OJSC
Cherkizovo Group

Independent Accountants' Review Report

Condensed Combined and Consolidated
Interim Financial Statements
For the Six Months Ended
June 30, 2006 and 2005
(UNAUDITED)

OJSC CHERKIZOVO GROUP

TABLE OF CONTENTS

OJSC CHERKIZOVO GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONDENSED COMBINED AND CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005

The following statement, which should be read in conjunction with the independent accountants' responsibilities stated in the independent accountants' review report set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent accountants in relation to the condensed combined and consolidated interim financial statements of OJSC Cherkizovo Group (the "Group").

Management is responsible for the preparation of the condensed combined and consolidated interim financial statements that present fairly the financial position of the Group at June 30, 2006 and December 31, 2005 and the results of its operations, cash flows and changes in equity for the six months ended June 30, 2006 and 2005, in compliance with accounting standards generally accepted in the United States of America ("US GAAP").

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

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

Management is also responsible for:

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

The condensed combined and consolidated interim financial statements for the six months ended June 30, 2006 and 2005 were approved on behalf of the Board of Directors on September 20, 2006 by:

Mr. Sergei I. Mikhailov	Ms. Ludmila I. Mikhailova
Chief Executive Officer	Chief Financial Officer

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

We have reviewed the condensed consolidated interim statement of financial position of OJSC Cherkizovo Group and subsidiaries (further "the Group) as of June 30, 2006, and the related condensed consolidated interim statements of operations, cash flows and changes in shareholders' equity and comprehensive income for the six-month period ended June 30, 2006 and the combined and consolidated interim statements of operations, cash flows and changes in shareholders' equity and comprehensive income for the six-month period ended June 30, 2005. These financial statements are the responsibility of the Group's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

Based on our review, with the exception of the matter described in the preceding paragraph, we are not aware of any material modifications that should be made to such condensed combined and consolidated interim financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated statement of financial position as of December 31, 2005, and the related combined and consolidated statements of operations, changes in shareholders' equity and comprehensive income (not presented herein) and cash flows for the year then ended; and in our report dated April 7, 2006 (May 4, 2006 as to note 34), we expressed a qualified opinion on those combined and consolidated financial statements in relation to the use of fair value in establishing the carrying values of property, plant and equipment. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 2005, and the combined and consolidated statements of operations and cash flows for the year then ended is fairly stated, in all material respects, in relation to the combined and consolidated financial statements from which it has been derived.

Deloitte & Touche CIS

September 20, 2006

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS OF JUNE 30, 2006 (UNAUDITED) AND CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2005

(in thousands of US dollars)

	Notes	June 30, 2006	December 31, 2005
ASSETS			
Current assets:			
Cash and cash equivalents	4	104 190	5 200
Trade receivables, net	5	38 368	30 607
Trade receivables from related parties	28	3 000	1 636
Advances paid, net (including advances to related parties of $1 668 and of $1 655 as of June 30, 2006 and December 31, 2005, respectively)	6	11 967	8 620
Inventory	7	43 917	43 213
Livestock	8	17 590	13 681
Short-term loans receivable (including short-term loans to related parties of $2 450 and of $1 880 as of June 30, 2006 and December 31, 2005, respectively)		3 148	2 743
Deferred tax asset		2 982	3 674
Other current assets (including other receivables from related parties of $1 543 and of $1 396 as of June 30, 2006 and December 31, 2005, respectively)	9	34 075	31 633
Total current assets		259 237	141 007
Non-current assets			
Property, plant and equipment, net	10	304 577	251 608
Goodwill	11	9 274	8 725
Other intangible assets, net	12	15 044	13 969
Investments in affiliated companies	13	434	8
Deferred tax asset		1 570	388
VAT receivable		8 941	8 108
Total non-current assets		339 840	282 806
Total assets		599 077	423 813
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade accounts payable		33 311	46 916
Trade payables to related parties	28	2 047	1 189
Short-term loans (including short-term loans from related parties of $525 and of $494 as of June 30, 2006 and December 31, 2005, respectively)	15	60 927	71 873
Current portion of capital leases	16	964	1 060
Current portion of long-term loans from related parties	17	957	752
Current portion of long-term loans	17	23 725	17 717
Tax related payables	18	5 797	13 823
Deferred tax liability		26	-
Other payables (including other payables to related parties of $1 225 and of $1 978 as of June 30, 2006 and December 31, 2005, respectively)	19	23 577	27 816
Total current liabilities		151 331	181 146

