OJSC Cherkizovo Group

Unaudited Condensed Consolidated Interim Financial Statements
For the Six Months Ended 30 June 2012

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OJSC CHERKIZOVO GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

Management is responsible for the preparation of condensed consolidated interim financial statements that present fairly the financial position of OJSC Cherkizovo Group and its subsidiaries (together "the Group") as of 30 June 2012, and the results of the Group's operations, cash flows and changes in equity for the six months then ended, in compliance with accounting principles generally accepted in the United States of America ("US GAAP").

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

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in US GAAP are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position 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 condensed consolidated interim financial statements of the Group for the six months ended 30 June 2012 were approved by management on 11 September 2012.

On behalf of the Management:

Sergei Mikhailov	**Ludmila Mikhailova**
Chief Executive Officer	Chief Financial Officer
11 September 2012	11 September 2012

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

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

Introduction

We have reviewed the accompanying condensed consolidated interim balance sheet of OJSC Cherkizovo Group and subsidiaries (together "the Group") as of 30 June 2012 and the related condensed consolidated interim income statement, statement of comprehensive income, cash flow statement, and statement of changes in equity for the six months then ended, and a summary of significant accounting policies and other explanatory information (together, the "Interim Financial Statements"). Management is responsible for the preparation and presentation of these Interim Financial Statements in accordance with accounting principles generally accepted in the United States of America. Our responsibility is to express a conclusion on these Interim Financial Statements based on our review.

Scope of Review

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

Conclusion

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

11 September 2012

Deloitte & Touche CIS

Moscow, Russia

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Unaudited condensed consolidated interim balance sheet

As of 30 June 2012

	Note	30 June 2012 US$000	31 December 2011 US$000 (as adjusted)*
ASSETS			
Current assets:			
Cash and cash equivalents		30 061	28 247
Trade receivables, net of allowance for doubtful accounts of 4 931 and of 5 150 as of 30 June 2012 and 31 December 2011, respectively		78 808	77 623
Advances paid, net of allowance for doubtful accounts of 2 335 and of 2 845 as of 30 June 2012 and 31 December 2011, respectively		21 411	26 001
Inventory	3	192 443	197 456
Short-term deposits in banks		914	931
Deferred tax assets		4 106	4 186
Other receivables, net of allowance for doubtful accounts of 2 396 and of 2 769 as of 30 June 2012 and 31 December 2011, respectively		23 738	20 964
Other current assets		38 031	46 490
Total current assets		**389 512**	**401 898**
Non-current assets:			
Property, plant and equipment, net	4	1 238 026	1 219 541
Goodwill		17 078	17 407
Other intangible assets, net		40 925	41 597
Deferred tax assets		4 953	5 049
Notes receivable, net		1 495	1 497
Investments in joint venture		4 751	-
Other non-current receivables		5 203	3 892
Total non-current assets		**1 312 431**	**1 288 983**
Total assets		**1 701 943**	**1 690 881**

* As required by US GAAP comparative information for the year ended 31 December 2011 and for the six months ended 30 June 2011 have been retrospectively adjusted for the finalisation of the allocation of the purchase price of Mosselprom (Note 14) and a change in accounting principle (Note 2).

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

Unaudited condensed consolidated interim balance sheet continued

As of 30 June 2012

		30 June 2012 US$000	31 December 2011 US$000 (as adjusted)*
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade accounts payable		78 683	88 173
Short-term borrowings	5	203 765	214 154
Tax related liabilities		14 960	11 676
Deferred tax liabilities		91	93
Payroll related liabilities		20 282	17 769
Advances received		3 246	7 552
Payables for non-current assets		11 418	10 092
Interest payable		708	1 082
Other payables and accruals		5 812	7 724
Total current liabilities		**338 965**	**358 315**
Non-current liabilities:			
Long-term borrowings	5	490 556	533 629
Deferred tax liabilities		34 360	36 362
Tax related liabilities		2 525	2 576
Payables to shareholders		416	463
Other liabilities		1 921	2 095
Total non-current liabilities		**529 778**	**575 125**
Commitments and contingencies	15		
Equity:			
Share capital	6	15	15
Additional paid-in capital		278 015	277 892
Treasury shares		(18 718)	(16 195)
Other accumulated comprehensive loss		(141 763)	(121 811)
Retained earnings		683 771	587 426
Total shareholders' equity		**801 320**	**727 327**
Non-controlling interests		31 880	30 114
Total equity		**833 200**	**757 441**
Total liabilities and equity		**1 701 943**	**1 690 881**

* As required by US GAAP comparative information for the year ended 31 December 2011 and for the six months ended 30 June 2011 have been retrospectively adjusted for the finalisation of the allocation of the purchase price of Mosselprom (Note 14) and a change in accounting principle (Note 2).

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

Unaudited condensed consolidated interim income statement

For the six months ended 30 June 2012

		Six months ended 30 June 2012 US$000	Six months ended 30 June 2011 US$000 (as adjusted)*	Year ended 31 December 2011 US$000 (as adjusted)*
Sales	7	749 255	689 053	1 472 891
Cost of sales	8	(540 631)	(518 888)	(1 104 163)
Gross profit		**208 624**	**170 165**	**368 728**
Selling, general and administrative expense	9	(100 515)	(94 400)	(195 728)
Impairment of assets		-	-	(3 395)
Other operating expense, net		(315)	(45)	(1 151)
Operating income		**107 794**	**75 720**	**168 454**
Other income (expense), net	10	768	1 212	(30)
Financial expense, net	11	(6 784)	(7 306)	(14 749)
Income before income tax		**101 778**	**69 626**	**153 675**
Income tax		(2 400)	(2 466)	(5 819)
Net income		**99 378**	**67 160**	**147 856**
Less: Net income attributable to non-controlling interests		(3 033)	(986)	(2 839)
Net income attributable to Cherkizovo Group		**96 345**	**66 174**	**145 017**

Weighted average number of shares outstanding – basic		43 086 874	43 028 022	42 953 544
Net income attributable to Cherkizovo Group per share – basic (USD):		2.24	1.54	3.38

Weighted average number of shares outstanding – diluted	6	43 099 115	43 028 022	42 958 044
Net income attributable to Cherkizovo Group per share – diluted (USD):		2.24	1.54	3.38

* As required by US GAAP comparative information for the year ended 31 December 2011 and for the six months ended 30 June 2011 have been retrospectively adjusted for the finalisation of the allocation of the purchase price of Mosselprom (Note 14) and a change in accounting principle (Note 2).

