	Accumulated amortisation	Net carrying amount	Gross carrying amount	Accumulated amortisation	Net carrying amount
Computer software	5 419	(1 324)	4 095	5 843	(1 057)	4 786
Indefinite life trademarks	36 074	-	36 074	38 873	-	38 873
Other intangible assets	1 702	(236)	1 466	169	-	169
Other intangible assets, net	**43 195**	**(1 560)**	**41 635**	**44 885**	**(1 057)**	**43 828**

Computer software

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

(In thousands of USD, unless noted otherwise)

9 Goodwill and other intangible assets, net continued

Indefinite life trademarks

Kurinoe Tsarstvo («Куриное Царство») trademark

The carrying value of the Kurinoe Tsarstvo trademark was 22 761 and 23 611 as of 31 December 2013 and 2012, respectively.

As of 31 December 2013 and 2012, management tested the Kurinoe Tsarstvo trademark for impairment and determined that the trademark was not impaired.

Cherkizovsky («Черкизовский») trademark

The carrying value of the Cherkizovsky trademark was 13 313 and 13 235 as of 31 December 2013 and 2012, respectively.

As of 31 December 2013 and 2012, management tested the Cherkizovsky trademark for impairment and determined that the trademark was not impaired.

10 Long-term deposits in banks

Long-term deposits in banks as of 31 December 2013 and 2012 comprised:

	Effective %	Maturity	2013 US$000	2012 US$000
Deposits in Gazprombank	8%	2019	19 596	21 126
Deposits in Odinbank	10.5%	2017	917	988
Long-term deposits in banks			**20 513**	**22 114**

11 Borrowings

Borrowings of the Group as of 31 December 2013 and 2012 comprised:

				2013 US$000		2012 US$000	
	Interest rates	**WAIR***	**EIR****	**Current**	**Non-current**	**Current**	**Non-current**
Capital leases	10.91%-15.30%	13.54%	13,54%	803	7 076	558	6 467
Bonds	9.75%	9.75%	9.75%	-	76 384	49 386	-
Bank loans	8.00%-15.00%	9.64%	2.29%	91 909	2 099	17 559	9 439
Lines of credit	8.00%-15.00%	10.83%	2.22%	224 511	435 441	291 203	514 550
Loans from government	0.00%	0.00%	0.00%	-	201	-	216
Other borrowings	0.00%-5.00%	5.00%	5.00%	-	2 611	8 349	2 025
				317 223	**523 812**	**367 055**	**532 697**
Total borrowings					**841 035**		**899 752**

* 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.

(In thousands of USD, unless noted otherwise)

11 Borrowings continued

The contractual maturity of long-term borrowings (excluding capital leases) for the six years ending 31 December 2019 and thereafter is as follows:

Maturity of long-term borrowings	2014 US$000	2015 US$000	2016 US$000	2017 US$000	2018 US$000	2019 US$000	>2019 US$000	Total US$000
Total borrowings	120 456	146 959	200 484	75 938	39 245	15 962	37 271	**636 315***

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

As of 31 December 2013, the Group's borrowings were denominated in the following currencies: 834 519 in Russian roubles, 2 626 in Euro and 3 890 in USD. As of 31 December 2012, the Group's borrowings were denominated in the following currencies: 890 153 in Russian roubles, 5 202 in Euro and 4 379 in USD.

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

Capital leases

As of 31 December 2013 and 2012, the Group used certain fixed assets under leasing contracts that qualified for treatment as capital leases. The lower of the incremental borrowing rate and the rate implicit in the lease agreement was used in capitalizing the leases.

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

	2013 US$000		2012 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	1 774	971	1 448	890
In year two	1 741	868	1 298	825
In year three	1 731	756	1 269	764
In year four	1 708	630	1 258	697
In year five	968	511	1 043	582
After year five	4 897	1 204	6 353	1 886
	12 819	**4 940**	**12 669**	**5 644**

Bonds

Bonds due in November 2013

In November 2010, the Group placed 3 000 000 bonds in roubles (99 000) at par value (1 000 roubles or 33 USD at the issuance date) with a maturity date in November 2013. 1 500 000 (49 500) of these bonds were purchased by a Group company upon issuance, for the purpose of selling on the market when funds are required. The remaining 1 500 000 bonds (49 386 using the 31 December 2012 exchange rate) held by third parties were presented as current debt as of 31 December 2012 and were settled in November 2013. The coupon rate on the bonds, payable semi-annually, was set at 8.25% per annum.