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS OF JUNE 30, 2006 (UNAUDITED) AND CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2005 (CONTINUED)

(in thousands of US dollars)

	Notes	June 30, 2006	December 31, 2005
Long-term notes payable	14	3 783	3 559
Long-term loans	17	188 677	138 430
Long-term loans from related parties	17	1 557	1 785
Capital leases	16	350	244
Deferred tax liability		19 280	19 355
Tax related payables	18	1 147	1 083
Long-term payables to shareholders	29	1 121	1 115
Other non-current liabilities		46	40
Total non current liabilities		215 961	165 611
Minority interests	20	15 357	14 548
Equity:			
Share capital	21	14	12
Additional paid-in capital	21	209 861	63 614
Other accumulated comprehensive loss		(8 406)	(13 114)
Retained earnings		14 959	11 996
Total equity		216 428	62 508
Total liabilities and equity		599 077	423 813

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

CONDENSED COMBINED AND CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED) AND CONDENSED COMBINED AND CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2005

(in thousands of US dollars)

	Notes	Six months ended June 30, 2006	Six months ended June 30, 2005	Year ended December 31, 2005
Sales	22	283 444	259 966	546 181
Cost of sales	23	(220 549)	(208 135)	(420 993)
Gross profit		62 895	51 831	125 188
Selling, general and administrative expenses	24	(46 111)	(37 870)	(80 704)
Other operating expenses	25	(520)	(242)	(1 113)
Operating income		16 264	13 719	43 371
Other income and expense, net	26	(10 270)	(10 559)	(16 906)
Income from continuing operations before income tax, minority interest and extraordinary gain		5 994	3 160	26 465
Income tax		(1 458)	(636)	(7 901)
Minority interests	20	(809)	96	(1 485)
Income from continuing operations		3 727	2 620	17 079
Loss from discontinued operations, net of income tax benefit		-	(65)	(82)
Extraordinary gain, net of income tax		-	130	79
Net income		3 727	2 685	17 076
Weighted average number of shares outstanding		341 327	328 216	328 216
Earnings per share – basic and diluted (Note 3):				
Income from continuing operations		10.92	7.98	52.04
Loss from discontinued operations		-	(0.20)	(0.25)
Extraordinary gain		-	0.40	0.24
Net income		10.92	8.18	52.03

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

CONDENSED COMBINED AND CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED) AND CONDENSED COMBINED AND CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2005

(in thousands of US dollars)