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

Unaudited condensed consolidated interim statement of comprehensive income

For the six months ended 30 June 2012

	Six months ended 30 June 2012 US$000	Six months ended 30 June 2011 US$000 (as adjusted)*	Year ended 31 December 2011 US$000 (as adjusted)*
Net income	**99 378**	**67 160**	**147 856**
Other comprehensive income			
Translation adjustment to presentation currency	(20 688)	58 578	(47 456)
Other comprehensive (loss) income	**(20 688)**	**58 578**	**(47 456)**
Comprehensive income	**78 690**	**125 738**	**100 400**
Less: Comprehensive income attributable to non-controlling interests	(2 297)	(3 655)	(4 546)
Comprehensive income attributable to Cherkizovo Group	**76 393**	**122 083**	**95 854**

* As required by US GAAP comparative information for the year ended 31 December 2011 and for the six months ended 30 June 2011 have been retrospectively adjusted for the finalisation of the allocation of the purchase price of Mosselprom (Note 14) and a change in accounting principle (Note 2).

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

Unaudited condensed consolidated interim cash flow statement

For the six months ended 30 June 2012

	Six months ended 30 June 2012 US$000	Six months ended 30 June 2011 US$000 (as adjusted)*	Year ended 31 December 2011 US$000 (as adjusted)*
Cash flows from (used in) operating activities:			
Net income	99 378	67 160	147 856
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortisation	38 506	30 050	66 635
Bad debt expense	1 242	1 261	3 182
Uncollectible subsidies	-	-	4 804
Impairment of assets	-	-	3 395
Foreign exchange loss	225	914	3 601
Deferred tax (benefit) expense	(1 633)	119	(633)
Other adjustments, net	349	(155)	(794)
Changes in operating assets and liabilities			
(Increase) decrease in trade receivables	(5 948)	3 898	1 054
Decrease in advances paid	4 448	12 579	16 169
Decrease in inventory	11 470	13 339	6 909
Decrease (increase) in other receivables and other current assets	4 084	(30 182)	(11 325)
Decrease in other non-current receivables	893	485	529
(Decrease) increase in trade accounts payable	(9 161)	(4 173)	3 432
Increase (decrease) in tax related liabilities	3 072	(1 603)	392
Increase (decrease) in other current payables	106	(3 417)	596
Total net cash from operating activities	**147 031**	**90 275**	**245 802**
Cash flows from (used in) investing activities:			
Purchases of long-lived assets	(96 299)	(102 784)	(225 445)
Proceeds from sale of property, plant and equipment	2 344	831	3 504
Acquisitions of subsidiaries, net of cash acquired (Note 14)	(2 226)	(43 219)	(43 219)
Investments in joint venture	(4 581)	-	-
Issuance of short-term loans and placing of deposits	(326)	(6 057)	(5 934)
Repayment of short-term loans issued and redemption of deposits	1 922	42 492	43 568
Other investing activities	(31)	-	28
Total net cash used in investing activities	**(99 197)**	**(108 737)**	**(227 498)**

* As required by US GAAP comparative information for the year ended 31 December 2011 and for the six months ended 30 June 2011 have been retrospectively adjusted for the finalisation of the allocation of the purchase price of Mosselprom (Note 14) and a change in accounting principle (Note 2).

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

Unaudited condensed consolidated interim cash flow statement continued

For the six months ended 30 June 2012

	Six months ended 30 June 2012 US$000	Six months ended 30 June 2011 US$000 (as adjusted)*	Year ended 31 December 2011 US$000 (as adjusted)*
Cash flows from (used in) financing activities:			
Proceeds from long-term loans	43 457	78 143	168 510
Repayment of long-term loans	(53 498)	(72 099)	(174 577)
Proceeds from long-term loans from related parties	-	7	8
Repayment of long-term loans from related parties	-	(798)	(1 310)
Proceeds from short-term loans	45 389	42 234	165 935
Repayment of short-term loans	(77 457)	(60 819)	(187 789)
Purchase of treasury stock	(2 523)	-	(15 699)
Acquisitions of entities under common control and non-controlling interests (Note 14)	(36)	(3 805)	(14 135)
Total net cash used in financing activities	**(44 668)**	**(17 137)**	**(59 057)**
Total cash from (used in) operating, investing and financing activities	**3 166**	**(35 599)**	**(40 753)**
Impact of exchange rate difference on cash and cash equivalents	(1 352)	6 563	836
Net increase (decrease) in cash and cash equivalents	**1 814**	**(29 036)**	**(39 917)**
Cash and cash equivalents at the beginning of the period	28 247	68 164	68 164
Cash and cash equivalents at the end of the period	**30 061**	**39 128**	**28 247**
Supplemental Information:			
Income taxes paid	4 526	3 367	6 725
Interest paid	39 794	38 532	78 221
Subsidies for compensation of interest expense received	29 315	23 840	60 821
Property, plant and equipment acquired through vendor financing	11 418	13 884	10 464
Settlement of acquisition of Mosselprom with shares	-	-	23 660

* As required by US GAAP comparative information for the year ended 31 December 2011 and for the six months ended 30 June 2011 have been retrospectively adjusted for the finalisation of the allocation of the purchase price of Mosselprom (Note 14) and a change in accounting principle (Note 2).