Bonds due in April 2016

In April 2013, the Group placed 3 000 000 bonds in roubles (95 831) at par value (1 000 roubles or 31.62 USD at the issuance date) with a maturity date in April 2016. The Group accounts for these instruments at amortized cost. 500 000 (15 812) of these bonds were purchased by a Group company upon issuance, for the purpose of selling on the market when funds are required; such bonds have not, to date, been sold on the market. The remaining 2 500 000 bonds (76 384 using the 31 December 2013 exchange rate) held by third parties are presented as non-current debt as of 31 December 2013. The coupon rate on the bonds, payable semi-annually, is set at 9.75% per annum.

(In thousands of USD, unless noted otherwise)

11 Borrowings continued

Bank loans

Gazprombank

Borrowings from Gazprombank consist of seven short-term rouble denominated loans with interest ranging from 9.1% to 10.4% per annum and a long-term rouble denominated loan with a fixed interest rate 12% per annum. The amount outstanding relating to short-term loans was 64 052 as of December 31, 2013. Notes receivable with a carrying value of 1 562 were pledged as collateral under the long-term loan. Principal payment is due on maturity in 2014. Amount outstanding was 917 and 988 as of 31 December 2013 and 31 December 2012, respectively.

Savings Bank of Russia

Borrowings from Savings Bank of Russia consist of one long-term rouble denominated loan with an interest rate of 9.5% per annum and one short-term rouble denominated loan with an interest rate of 9.3% per annum. Amount outstanding relating to short-term loan was 15 277 as of 31 December 2013. Principal of the long-term loan is due on maturity in 2014 and 2015. The amount outstanding relating to long-term loan was 5 955 and 8 429 as of 31 December 2013 and 31 December 2012, respectively.

Rosselhozbank

Borrowings from Rosselhozbank consist of two short-term rouble denominated loans with interest ranging from 10% to 10.2% per annum and two euro denominated long-term loans with an interest rate of 8% per annum. The amount outstanding relating to short-term loans was 7 638. Principal of the long-term loans is due on maturity in 2015. The amount outstanding relating to long-term loans was 171 and 17 581 as of 31 December 2013 and 31 December 2012, respectively.

Lines of credit

Savings Bank of Russia

Borrowings from the Savings Bank of Russia consist of twenty five rouble denominated lines of credit with interest ranging from 8.7% to 13% per annum. Several of these instruments are guaranteed by related parties. Some of these facilities are guaranteed by municipal authorities. Principal payments are due from 2014 to 2019. The amount outstanding was 375 382 and 436 874 as of 31 December 2013 and 31 December 2012, respectively.

Gazprombank

Borrowings from Gazprombank consist of eight rouble denominated lines of credit with interest ranging from 9.1% to 13.0% per annum. Principal payments are due from 2014 to 2022. Amount outstanding was 109 841 and 119 164 as of 31 December 2013 and 31 December 2012, respectively.

Bank Zenith

Borrowings from Bank Zenith consist of four long-term rouble denominated lines of credit with an interest rate of 13.0% per annum. Principal is due upon maturity up to 2016. The amount outstanding was 34 506 and 55 031 as of 31 December 2013 and 31 December 2012, respectively.

Rosselhozbank

Borrowings from Rosselhozbank consist of twenty nine rouble and four euro denominated lines of credit with fixed interest rates ranging from 8.0% to 15.0% per annum. Some of these facilities are guaranteed by related parties. Principal payments are due from 2014 to 2020. The amount outstanding was 137 748 and 180 132 for rouble denominated and 2 475 and 4 701 for euro denominated lines of credit as of 31 December 2013 and 31 December 2012, respectively.

Unused lines of credit

The total amount of unused credit on lines of credit as of 31 December 2013 is 608 208. The unused credit can be utilized from 2014 to 2016 with expiration of available amounts varying as follows: 48 453 expires by 31 December 2014, 559 755 expires by December 2016.

Other borrowings

Other borrowings primarily represent unsecured loans from shareholders and contractors with interest rates ranging from 0% to 5% per annum. Principal payments are due from 2014 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 2013:

- JSC Vasiljevskaya – 51%;
- JSC Lipetskmyasoprom – 85%;
- LLC Tambovmyasoprom – 51%;
- LLC Kurinoe Tsarstvo – Bryansk – 99%;
- CJSC Agroresurs-Voronezh – 100%;
- LLC Resurs (Tambov) – 100%;
- CJSC LipetskMyaso – 100%.
- JSC Kurinoe tsarstvo - 100%
- LLC Orelselprom - 100%

Inventory with a carrying value of 16 074 and 39 469 was pledged as security under certain borrowings as of 31 December 2013 and 31 December 2012, respectively.