	Six months ended June 30, 2006	Six months ended June 30, 2005	Year ended December 31, 2005
CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES:			
CASH FLOWS (USED IN) FROM CONTINUING OPERATING ACTIVITIES:			
Income from continuing operations	3 727	2 620	17 079
Adjustments to reconcile income from continuing operations to net cash (used in) from operating activities:			
Loss from disposal of combined entities	-	-	80
Amortization of discount on loans to third parties	11	46	129
Depreciation	12 780	10 645	20 470
Bad debt recovery	(576)	(112)	(295)
Gain from debt forgiveness	(65)	(171)	(987)
Loss on disposal of property, plant and equipment	520	242	646
Minority interest	809	(96)	1 485
Foreign exchange (gain) loss	(4 140)	1 873	2 219
Deferred tax benefit	(1 472)	(3 653)	(1 967)
Other adjustments	-	-	(259)
Changes in operating assets and liabilities			
Decrease (increase) in inventory	1 790	1 947	(6 698)
Increase in trade receivables	(6 460)	(7 272)	(25 849)
Increase in livestock	(2 985)	(736)	(5 998)
Decrease (increase) in other receivables and prepayments	3 470	(13 339)	(18 487)
(Decrease) increase in trade accounts payable	(15 119)	281	17 461
(Decrease) increase in tax related payables	(9 294)	5 102	7 012
Increase in other payables	1 104	5 767	8 069
Net cash (used in) from operating activities associated with continuing operations	(15 900)	3 144	14 110
CASH FLOWS (USED IN) FROM DISCONTINUED OPERATING ACTIVITIES:			
Loss from discontinued operations	-	(65)	(82)
Adjustments to reconcile loss from discontinued operations to net cash (used in) from operating activities associated with discontinued operations:			
Minority interest in net losses of discontinued entities	-	(39)	(53)
Deferred tax expense	-	23	20
Gain on disposal of property, plant and equipment	-	(30)	(32)
Net change in operating assets and liabilities	-	(24)	285
Net cash (used in) from operating activities associated with discontinued operations	-	(135)	138
Total net cash (used in) from operating activities	(15 900)	3 009	14 248
CASH FLOWS USED IN INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(55 760)	(22 310)	(76 889)
Proceeds from sale of property, plant and equipment	171	1 167	1 473
Acquisition of minority interest	-	(294)	(291)
Long term loans granted	(2 601)	(18)	-
Repayment on long-term loans granted to related parties	2 204	18	-
Acquisition of subsidiaries, net of cash acquired	-	56	56
Short-term loans granted	(3 850)	(2 999)	(6 382)
Repayments on short term loans granted	3 623	2 766	10 998

CONDENSED COMBINED AND CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED) AND CONDENSED COMBINED AND CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2005 (CONTINUED)
(in thousands of US dollars)

	Six months ended June 30, 2006	Six months ended June 30, 2005	Year ended December 31, 2005
Net cash used in investing activities associated with continuing operations	(56 213)	(21 614)	(71 035)
Cash flows used in discontinued investing activities:			
Purchases of property, plant and equipment	-	(96)	(111)
Proceeds from sale of property, plant and equipment	-	8	71
Net cash used in investing activities associated with discontinued operations	-	(88)	(40)
Total net cash used in investing activities	(56 213)	(21 702)	(71 075)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from long-term loans	148 442	30 175	69 929
Repayment of long-term loans	(105 412)	(12 208)	(23 142)
Proceeds from long-term loans to related parties	84	29	28
Repayment of long-term loans to related parties	(262)	(233)	(490)
Proceeds from short-term loans	136 863	120 821	118 935
Repayment of short-term loans	(153 103)	(115 030)	(100 598)
Issuance of common shares	146 249	-	-
Cash distributed to shareholders	(870)	(968)	(4 823)
Net cash from financing activities associated with continuing operations	171 991	22 586	59 839
Total net cash from financing activities	171 991	22 586	59 839
Total cash from operating, investing and financing activities	99 878	3 893	3 012
Impact of exchange rate difference on cash and cash equivalents	(888)	(169)	(216)
NET INCREASE IN CASH AND CASH EQUIVALENTS:	98 990	3 724	2 796
Cash and cash equivalents at the beginning of period	5 200	2 403	2 404
Cash and cash equivalents at end of period	104 190	6 127	5 200
Supplemental information:			
Income taxes paid	2 985	3 886	9 350
Interest paid	12 468	9 172	15 853
Property, plant and equipment acquired on credit	1 009	1 033	1 637
Acquisitions made for non-cash consideration	-	-	26 154

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

CONDENSED COMBINED AND CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)

(in thousands of US dollars)