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

Unaudited condensed consolidated interim statement of changes in equity

For the six months ended 30 June 2012

	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 2011	**15**	**43 069 355**	**(496)**	**(41 333)**	**272 682**	**442 408**	**(76 062)**	**638 547**	**31 565**	**670 112**
Net income	-	-	-	-	-	66 174	-	66 174	986	67 160
Other comprehensive income from translation adjustment to presentation currency	-	-	-	-	-	-	55 909	55 909	2 669	58 578
Total comprehensive income								**122 083**	**3 655**	**125 738**
Effect of acquisitions under common control	-	-	-	-	(4 492)	-	-	(4 492)	-	(4 492)
Purchase of non-controlling interests	-	-	-	-	(44)	-	-	(44)	(20)	(64)
Addition of non controlling interests due to acquisition of subsidiaries	-	-	-	-	-	-	-	-	(2 660)	(2 660)
Balances at 30 June 2011 (as adjusted)*	**15**	**43 069 355**	**(496)**	**(41 333)**	**268 146**	**508 582**	**(20 153)**	**756 094**	**32 540**	**788 634**
Balances at 1 January 2012 (as adjusted)*	**15**	**43 963 773**	**(16 195)**	**(796 449)**	**277 892**	**587 426**	**(121 811)**	**727 327**	**30 114**	**757 441**
Net income	-	-	-	-	-	96 345	-	96 345	3 033	99 378
Other comprehensive loss from translation adjustment to presentation currency	-	-	-	-	-	-	(19 952)	(19 952)	(736)	(20 688)
Total comprehensive income								**76 393**	**2 297**	**78 690**
Share-based compensation	-	-	-	-	160	-	-	160	-	160
Purchase of treasury shares	-	-	(2 523)	(130 000)	-	-	-	(2 523)	-	(2 523)
Disposal of subsidiaries	-	-	-	-	-	-	-	-	(507)	(507)
Purchase of non-controlling interests	-	-	-	-	(37)	-	-	(37)	(24)	(61)
Balances at 30 June 2012	**15**	**43 963 773**	**(18 718)**	**(926 449)**	**278 015**	**683 771**	**(141 763)**	**801 320**	**31 880**	**833 200**

* As required by US GAAP comparative information for the year ended 31 December 2011 and for the six months ended 30 June 2011 have been retrospectively adjusted for the finalisation of the allocation of the purchase price of Mosselprom (Note 14) and a change in accounting principle (Note 2).

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

Notes to the unaudited condensed consolidated interim financial statements

For the six months ended 30 June 2012
(in thousand USD, unless noted otherwise)

1 Business and environment

Incorporation and history

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

2 Summary of significant accounting policies

Basis of preparation

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

The condensed consolidated interim financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for the preparation of interim financial information. They do not include all information and notes required by U.S. GAAP in the preparation of annual consolidated financial statements. The accounting policies used in the preparation of the condensed consolidated interim financial statements are the same as those described in the Group's audited consolidated financial statements prepared in accordance with U.S. GAAP for the year ended 31 December 2011, with the exception of the change in accounting policy noted below. The condensed consolidated balance sheet as of 31 December 2011 is derived from the 31 December 2011 audited consolidated financial statements.

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

The financial results for the six months ended 30 June 2012 are not necessarily indicative of the financial results for the full year. The unaudited condensed consolidated interim financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2011.

Investments in joint venture

During the six months ended 30 June 2012 the Group, together with Grupo Corporativo Fuertes, S.L., established a joint venture, LLC Tambovskaya Indeika. The Group's share in the net assets and net income of the joint venture, where the Group holds 50% of share capital and has the ability to exercise significant influence over its operating and financing policies, is included in the consolidated net assets and operating results using the equity method of accounting.

Change in accounting policy

The Group has changed its accounting policy in relation to the timing of transferring newborn and other immature pigs purchased for breeding from inventory to fixed assets. Pursuant to the Group's revised accounting policy, the Group now transfers animals to fixed assets immediately after they are selected by a veterinarian as suitable for insemination; management believes that this is an improvement to the previous policy, because this is the effective point at which a decision is made to sell or use an animal for breeding purposes. Prior to this change, pigs were transferred to fixed assets on the insemination date.

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

(in thousand USD, unless noted otherwise)

2 Summary of significant accounting policies continued

The following table presents the significant effects of the retrospective adjustment on the consolidated balance sheet as of 31 December 2011:

	31 December 2011 (as previously reported)*	Effect of the change in accounting policy	31 December 2011 (as adjusted)
Inventory	219 423	(21 967)	197 456
Total current assets	**423 865**	**(21 967)**	**401 898**
Property, plant and equipment, net	1 197 574	21 967	1 219 541
Total non-current assets	**1 267 016**	**21 967**	**1 288 983**

The following table presents the significant effects of the retrospective adjustment on the consolidated statement of cash flows for the year ended 31 December 2011:

	Year ended 31 December 2011 (as previously reported)*	Effect of the change in accounting policy	Year ended 31 December 2011 (as adjusted)
Decrease in inventory	(6 670)	13 579	6 909
Total net cash from operating activities	**232 223**	**13 579**	**245 802**
Purchases of long-lived assets	(211 866)	(13 579)	(225 445)
Total net cash used in investing activities	**(213 919)**	**(13 579)**	**(227 498)**

The following table presents the significant effects of the retrospective adjustment on the condensed consolidated interim statement of cash flows for the six months ended 30 June 2011:

	Six months ended 30 June 2011 (as previously reported)*	Effect of the change in accounting policy	Six months ended 30 June 2011 (as adjusted)
Decrease in inventory	10 041	3 298	13 339
Total net cash from operating activities	**86 977**	**3 298**	**90 275**
Purchases of long-lived assets	(99 486)	(3 298)	(102 784)
Total net cash used in investing activities	**(105 439)**	**(3 298)**	**(108 737)**

*as previously reported after the impact of adjustments for the finalisation of the allocation of purchase price of Mosselprom (Note 14).

The only impact on the consolidated income statement and on retained earnings relates to adjustments in depreciation of property, plant and equipment and was deemed to be immaterial for further disclosure.

Taxation

The Group’s effective tax rate for the six months ended 30 June 2012 was 2.34% and was calculated based on the expected effective tax rate for the full year. The gross effective tax rate differs from the statutory rate of 20% largely due to the tax holidays enacted for companies engaged in agricultural production, as well as the receipt of non-taxable subsidies by some Group companies.