Property, plant and equipment with a carrying value of 606 703 and 744 286 was pledged as security under loan agreements as of 31 December 2013 and 31 December 2012, respectively.

Certain significant loan agreements contain covenants requiring the maintenance of minimum revenue turnover through accounts at the respective banks. Certain significant loan agreements with the Savings Bank of Russia contain financial covenants requiring maintenance of specific debt to EBITDA ratios. The Group is in compliance with these covenants as of 31 December 2013.

12 Tax related liabilities

Current tax related liabilities as of 31 December 2013 and 2012 comprised:

	2013 US$000	2012 US$000
Value added tax	11 434	8 799
Payroll related taxes	2 612	3 083
Property tax payable	2 820	2 960
Personal income tax withheld	1 764	1 972
Transportation tax	127	139
Other taxes	435	2 454
Total short-term tax related liabilities	**19 192**	**19 407**

Non-current tax related liabilities as of 31 December 2013 and 2012 comprised:

	2013 US$000	2012 US$000
Corporate income tax	2 227	2 702
Payroll related taxes	11	18
Value added tax	3	8
Total long-term tax related liabilities	**2 241**	**2 728**

(In thousands of USD, unless noted otherwise)

13 Shareholders' equity

Share capital

As of 31 December 2013 and 2012, issued shares of the Company had a par value of 0.01 roubles. The total number of authorized shares was 54 702 600 and the number of issued shares was 43 963 773 (share capital amounted to 15 at 31 December 2013 and 2012). The number of outstanding shares as of 31 December 2013 was 43 846 590.

All issued and outstanding shares have equal voting rights. The Company 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 the Company, calculated in accordance with statutory rules in local currency. No dividends were declared or paid for the years ended 31 December 2013 and 2012.

Shares granted to employees in 2011

In 2011 the controlling shareholder of the Group and one of the Group's subsidiaries have entered into two share compensation agreements directly with management relating to outstanding shares held by the controlling shareholder and treasury shares, respectively. The total amount of shares covered by the agreements was 38,000 (57,000 GDR's) with multiple service periods ranging through June 2014 as follows:

- 10 000 shares (15 000 GDR's) with a service period through December 2011, including 3 000 shares from the controlling shareholder and 7 000 from treasury (such options were exercised during the year ended 31 December 2012).
- 10 000 shares (15 000 GDR's) with a service period through December 2012, including 3 000 shares from the controlling shareholder and 7 000 from treasury (such options were exercised during the year ended 31 December 2013).
- 18 000 shares (27 000 GDR's) with a service period through June 2014, including 9 000 shares from the controlling shareholder and 9 000 from treasury.

Under the share compensation agreements management has the right to purchase shares at par value (0.01 roubles) after the end of each respective service period. Management estimated the fair value of share options at the grant date at 950. During the years ended 31 December 2013 and 2012 the Group recognized management remuneration amounting to 148 and 315, respectively, relating to share based payments. Total compensation cost related to nonvested awards not yet recognized at 31 December 2013 and 2012 equals 71 and 229, respectively. During the years ended 31 December 2013 and 2012 10 000 options were exercised by management of the Group every year and there were no forfeitures or cancellations.

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 2013 and 2012, except for share based compensation agreements classified as liabilities and disclosed in Note 16.

Earnings per share

Earnings per share for the years ended 31 December 2013 and 2012 have been determined using the weighted average number of Group shares outstanding over the period.

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

	2013	2012
Weighted average number of shares outstanding - basic	43 843 090	43 367 512
Add back incremental treasury shares in respect of share options	6 810	6 596
Weighted average number of shares outstanding - diluted	**43 849 900**	**43 374 108**

14 Sales

Sales for the years ended 31 December 2013 and 2012 comprised:

	2013 US$000	2012 US$000
Produced goods and goods for resale	1 689 306	1 586 016
Other sales	61 878	68 852
Sales volume discounts	(81 402)	(70 338)
Sales returns	(14 863)	(14 211)
Total sales	**1 654 919**	**1 570 319**

In order to be consistent with the Group's segment reporting and better reflect the true nature of the sales type, the Group reclassified certain types of sales from produced goods and goods for resale to other sales, representing the prior year for comparability purposes.

15 Cost of sales

Cost of sales for the years ended 31 December 2013 and 2012 comprised:

	2013 US$000	2012 US$000
Raw materials and goods for resale	929 262	806 441
Personnel (excluding pension costs)	153 738	131 611
Depreciation	85 393	73 467
Utilities	74 715	63 790
Pension costs	27 539	20 773
Other	25 825	21 388
Total cost of sales	**1 296 472**	**1 117 470**

Raw materials and goods for resale include as an offset subsidies received from local governments in the amount of 24 793 and 7 626 for the years ended 31 December 2013 and 2012, respectively. These subsidies were received based on the amount of meat produced. Most of the subsidies received in the year ended 31 December 2013 relate to government compensation to agricultural producers who suffered from a significant price increase for mixed fodder in the fourth quarter of 2012.

(In thousands of USD, unless noted otherwise)

16 Selling, general and administrative expense

Selling, general and administrative expense for the years ended 31 December 2013 and 2012 comprised:

	2013 US$000	2012 US$000
Personnel (excluding pension costs)	102 072	86 334
Transportation	29 755	26 190
Pension costs	16 671	13 613
Materials and supplies	15 443	11 419
Taxes (other than income tax)	13 759	12 376
Security services	13 729	12 151
Rent expenses	12 083	11 821
Advertising and marketing	7 705	2 917
Depreciation and amortisation	6 474	7 642
Audit, consulting and legal fees	5 437	4 793
Bad debt expense	5 387	5 340
Utilities	3 978	3 692
Veterinary services	3 205	2 740
Information technology and communication services	2 860	2 099
Bank charges	1 588	2 075
Repairs and maintenance	1 762	1 959
Insurance	1 606	1 540
Other	20 507	10 633
Total selling, general and administrative expense	**264 021**	**219 334**

In 2013 the Group entered into a number of share based compensation agreements with key management personnel. Under the agreements management at the end of the service period (31 December 2015) will receive a cash payment calculated as a difference between the GDR price at that date and the strike price (set at 15 USD per GDR), subject to certain other conditions. The share based compensation agreements were classified as liabilities. During the year ended 31 December 2013 the Group recognized management remuneration amounting to 393, relating to share based payments.

17 Other income net

Other income, net for the years ended 31 December 2013 and 2012 comprised:

	2013 US$000	2012 US$000
Interest income	5 719	2 020
Foreign exchange (loss) gain	(3 000)	129
Other income, net	109	1 354
Total other income, net	**2 828**	**3 503**

(In thousands of USD, unless noted otherwise)

18 Financial expense, net

Financial expense, net for the years ended 31 December 2013 and 2012 comprised:

	2013 US$000	2012 US$000
Interest expense, net of subsidies	24 586	18 003
Capital lease expense	509	944
Total financial expense, net	**25 095**	**18 947**

In accordance with Russian legislation, enterprises engaged in agricultural activities and enterprises involved in purchasing meat receive subsidies on certain qualifying loans. The Group has accounted for such subsidies by reducing the interest expense on the associated loans by 70 111 and 66 548 for the years ended 31 December 2013 and 2012, respectively.

Interest expense capitalised in the years ended 31 December 2013 and 2012 was 4 564 and 3 582 (net of subsidies of 3 324 and 9 083), respectively.

19 Income tax

The income tax benefit (expense) for the years ended 31 December 2013 and 2012 comprised:

	2013 US$000	2012 US$000
Current provision	(4 540)	(11 115)
Deferred tax benefit	2 419	25 396
Income tax benefit (expense)	**(2 121)**	**14 281**

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%.

In October 2012, an amendment to the Tax Code was enacted to set the income tax rate for agricultural producers at 0% in perpetuity. Before the amendment, agricultural entities would have been subject to an 18% income tax rate during the period from 2013 to 2015 and 20% subsequently.

(In thousands of USD, unless noted otherwise)

19 Income tax continued

The income tax benefit (expense) can be reconciled to the theoretical tax provision at the statutory rate for the years ended 31 December 2013 and 2012 as follows:

	2013 US$000	2012 US$000
Income before income tax	66 396	216 695
Income before income tax of entities taxed at zero rates (agricultural entities and other tax regimes)	43 876	195 761
Income before income tax of generally taxed entities	22 520	20 934
Statutory tax rate (agricultural entities and other tax regimes)	0%	0%
Statutory tax rate (General)	20%	20%
Theoretical income tax expense at the statutory tax rate (General) for generally taxed entities	4 504	4 187
Expenses not deductible for Russian statutory taxation purposes, net	1 476	1 921
Other permanent differences	(590)	1 003
Change in agricultural tax	-	(21 278)
Change in valuation allowance	(3 269)	(114)
Actual income tax provision	**2 121**	**(14 281)**