(in thousand USD, unless noted otherwise)

2 Summary of significant accounting policies continued

Foreign currency translation

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

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

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

	Exchange rate
30 June 2012	32.8169
31 December 2011	32.1961
30 June 2011	28.0758
Weighted average exchange rate for the six months ended 30 June 2012	30.6390
Weighted average exchange rate for the year ended 31 December 2011	29.3874
Weighted average exchange rate for the six months ended 30 June 2011	28.6242

Effect of accounting pronouncements adopted

In September 2011, the FASB issued ASU No. 2011-08, "Testing Goodwill for Impairment," which amends Topic 350 of the Codification. This ASU reduces complexity and costs by allowing an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. The amendments in this ASU include examples of events and circumstances that an entity should consider in evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. ASU No. 2011-08 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and should be applied prospectively. The Group adopted the requirements of ASU No. 2011-08 from January 1, 2012. The adoption did not have an impact on the condensed consolidated interim financial statements.

In June 2011, the FASB issued ASU No. 2011-05, "Presentation of Comprehensive Income," which amends Topic 220 of the Codification. This ASU increases the prominence of other comprehensive income in financial statements. Under this ASU, an entity has the option to present the components of net income and comprehensive income in either one of two financial statements. The ASU eliminates the option in US GAAP to present other comprehensive income in the statement of changes in equity. ASU No. 2011-05 is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011 and should be applied retrospectively. The Group adopted the requirements of ASU No. 2011-05 from January 1, 2012. The adoption had an impact on the presentation of comprehensive income within the financial statements as the Group previously made the required disclosures within its statement of changes in equity and comprehensive income.

In May 2011, the FASB issued ASU No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRSs," which amends Topic 820 of the Codification. This ASU provides guidance for fair value measurements and disclosure requirements and clarifies the FASB's intent about the application of existing fair value measurement requirements. The new standard does not extend the use of fair value but, rather, provides guidance about how fair value should be applied where it already is required or permitted under US GAAP. ASU No. 2011-04 is effective for public entities for interim and annual periods beginning after December 15, 2011 and should be applied prospectively. The Group adopted the requirements of ASU No. 2011-04 from January 1, 2012. The adoption did not have an impact on the condensed consolidated interim financial statements.

In April 2011, the FASB issued ASU No. 2011-02, "A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring", which amends Topic 310 of the Codification. This ASU provides additional guidance in considering whether restructuring constitutes a troubled debt restructuring and helps creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties. ASU No. 2011-02 is effective starting from the first interim or annual period beginning on or after June 15, 2011 and should be applied retrospectively. The Group adopted the requirements of ASU No. 2011-02 from January 1, 2012. The adoption did not have an impact on the condensed consolidated interim financial statements.

Notes to the unaudited condensed consolidated interim financial statements continued

For the six months ended 30 June 2012
(in thousand USD, unless noted otherwise)

2 Summary of significant accounting policies continued

New accounting pronouncements

In December 2011, the FASB issued 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 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 January 1, 2013 and should be applied retrospectively. The Group is evaluating the effect of the adoption of ASU No. 2011-11 and expects the adoption to require additional disclosures in the consolidated financial statements.

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. 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 September 15, 2012 and should be applied prospectively. The Group does not expect any material impact on its results of operations, financial position or cash flows resulting from adoption of this ASU.

3 Inventory

Inventory as of 30 June 2012 and 31 December 2011 comprised:

	30 June 2012 US$000	31 December 2011 US$000
Raw materials	69 777	84 709
Livestock	92 383	79 562
Work in-process	16 497	13 319
Finished goods	13 786	19 866
Total inventory	**192 443**	**197 456**

4 Property, plant and equipment, net

The carrying amounts of property, plant and equipment as of 30 June 2012 and 31 December 2011 comprised:

	30 June 2012 US$000	31 December 2011 US$000
Land	25 319	26 715
Buildings, infrastructure and leasehold improvements	718 315	695 342
Machinery and equipment	259 611	256 009
Vehicles	45 799	43 464
Sows	40 636	38 928
Cattle	281	292
Other	1 668	2 116
Construction in-progress and equipment for installation	96 777	121 133
Advances paid for property, plant and equipment	49 620	35 542
Total property, plant and equipment, net	**1 238 026**	**1 219 541**

Accumulated depreciation amounted to 299 399 and 272 649 as of 30 June 2012 and 31 December 2011, respectively. Depreciation expense amounted to 37 743 and 29 348 for the six months ended 30 June 2012 and 2011, respectively, which includes depreciation of leased equipment.

Net book values of vehicles and machinery and equipment include 3 043 and 4 294 of leased equipment as of 30 June 2012 and 31 December 2011, respectively. Net book values of buildings, infrastructure and leasehold improvements include 7 852 and 8 738 of leased buildings and infrastructure as of 30 June 2012 and 31 December 2011, respectively. Accumulated depreciation on leased property and equipment amounted to 8 081 and 7 781 as of 30 June 2012 and 31 December 2011, respectively.

During the six months ended 30 June 2012 cost of property, plant and equipment was offset by subsidies received from local governments in the amount of 3 185.

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5 Borrowings

Borrowings of the Group as of 30 June 2012 and 31 December 2011 comprised:

				30 June 2012 US$000		31 December 2011 US$000	
	Interest rates	**WAIR***	**EIR****	**Current**	**Non-current**	**Current**	**Non-current**
Capital leases	8.30% - 17.52%	13.82%	13.82%	405	6 192	452	6 502
Bonds	8.25%	8.25%	8.25%	-	45 708	-	46 591
Bank loans	8.00% - 12.00%	9.63%	1.07%	2 513	8 083	6 913	9 368
Lines of credit	7.20% - 15.00%	11.08%	1.72%	200 768	430 291	206 384	470 883
Loans from government	0.00%	0.00%	0.00%	-	200	19	204
Other borrowings	0.00% - 1.00%	0.04%	0.04%	79	82	386	81
				203 765	**490 556**	**214 154**	**533 629**
Total borrowings					**694 321**		**747 783**

* 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.

The contractual maturity of long-term borrowings (excluding finance leases) for the six years ending 30 June 2018 and thereafter is as follows:

Maturity of non-current borrowings	Year ending 01.07.2013 US$000	Year ending 01.07.2014 US$000	Year ending 01.07.2015 US$000	Year ending 01.07.2016 US$000	Year ending 01.07.2017 US$000	Year ending 01.07.2018 US$000	>01.07.2018 US$000	Total US$000
Total borrowings	129 608	166 132	109 361	106 629	67 398	29 063	5 781	**613 972***

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

As of 30 June 2012, the Group's borrowings are denominated in the following currencies: 683 941 in Russian roubles, 6 225 in Euro and 4 155 in USD. As of 31 December 2011, the Group's borrowings were denominated in the following currencies: 735 463 in Russian roubles, 7 700 in Euro and 4 620 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 30 June 2012 and 31 December 2011, 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.

Bonds

Bonds due in November 2013
In November 2010, the Group placed 3 000 000 bonds (99 000) at par value (1 000 roubles or 33 USD at the issuance date) with a maturity date in November 2013. The Group accounted for these instruments at amortized cost. 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 (45 708 using the 30 June 2012 exchange rate) held by third parties are presented as non-current debt as of 30 June 2012 (31 December 2011: 46 591). The coupon rate on the bonds, payable semi-annually, was set at 8.25% per annum.

5 Borrowings continued

Bank loans

Gazprombank
Borrowings from Gazprombank consist of one long-term rouble denominated loan with a fixed interest rate of 12% per annum. Notes receivable with a carrying value of 1 436 were pledged as collateral under this loan. Principal payment is due on maturity in 2014. Amount outstanding was 914 and 932 as of 30 June 2012 and 31 December 2011, 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. Principal is due on maturity in 2015. The amount outstanding was 9 050 and 9 256 as of 30 June 2012 and 31 December 2011, respectively.

Rosselhozbank
Borrowings from Rosselhozbank consist of two long-term euro denominated loans with a fixed interest rate of 8.0% per annum. Principal is due on maturity in 2014. The amount outstanding was 631 and 813 as of 30 June 2012 and 31 December 2011, 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 7.20% to 13.50% 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 2012 to 2019. The amount outstanding was 379 738 and 380 111 as of 30 June 2012 and 31 December 2011, respectively.

Gazprombank
Borrowings from Gazprombank consist of five rouble denominated lines of credit with interest ranging from 8.75% to 13.0% per annum. Some of these facilities are guaranteed by related parties. Principal payments are due from 2012 to 2016. Amount outstanding was 87 708 and 109 742 as of 30 June 2012 and 31 December 2011, respectively.

Bank Zenith
Borrowings from Bank Zenith consist of four long-term rouble denominated lines of credit with an interest rate of 13% per annum. Some of these facilities are guaranteed by related parties. Principal is due upon maturity from 2013 to 2016. The amount outstanding was 57 462 and 66 335 as of 30 June 2012 and 31 December 2011, respectively.

Raiffeisenbank
Borrowings from Raiffeisenbank consist of two short-term rouble denominated loan facilities with interest ranging from 7.20% to 7.40% per annum. The amount outstanding was 2 090 and 4 481 as of 30 June 2012 and 31 December 2011, respectively.

Rosselhozbank
Borrowings from Rosselhozbank consist of twenty-one rouble and five euro denominated lines of credit with fixed interest rates ranging from 8% to 15% per annum. Some of these facilities are guaranteed by related parties. Principal payments are due from 2012 to 2017. The amount outstanding was 98 468 and 109 711 for rouble denominated and 5 594 and 6 888 for euro denominated lines of credit as of 30 June 2012 and 31 December 2011, respectively.

The total amount of unused credit on lines of credit as of 30 June 2012 is 41 955. The unused credit can be utilized from 2013 to 2015 with expiration of available amounts varying as follows: 37 872 expires by 30 June 2013 and 4 083 by 30 June 2015.

Other borrowings

Other borrowings primarily represent unsecured loans from shareholders and contractors with interest rates ranging from nil% to 1% per annum. Principal payments are due from 2012 to 2014.

5 Borrowings continued

Collateral under borrowings

Shares of and participating interests in the following Group companies are pledged as collateral under certain borrowings as of 30 June 2012:

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

Inventory with a carrying value of 15 762 and 19 756 was pledged under certain borrowings as of 30 June 2012 and 31 December 2011, respectively.

Property, plant and equipment with a carrying value of 531 968 and 460 164 was pledged under loan agreements as of 30 June 2012 and 31 December 2011, 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 Gazprombank and 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 30 June 2012.

6 Shareholders' equity

Share capital

As of 30 June 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 (having a total value of 15 as of 30 June 2012 and 31 December 2011). The number of outstanding shares as of 30 June 2012 was 43 037 324.

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 six months ended 30 June 2012 and 2011.

Shares granted to employees in 2011

During the six months ended 30 June 2012 the Group recognized additional management remuneration from share compensation awards amounting to 160. Total compensation cost related to nonvested awards not yet recognized at 30 June 2012 equals 362. During the six months ended 30 June 2012 10 000 share options were exercised. During the six months ended 30 June 2012 there were no forfeited or cancelled share options.

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 30 June 2012.

6 Shareholders' equity continued

Earnings per share

Earnings per share for the six months ended 30 June 2012 and 2011 and for the year ended 31 December 2011 have been determined using the weighted average number of Group shares outstanding over the period.

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

	Six months ended 30 June 2012	Six months ended 30 June 2011	Year ended 31 December 2011
Weighted average number of shares outstanding - basic	43 086 874	43 028 022	42 953 544
Add back incremental treasury shares in respect of share options	12 241	-*	4 500
Weighted average number of shares outstanding - diluted	**43 099 115**	**43 028 022**	**42 958 044**

*The Group had no securities which should be considered for dilution during the six months ended 30 June 2011.