Deferred tax assets/(liabilities) arising from tax effect of temporary differences:	**2013 US$000**	**2012 US$000**
Property, plant and equipment	(6 683)	(10 361)
Construction in-process	550	2 139
Intangibles	(2 156)	(2 998)
Long-term loans	1 552	366
Other non-current liability	(256)	(584)
Other non-current assets	(38)	(104)
Trade receivables	1 132	1 965
Advances	157	149
Inventory	304	1 201
Trade payables	(296)	98
Payroll accruals	1 152	988
Other current liabilities	(571)	162
Other current assets	763	18
Loss carry forward	4 018	7 896
Valuation allowance	(265)	(3 714)
Net deferred tax liability	**(637)**	**(2 779)**

(In thousands of USD, unless noted otherwise)

19 Income tax continued

At 31 December 2013 and 2012, 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 tax loss carryforwards expire as follows:

	2017 US$000	2018 US$000	2019 US$000	2020 US$000	2021 US$000	2022 US$000	2023 US$000	Total US$000
Tax loss carry forwards	342	233	125	4 827	5 740	5 208	3 615	**20 090**

Total amount of tax loss carryforwards, against which valuation allowance was created, equalled 1 320 as of 31 December 2013.

	2013 US$000	2012 US$000
Deferred tax asset – long-term portion	3 482	4 147
Deferred tax liability – long-term portion	(6 760)	(11 506)
Long-term deferred tax liability, net	**(3 278)**	**(7 359)**
Deferred tax asset – current	2 794	4 791
Deferred tax liability – current	(153)	(211)
Current deferred tax asset, net	**2 641**	**4 580**
Total deferred tax liability, net	**(637)**	**(2 779)**

The movements in the net deferred tax liability for the years ended 31 December 2013 and 2012 comprised:

Net deferred tax liability, beginning of the year	**(2 779)**	**(26 931)**
Impact of translation gain (loss) and other adjustments	(277)	(1 244)
Deferred tax benefit	2 419	25 396
Net deferred tax liability, end of the year	**(637)**	**(2 779)**

(In thousands of USD, unless noted otherwise)

19 Income tax continued

Unrecognized income tax benefits

As of 31 December 2013, the Group included accruals for unrecognized income tax benefits of approximately 782 as a component of long-term tax related payables (of which approximately 80 and 42 were penalties and fines, respectively).

As of 31 December 2012, the Group included accruals for unrecognized income tax benefits of approximately 1 162 as a component of long-term tax related payables (of which approximately 164 and 178 were penalties and fines, respectively).

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

	2013 US$000	2012 US$000
Balance at 1 January	820	1 384
Translation loss	(53)	69
Additions based on tax positions related to the current year	552	86
Reductions of tax positions from prior years	(659)	(719)
Balance at 31 December	660	820

As of 31 December 2013, 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 73 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. During the years ended 31 December 2013 and 2012, the Group recognized approximately 79 and 145 in penalties, respectively.

As of 31 December 2013, the tax years ended 31 December 2011, 2012 and 2013 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 capital leases, as of 31 December 2013 and 2012 are as follows:

	2013 US$000		2012 US$000	
	Carrying value	Fair value	Carrying value	Fair value
Loans receivable*	790	507	870	790
Notes receivable, net	1 690	1 282	1 681	1 381
Borrowings other than capital leases ** (Note 11)	833 156	800 178	892 727	872 378

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

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

Fair value of long-term deposits in banks approximately equals to their carrying value as of 31 December 2013, because market rates didn't change significantly since the date of placing deposits.

(In thousands of USD, unless noted otherwise)

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 purchases of grain crops from and rendering of storage services to TZK NAPKO, Agrarnaya Gruppa and CJSC Penzamyasoprom. All noted related parties are entities under common ownership and control with the Group.

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

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

Financing transactions

During the year ended 31 December 2012, certain shareholders issued loans to the Group and, as of 31 December 2013, have personally guaranteed certain of the bank loans and lines of credit for a total amount of 59 280.

As of 31 December 2013 and 2012 balances with related parties (companies under common control) are summarized as follows:

Balances	31 December 2013 US$000	31 December 2012 US$000
Short-term loans receivable	-	228
Trade receivables	1 683	1 370
Other non-current receivables	2 134	2 457
Advances paid	556	2 591
Other receivables	193	448
Long-term loans receivable (included in other non-current receivables in the consolidated balance sheet)	-	94
Trade payables	991	1 138
Advances received	-	366
Other payables	84	200
Short-term borrowings	-	7 490
Long-term borrowings	687	579
Long-term payables to shareholders	333	406

For the years ended 31 December 2013 and 2012, transactions with related parties (companies under common control) are summarized as follows:

Transactions	2013 US$000	2012 US$000
Sales	1 432	1 555
Rent income	701	905
Purchases of security services	830	416
Purchases of property, plant and equipment	171	1 246
Purchases of goods and other services	18 702	23 312

(In thousands of USD, unless noted otherwise)

21 Related parties continued

As of 31 December 2013 and 2012 balances with related parties (joint ventures) are summarized as follows:

Balances	31 December 2013 US$000	31 December 2012 US$000
Trade receivables	75	-
Advances paid	666	-
Trade payables	186	-
Advances received	14 666	15 438
Other payables	47	

For the years ended 31 December 2013 and 2012, transactions with related parties (joint ventures) are summarized as follows:

Transactions	2013 US$000	2012 US$000
Sales	159	-
Rent income	23	-
Purchases of goods and other services	766	-

22 Segment reporting

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

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

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

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

During the year ended 31 December 2013 the Group changed presentation of corporate recharges in the segment note. Since that period the Group excludes these recharges from the operating expenses of the reportable segments, and correspondingly decreases corporate revenues with such amounts. The comparative information for the year ended 31 December 2012 has been retrospectively adjusted to reflect the change in the segment reporting, in order to increase comparability.

Notes to the consolidated financial statements continued

For the year ended 31 December 2013

(In thousands of USD, unless noted otherwise)

22 Segment reporting continued

Segment information at 31 December 2013 and for the year then ended comprised:

	Meat-Processing US$000	Poultry US$000	Pork US$000	Grain US$000	Corporate US$000	Intersegment US$000	Combined US$000
Total sales	571 593	844 350	338 770	26 765	566	(127 125)	1 654 919
including other sales	269	44 433	15 161	2 015	-	-	61 878
including sales volume discounts	(51 744)	(29 658)	-	-	-	-	(81 402)
Intersegment sales	(229)	(16 229)	(97 203)	(13 428)	(36)	127 125	-
Sales to external customers	571 364	828 121	241 567	13 337	530	-	1 654 919
Cost of sales	(431 332)	(692 308)	(281 577)	(18 566)	(525)	127 836	(1 296 472)
Gross profit	**140 261**	**152 042**	**57 193**	**8 199**	**41**	**711**	**358 447**
Operating expense	(88 135)	(114 844)	(33 936)	(5 283)	(26 874)	(711)	(269 783)
Operating income	**52 126**	**37 198**	**23 257**	**2 916**	**(26 833)**	**-**	**88 664**
Other income (expense), net	(858)	8 371	(221)	11	14 282	(18 757)	2 828
Financial expense, net	(10 139)	(8 812)	(10 481)	(881)	(13 539)	18 757	(25 095)
Segment profit	**41 129**	**36 757**	**12 555**	**2 046**	**(26 090)**	**-**	**66 397**
Supplemental information							
Expenditure for segment property, plant and equipment	28 963	75 832	36 296	17 968	2 050	-	161 109
Depreciation and amortisation expense	9 211	43 846	35 725	2 185	900	-	91 867
Income tax expense (benefit)	1 333	608	45	69	66	-	2 121

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

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2013

(In thousands of USD, unless noted otherwise)

22 Segment reporting continued

Segment information at 31 December 2012 and for year then ended comprised:

	Meat-Processing US$000	Poultry US$000	Pork US$000	Grain US$000	Corporate US$000	Intersegment US$000	Combined US$000
Total sales	568 505	842 075	251 848	35 773	162	(128 044)	1 570 319
including other sales	2 656	58 617	7 579	-	-	-	68 852
including sales volume discounts	(46 712)	(23 626)	-	-	-		(70 338)
Intersegment sales	(574)	(33 125)	(75 988)	(18 357)	-	128 044	-
Sales to external customers	567 931	808 950	175 860	17 416	162	-	1 570 319
Cost of sales	(451 251)	(609 186)	(159 457)	(21 739)	(11)	124 174	(1 117 470)
Gross profit	**117 254**	**232 889**	**92 391**	**14 034**	**151**	**(3 870)**	**452 849**
Operating expense	(72 674)	(99 431)	(21 734)	(4 483)	(23 642)	1 254	(220 710)
Operating income	**44 580**	**133 458**	**70 657**	**9 551**	**(23 491)**	**(2 616)**	**232 139**
Other income (expense), net	1 412	2 931	1 134	175	14 089	(16 238)	3 503
Financial expense, net	(9 590)	(6 530)	(8 057)	(2 507)	(8 494)	16 230	(18 947)
Segment profit	**36 402**	**129 859**	**63 734**	**7 219**	**(17 896)**	**(2 624)**	**216 695**
Supplemental information							
Expenditure for segment property, plant and equipment	14 923	105 437	64 870	17	1 276	-	186 523
Depreciation and amortisation expense	11 297	42 441	22 708	4 018	645	-	81 109
Income tax expense (benefit)	6 665	(15 162)	(4 964)	(353)	(467)	-	(14 281)