7 Sales

Sales for the six months ended 30 June 2012 and 2011 and for the year ended 31 December 2011 comprised:

	Six months ended 30 June 2012 US$000	Six months ended 30 June 2011 US$000	Year ended 31 December 2011 US$000
Produced goods and goods for resale	779 377	714 312	1 531 513
Other sales	7 314	5 674	11 032
Sales volume discounts	(30 453)	(23 413)	(54 710)
Sales returns	(6 983)	(7 520)	(14 944)
Total sales	**749 255**	**689 053**	**1 472 891**

8 Cost of sales

Cost of sales for the six months ended 30 June 2012 and 2011 and for the year ended 31 December 2011 comprised:

	Six months ended 30 June 2012 US$000	Six months ended 30 June 2011 US$000	Year ended 31 December 2011 US$000
Raw materials and goods for resale	389 227	393 610	834 365
Personnel (excluding pension costs)	64 370	50 681	110 819
Depreciation	35 268	27 164	60 277
Utilities	31 680	29 406	59 026
Pension costs	10 249	8 662	18 819
Other	9 837	9 365	20 857
Total cost of sales	**540 631**	**518 888**	**1 104 163**

Raw materials and goods for resale are offset by subsidies received from local governments in the amount of 5 931, 19 225 and 19 783 for the six months ended 30 June 2012 and 2011 and for the year ended 31 December 2011, respectively. These targeted subsidies are received based on the amount of meat produced.

9 Selling, general and administrative expenses

Selling, general and administrative expenses for the six months ended 30 June 2012 and 2011 and for the year ended 31 December 2011 comprised:

	Six months ended 30 June 2012 US$000	Six months ended 30 June 2011 US$000	Year ended 31 December 2011 US$000
Personnel (excluding pension costs)	42 006	35 881	74 714
Transportation	11 598	13 434	25 388
Pension costs	7 130	6 810	12 095
Security services	5 845	4 768	11 006
Materials and supplies	5 229	5 274	11 582
Taxes (other than income tax)	5 109	5 392	12 172
Depreciation and amortization	3 238	2 313	6 356
Audit, consulting and legal fees	2 062	3 202	6 096
Utilities	1 968	1 930	3 986
Veterinary services	1 311	1 162	2 501
Bad debt expense	1 242	1 261	3 182
Information technology and communication services	1 043	813	1 809
Bank charges	870	813	2 055
Repairs and maintenance	781	911	1 827
Advertising and marketing	583	1 164	1 646
Insurance	554	488	989
Other	9 946	8 784	18 324
Total selling, general and administrative expenses	**100 515**	**94 400**	**195 728**

10 Other income (expense), net

Other income (expense), net for the six months ended 30 June 2012 and 2011 and for the year ended 31 December 2011 comprised:

	Six months ended 30 June 2012 US$000	Six months ended 30 June 2011 US$000	Year ended 31 December 2011 US$000
Interest income	935	1 641	1 935
Foreign exchange loss	(225)	(914)	(3 601)
Gain on settlement of acquisition of Mosselprom with shares	-	-	2 028
Other income (expense), net	58	485	(392)
Total other income (expense), net	**768**	**1 212**	**(30)**

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11 Financial expense, net

Financial expense, net for the six months ended 30 June 2012 and 2011 and for the year ended 31 December 2011 comprised:

	Six months ended 30 June 2012 US$000	Six months ended 30 June 2011 US$000	Year ended 31 December 2011 US$000
Interest expense, net of subsidies	6 310	6 856	13 799
Capital lease expenses	474	447	947
Amortization of discount	-	3	3
Total financial expenses, net	**6 784**	**7 306**	**14 749**

In accordance with Russian legislation, enterprises engaged in agricultural activities and enterprises involved in purchasing of meat receive subsidies on certain qualifying loans. The Group has accounted for such subsidies by reducing the interest expense on the associated loans by 30 370, 25 871 and 54 819 for the six months ended 30 June 2012 and 2011 and for the year ended 31 December 2011, respectively.

Interest expense net of subsidies capitalized for the six months ended 30 June 2012 and 2011 and for the year ended 31 December 2011 was 1 897, 2 305 and 4 241, respectively.

12 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

During the six months ended 30 June 2012 trading transactions with related parties comprise mostly of sales of mixed fodder to LLC Voronezhmyasoprom and purchases of pedigree and other pigs from LLC Voronezhmyasoprom. The Group also purchases grain crops from TZK NAPKO and Agrarnaya Gruppa. All those 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.

Financing transactions

During the six months ended 30 June 2012 and 2011 and for the year ended 31 December 2011, certain shareholders issued loans to the Group and, as of 30 June 2012, have personally guaranteed certain of the bank loans and lines of credit for a total amount of 222 842 (Note 5).

12 Related parties continued

Most of the balances and transactions with related parties are maintained with entities under common control.

As of 30 June 2012 and 31 December 2011, balances with related parties are summarized as follows:

Balances	30 June 2012 US$000	31 December 2011 US$000
Short-term loans receivable	561	1 923
Trade receivables	4 101	5 649
Other non-current receivables	4 620	3 309
Advances paid	2 671	4 313
Other receivables	396	1 267
Long-term loans receivable	88	97
Trade payables	4 119	3 707
Short-term loans	-	4
Other payables	61	110
Current portion of long-term loans payable	10	10
Long-term loans payable	4	4
Long-term payables to shareholders related to lease agreements	416	463

For the six months ended 30 June 2012 and 2011, and for the year ended 31 December 2011, transactions with related parties are summarized as follows:

Transactions	Six months ended 30 June 2012 US$000	Six months ended 30 June 2011 US$000	Year ended 31 December 2011 US$000
Sales	1 776	2 641	9 992
Rent income	108	209	406
Purchases of security services	217	183	400
Purchases of property, plant and equipment	7 638	187	933
Purchases of goods and other services	14 193	13 051	38 429

13 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.