The reconciliation between segment assets and total assets per the consolidated balance sheets as of 31 December 2013 and 2012 is as follows:

	2013 US$000	2012 US$000
Meat processing	284 298	279 768
Poultry	884 387	960 857
Pork	736 997	740 620
Grain	69 574	72 958
Total for reportable segments	**1 975 256**	**2 054 203**
Corporate assets and intersegment eliminations	71 689	48 097
Total assets	**2 046 945**	**2 102 300**

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

(In thousands of USD, unless noted otherwise)

23 Subsidiaries, acquisitions, divestitures

Subsidiaries

As of 31 December 2013 and 2012, the Company controlled all meat processing and agricultural companies through its 100% ownership in OJSC Cherkizovsky Meat Processing Plant, AIC Mikhailovsky Ltd. and CJSC Mosselprom.

As of 31 December 2013 and 2012, the Group included the following principal companies:

Name of company	Legal form	Nature of business	% 31.12.2013	% 31.12.2012
OJSC Meat and Poultry Processing Plant Penzensky (JSC MPPP Penzensky)	Open Joint Stock Company	Meat processing plant	N/a*	95%
OJSC Meat Processing Plant Ulyanovsky (JSC MPP Ulyanovsky)	Open Joint Stock Company	Meat processing plant	N/a*	87%
OJSC Cherkizovsky Meat Processing Plant (JSC CMPP)	Open Joint Stock Company	Meat processing plant	87%	87%
LLC PKO Otechestvennyi Product	Limited Liability Company	Meat processing plant	100%	100%
CJSC Cherkizovo-Kashira (Cherkizovo-Kashira Ltd.)	Closed Joint Stock Company	Meat processing plant	99%	99%
TPC Cherkizovo Ltd. (Cherkizovo-2)	Limited Liability Company	Procurement company	100%	100%
LLC Cherkizovsky (Saint Petersburg)	Limited Liability Company	Trading company	N/a*	100%
OJSC Trading Company of Agroindustrial Complex Cherkizovsky (JSC Trading Company of AIC Cherkizovsky)	Open Joint Stock Company	Trading company: distribution of meat processing	N/a*	100%
CJSC Petelinskaya	Closed Joint Stock Company	Raising poultry	88%	88%
OJSC Vasiljevskaya	Open Joint Stock Company	Raising poultry	100%	100%
OJSC Kurinoe Tsarstvo	Open Joint Stock Company	Raising poultry	100%	100%
CJSC Kurinoe Tsarstvo Bryansk	Closed Joint Stock Company	Raising poultry	100%	100%
CJSC Mosselprom	Closed Joint Stock Company	Raising poultry	100%	100%
LLC Petelino Trade House	Limited Liability Company	Trading company: distribution of poultry	88%	88%
CJSC Botovo	Closed Joint Stock Company	Pig breeding	76%	76%
OJSC Lipetskmyasoprom	Open Joint Stock Company	Pig breeding	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%
CJSC Orelselprom	Closed Joint Stock Company	Pig breeding and grain crops cultivation	100%	100%
LLC Resurs	Limited Liability Company	Pig breeding	100%	100%
CJSC Agroresurs-Voronezh	Closed Joint Stock Company	Pig breeding	100%	100%
LLC Mikhailovsky Feed Milling Plant	Limited Liability Company	Mixed fodder production	100%	100%
LLC TD Myasnoe Tsarstvo	Limited Liability Company	Trading company: distribution of pork	100%	100%
LLC Voronezhmyasoprom	Limited Liability Company	Genetic pig breading and grain crops cultivation	100%	100%
LLC Voronezhmyaso	Limited Liability Company	Grain crops cultivation	100%	100%

* In April 2013 these companies were merged with OJSC Cherkizovsky Meat Processing Plant (JSC CMPP).

23 Subsidiaries, acquisitions, divestitures continued

Acquisition of “Dankovskiy Combinat”

On 14 April 2013, the Group completed an acquisition of 95% of the share capital of Dankovskiy Combinat for cash consideration of 1 130.