13 Segment reporting continued

Segment information for the six months ended 30 June 2012:

	Meat-Processing US$000	Poultry US$000	Pork US$000	Grain US$000	Corporate and other US$000	Intersegment US$000	Combined US$000
Total sales	274 868	400 474	128 767	4 086	2 921	(61 861)	749 255
including other sales	1 795	31 123	5 288	-	-	-	38 206
including sales volume discounts	(20 229)	(10 223)	-	-	-	-	(30 452)
Intersegment sales	(523)	(16 827)	(40 432)	(1 171)	(2 908)	61 861	-
Sales to external customers	274 345	383 647	88 335	2 915	13	-	749 255
Cost of sales	(223 037)	(292 219)	(79 571)	(4 505)	(5)	58 706	(540 631)
Gross profit	**51 831**	**108 255**	**49 196**	**(419)**	**2 916**	**(3 155)**	**208 624**
Operating expenses	(36 112)	(45 967)	(9 926)	(338)	(11 642)	3 155	(100 830)
Operating income	**15 719**	**62 288**	**39 270**	**(757)**	**(8 726)**	-	**107 794**
Other income (expense), net	462	3 007	148	20	5 115	(7 984)	768
Financial expense, net	(4 782)	(2 827)	(2 800)	(28)	(4 331)	7 984	(6 784)
Segment profit	**11 399**	**62 468**	**36 618**	**(765)**	**(7 942)**	-	**101 778**
Supplemental information:							
Expenditure for segment property, plant and equipment	6 868	47 363	42 690	5	654	-	97 580
Depreciation and amortisation expense	5 850	20 980	11 047	326	303	-	38 506
Income tax expense (benefit)	2 623	(175)	(47)	11	(12)	-	2 400

Segment information for the six months ended 30 June 2011:

	Meat-Processing US$000	Poultry US$000	Pork US$000	Grain US$000	Corporate and other US$000	Intersegment US$000	Combined US$000
Total sales	302 999	321 755	123 405	39	1 610	(60 755)	689 053
including other sales	1 445	36 560	12 329	-	-	-	50 334
including sales volume discounts	(12 699)	(10 714)	-	-	-	-	(23 413)
Intersegment sales	(331)	(22 359)	(36 426)	(32)	(1 607)	60 755	-
Sales to external customers	302 668	299 396	86 979	7	3	-	689 053
Cost of sales	(254 481)	(245 996)	(77 327)	(7)	(3)	58 926	(518 888)
Gross profit	**48 518**	**75 759**	**46 078**	**32**	**1 607**	**(1 829)**	**170 165**
Operating expenses	(37 236)	(40 457)	(8 910)	(175)	(9 496)	1 829	(94 445)
Operating income	**11 282**	**35 302**	**37 168**	**(143)**	**(7 889)**	-	**75 720**
Other income (expense), net	1 188	(720)	84	-	6 157	(5 497)	1 212
Financial expense, net	(5 090)	(3 151)	(1 479)	(141)	(2 942)	5 497	(7 306)
Segment profit	**7 380**	**31 431**	**35 773**	**(284)**	**(4 674)**	**-**	**69 626**
Supplemental information:							
Expenditure for segment property, plant and equipment	5 625	42 225	61 461	8	(71)	-	109 248
Depreciation and amortisation expense	6 106	14 488	9 174	37	245	-	30 050
Income tax expense (benefit)	2 202	291	(27)	-	-	-	2 466

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13 Segment reporting continued

Segment information for the year ended 31 December 2011 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	635 418	691 462	270 450	2 335	3 657	(130 431)	1 472 891
including other sales	5 024	68 225	21 416	-	-	-	94 665
including sales volume discounts	(33 462)	(21 248)	-	-	-	-	(54 710)
Intersegment sales	(1 958)	(50 518)	(74 271)	(51)	(3 633)	130 431	-
Sales to external customers	633 460	640 944	196 179	2 284	24	-	1 472 891
Cost of sales	(530 576)	(531 740)	(162 787)	(3 916)	(12)	124 868	(1 104 163)
Gross profit	**104 842**	**159 722**	**107 663**	**(1 581)**	**3 645**	**(5 563)**	**368 728**
Operating expense	(78 936)	(86 373)	(20 739)	(757)	(19 032)	5 563	(200 274)
Operating income	**25 906**	**73 349**	**86 924**	**(2 338)**	**(15 387)**	-	**168 454**
Other income (expense), net	16	4 814	(57)	-	12 972	(17 775)	(30)
Financial expense, net	(10 618)	(7 769)	(4 113)	(46)	(9 978)	17 775	(14 749)
Segment profit	**15 304**	**70 394**	**82 754**	**(2 384)**	**(12 393)**	-	**153 675**
Supplemental information							
Expenditure for segment property, plant and equipment	10 842	92 551	122 836	97	72	-	226 398
Depreciation and amortisation expense	11 952	33 198	20 444	511	530	-	66 635
Income tax expense (benefit)	6 233	286	450	(31)	(1 119)	-	5 819

The reconciliation between segment assets and total assets per the consolidated balance sheets as of 30 June 2012 and 31 December 2011 is as follows:

	30 June 2012 US$000	31 December 2011 US$000
Meat processing	210 896	240 482
Poultry	766 663	737 146
Pork	643 035	640 089
Grain	19 386	17 728
Total for reportable segments	**1 639 980**	**1 635 445**
Corporate assets	274 518	286 803
Intersegment	(212 555)	(231 367)
Total assets	**1 701 943**	**1 690 881**

14 Subsidiaries, acquisitions, divestitures

Acquisition of Mosselprom

As previously reported, on 12 May 2011, the Group completed an acquisition of 100% of the share capital of ZAO Mosselprom. In accordance with the terms of the share purchase agreement, 44 235 was paid in cash and 27 000 was due within 150 days from the date of acquisition, either payable in cash or a fixed number of Group shares (894 418 shares) at the Group's discretion. Mosselprom is a multi-industrial agro-holding company that comprises poultry, pork and feed production, as well as land cultivation and cropping.

In the consolidated financial statements for the year ended 31 December 2011 the acquisition was accounted for using historical book values as provisional values based on the assumption that the historical book values were equivalent to fair value at the date of acquisition since there was no other information available at that time.