The meat processing plant is located in Dankov city - Lipetsk region, close to the Group's existing pig breading farms. The company, founded in 1936, is specialized in the slaughtering, boning and freezing of cattle and pigs, as well as in the production of sausages. Slaughter capacity of the plant is approximately 500 pigs per shift, the production capacity for finished products is about 68 tons per day. The plant has a cold room for 500 tons of storage. The Group plans to increase the acquiree’s slaughter capacity.

Legal restructuring in meat processing segment

In April 2013, 8 companies of the meat processing segment were transferred to JSC Cherkizovsky Meat Processing Plant (JSC CMPP) by the means of exchange of additionally issued shares of JSC CMPP for shares of the aforementioned 8 companies. The Group paid 1 009 in cash to certain holders of non-controlling interests in these 8 companies, who executed their right to sell shares to the Group during the reorganization. As a result of the reorganization, non-controlling interests decreased by 8 625. The 7 616 excess of the adjustment to the carrying amount of the non-controlling interest (8 625) over the cash paid (1 009) was recognized as an increase in additional paid-in capital. In addition, the Group’s share of accumulated other comprehensive loss was increased by 1 090 through a corresponding increase in additional paid-in capital.

Acquisition of entities under common control in 2012 (VMP and Voronezhmyaso)

In the third quarter of 2012, the Group acquired 100% of the share capital of the companies LLC Voronezhmyasoprom (“VMP”) and LLC Voronezhmyaso (“Voronezhmyaso”), comprising a swine nucleus unit in the Voronezh region of Russia; grain storage facilities in the Voronezh and Penza regions; a feed mill (under construction), and a land bank of approximately 30,000 ha in the Voronezh region, from NAPKo, a related party under common control. These acquisitions have been accounted for as common control transactions at carrying value at the acquisition date, with all prior periods being retrospectively restated as though the acquisitions were completed at the beginning of the earliest period presented. In accordance with the terms of the share purchase agreement, 19 682 was paid in cash and 12 828 was either payable in cash or a fixed number of Group shares (795 266 shares) at the Group’s discretion. The option to settle the liability in Group shares was not recognized separately as its fair value as of the date of acquisition and subsequently was immaterial. The Group subsequently settled the obligation through the transfer of treasury shares. Consideration payable has been recorded as a decrease in additional paid-in capital of the Group.

Other acquisitions and divestitures

During the first quarter of 2012, the Group acquired a further 1.76% interest in JSC MPP Ulyanovsky for cash consideration of 94, 1.29% interest in OJSC Penzenskoe khlebopriemnoe predpriyatie for cash consideration of 31 and 1.14% interest in OJSC Ogerelevsky KKZ for cash consideration of 67. These purchases were accounted for as equity transactions. The carrying amount of non-controlling interests was adjusted to reflect the change in ownership interest in JSC MPP Ulyanovsky, OJSC Penzenskoe khlebopriemnoe predpriyatie and OJSC Ogerelevsky KKZ. The difference between the fair value of the consideration paid and the amount of the adjustment to non-controlling interest was recognized in equity attributable to the Group.

24 Commitments and contingencies

Legal

As of 31 December 2013 and 31 December 2012, several Group companies reported negative net assets in their statutory financial statements. In accordance with the Civil Code of the Russian Federation, a liquidation process may be initiated against a company reporting negative net assets. Management believes that it is remote that the liquidation process will be initiated against those companies.

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

(In thousands of USD, unless noted otherwise)

24 Commitments and contingencies continued

Taxation

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

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

Environmental remediation costs

The Group's management believes that the Group is in compliance with applicable legislation and is not aware of any potential environmental claims; therefore, no liabilities associated with such costs are recorded as of 31 December 2013.

Capital commitments

At 31 December 2013, the Group had capital projects in progress at JSC Vasiljevskaya , CJSC Kurinoe Tsarstvo – Bryansk, LLC OJSC Kurinoe Tsarstvo, and CJSC Mosselprom. As part of these projects, commitments had been made to contractors of approximately 29 558 towards completion of the projects.

Operating lease commitments

Obligations under non-cancellable operating lease agreements for the five years ending December 31, 2018 and thereafter are as follows:

	2014 US$000	2015 US$000	2016 US$000	2017 US$000	2018 US$000	>2018 US$000	Total US$000
Total commitments	7 176	7 041	6 965	4 469	1 781	36 513	**63 945**

25 Subsequent events

The Group obtained 49 155 and repaid 42 430 on lines of credit, bank loans and other loans for the period from 1 January through 5 March 2014.

The Group has evaluated subsequent events through 5 March 2014, the date on which the consolidated financial statements were issued.