A valuation report was obtained subsequently and therefore, comparative information for the six months ended 30 June 2011 and the year ended 31 December 2011 was retrospectively adjusted to adjust the fair values of the following assets and liabilities at the acquisition date:

Mosselprom	**2011 US$000 (as previously reported)**	**2011 US$000 (as adjusted)**
Consideration		
Cash	44 235	44 235
Fair value of 27 000 payable either in cash or in Group shares	23 660	23 660
Fair value of total consideration transferred	**67 895**	**67 895**
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash	1 016	1 016
Inventory	31 645	31 046
Other current assets	18 694	18 694
Property, plant and equipment	158 628	225 234
Goodwill	63 773	6 947
Other non-current assets	284	2 623
Short-term loans and capital leases	(61 982)	(62 027)
Other current liabilities	(20 818)	(20 818)
Long-term loans and capital leases	(124 061)	(124 424)
Other non-current liabilities	(1 655)	(13 152)
Non-controlling interest	2 371	2 756
Total assets acquired and liabilities assumed	**67 895**	**67 895**

As a result of the previously noted adjustments, consolidated net income for the year ended 31 December 2011 decreased by 2 954 and increased by 323 for the six months ended 30 June 2011. Goodwill recognized on the acquisition relates to expected synergies from combining operations of Mosselprom with existing production assets of the Group.

14 Subsidiaries, acquisitions, divestitures continued

The following pro forma financial information presents consolidated income statements as if the acquisition occurred as of the beginning of the prior annual reporting period (1 January 2011). In determining pro forma amounts, all non-recurring costs were determined to be immaterial. Pro forma information is presented for all preceding comparative periods:

Pro forma Information	**For the six months ended 30 June 2011 US$000 (UNREVIEWED)**	**For the year ended 31 December 2011 US$000 (UNREVIEWED)**
Sales	744 078	1 527 916
Operating income	75 657	167 412
Net income	**59 336**	**137 979**
Weighted average number of shares outstanding	43 028 022	43 690 663
Earnings per share (USD)	1.38	3.16

These unreviewed pro forma results have been prepared for comparison purposes only and contain certain adjustments which relate to the new accounting base of property, plant and equipment recognized in recording the combination. The unreviewed pro forma information does not purport to represent what the Group's financial position or results of operations would actually have been if these transactions had occurred at the beginning of the period or to project the Group's future results of operations.

Acquisition of LLC Voronezhmyasoprom and Voronezhmyaso

During the six months ended 30 June 2012 the Group made an advance payment of 2 226 related to planned acquisition from a related party of 100% interest in LLC Voronezhmyasoprom and Voronezhmyaso, an entities under common control. The Group finalized the transaction and obtained control of the businesses in third quarter 2012, see Note 17.

Other acquisitions and divestitures

During the first quarter of 2012, the Group acquired a further 0.64% interest in OJSC Ulyanovsky MP for cash consideration of 30 and 1.29% interest in OJSC Penzenskoe khlebopriemnoe predpriyatie for cash consideration of 31. 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 OJSC Ulyanovsky MP and OJSC Penzenskoe khlebopriemnoe predpriyatie. 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.

15 Commitments and contingencies

Legal

As of 30 June 2012 and 31 December 2011, several Group companies reported negative net assets in their statutory financial statements. In accordance with the Civil Code of the Russian Federation, a liquidation process may be initiated against a company reporting negative net assets. Management believes that it is remote that the liquidation process will be initiated against those companies.

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

Taxation

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

Notes to the unaudited condensed consolidated interim financial statements continued

For the six months ended 30 June 2012
(in thousand USD, unless noted otherwise)

15 Commitments and contingencies continued

Environmental remediation costs

The Group's management believes that the Group is in compliance with applicable legislation and is not aware of any potential environmental claims; therefore, no liabilities associated with such costs are recorded as of 30 June 2012.

Capital commitments

At 30 June 2012, the Group had large capital projects in progress at LLC Tambovmyasoprom, JSC Vasiljevskaya, CJSC Petelinskaya, JSC Lipetskmyasoprom, CJSC Kurinoe Tsarstvo – Bryansk, LLC Resurs (Tambov), LLC Agroresurs (Voronezh), CJSC Lipetskmyaso, OJSC Kurinoe Tsarstvo and Ozherelyevsky KKZ. As part of these projects, commitments had been made to contractors of approximately 54 960 towards completion of the projects.

Also the Group is in the process of implementing an integrated management planning and accounting system related to the meat processing segment of the business. As part of this project, commitments have been made to contractors of approximately 1 481 toward completion of the project.

Operating lease commitments

Obligations under non-cancellable operating lease agreements for the five years ending 30 June 2017 and thereafter are as follows:

	For the year ended 30.06.2013 US$000	For the year ended 30.06.2014 US$000	For the year ended 30.06.2015 US$000	For the year ended 30.06.2016 US$000	For the year ended 30.06.2017 US$000	For all periods subsequent to 30.06.2018 US$000	Total US$000
Total commitments	3 403	3 198	3 240	3 286	3 117	22 150	**38 394**

16 Fair value of financial instruments

The carrying values and fair values of the Group's loans and notes receivable and borrowings with the exception of finance leases, as of 30 June 2012 and 31 December 2011 are as follows:

	30 June 2012 US$000		31 December 2011 US$000	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Loans receivable*	1 755	1 586	2 338	2 409
Notes receivable, net	1 495	1 150	1 497	1 090
Borrowings other than finance leases **	687 725	674 182	740 828	727 182

* Loans receivable include both the long-term loans to affiliates and short-term loans receivable
** Cost of debt of 11.93% was applied, which did not include the effect of subsidies for interest expense

17 Subsequent events

The Group obtained 69 568 and repaid 55 040 on lines of credit, bank loans and other loans for the period from 1 July through 11 September 2012.

Subsequent to 30 June 2012 the Group acquired LLC Voronezhmyasoprom and Voronezhmyaso entities under common control. This acquisition is part of the Group's plan to increase pork production capacity in the Voronezh Region.

The Group has evaluated subsequent events through 11 September 2012 the date the condensed consolidated interim financial statements were available for issuance.