	Share capital	Additional paid-in capital	Retained earnings	Other accumulated comprehensive loss	Total shareholders' equity	Total comprehensive income
Balances at January 1, 2005	11	37 461	5 841	(10 465)	32 848	
Net income for the six months ended June 30, 2005			2 685		2 685	2 685
Distribution to owners (Note 21)			(948)		(948)	
Foreign currency translation adjustment				(2 189)	(2 189)	(2 189)
Balances at June 30, 2005	11	37 461	7 578	(12 654)	32 396	
For the six months ended June 30, 2005						496
Balances at January 1, 2006	12	63 614	11 996	(13 114)	62 508	
Net income for the six months ended June 30, 2006			3 727		3 727	3 727
New share issue	2	146 247			146 249	
Distributions to owners (Note 21)			(764)		(764)	
Foreign currency translation adjustment				4 708	4 708	4 708
Balances at June 30, 2006	**14**	**209 861**	**14 959**	**(8 406)**	**216 428**	
For the six months ended June 30, 2006						8 435

No dividends were declared or paid for the six months ended June 30, 2006 and 2005.

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

1. BACKGROUND

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

The structure of the Group prior to September 2005 was not united in the form of a legal holding. In order to show a fair presentation of the results of operations for periods prior to this date, management believes that it is necessary to combine the holdings of the Control Group for that period.

Management has determined which individuals should be included in the Control Group using the following principles:

1. Individuals who are members of the main shareholder's immediate family, but limited to two generations.

   (a) Generation one is defined as the main shareholder, spouse and any brothers or sisters of these two individuals,
   (b) Generation two is defined as the children of any persons in the generation one group,
   (c) Generation two individuals with deceased parents who are brothers or sisters in the generation one group are not considered to be immediate family and are not included in the Control Group.

2. Individuals with whom contemporaneous written agreement has been obtained demonstrating an obligation to act in concert with members of the Control Group.

During the formation period of the Group, management applied purchase accounting to acquisitions (including privatizations) made from individuals not determined to be members of the Control Group. As appropriate, management engaged third party specialists to appraise the fair value of assets obtained, including any potential intangible assets on acquisitions made after June 30, 2001. These values were compared to the consideration given in exchange for shares with any excess allocated on a pro-rata basis to decrease the value of certain long term assets. Any remaining excess was capitalized as a deferred credit and amortized over a period of 5 years (prior to 2001) or recognized in the results of operations as an extraordinary gain for any periods thereafter. Any excess of consideration given over the fair value is recognized as goodwill and amortized over a period not to exceed 20 years (prior to 2001) or recognized as goodwill and annually tested for impairment. As most companies that were acquired were either in significant financial distress or were acquired from the government, an excess of fair value of net assets acquired over purchase price often arose in the application of purchase accounting.

Any transactions between members of the Control Group or their holdings have been accounted for at book value due to the transaction's having occurred between entities under common control.

(in thousands of US dollars)

As of June 30, 2006, the Group controls the meat processing and agricultural sub-groups through its 100% ownership in AIC Cherkizovsky Ltd. and AIC Mikhailovsky Ltd.

APK Cherkizovsky is a sub-group consisting of meat processing plants, distribution companies and other companies registered and operating in the Russian Federation. On June 30, 2006, December 31, 2005 and June 30, 2005 the following principal companies were included in the APK Cherkizovsky sub-group:

Name of company	Legal form	Nature of business	Consolidated / combined interest % 30.06.2006	% 31.12.2005	% 30.06.2005
JSC MPP Babaevskiy	Closed Joint Stock Company	Meat processing plant	85%	85%	85%
JSC Belmiaso	Open Joint Stock Company	Meat processing plant	75%	75%	75%
JSC Biruliovsky meat processing plant (JSC BMPP)	Open Joint Stock Company	Meat processing plant	95%	95%	95%
JSC Meat and Poultry Processing Plant Penzensky (JSC MPPP Penzensky)	Open Joint Stock Company	Meat processing plant	95%	95%	95%
JSC Meat Processing Plant Ulyanovsky (JSC MPP Ulyanovsky)	Open Joint Stock Company	Meat processing plant	80%	79%	79%
JSC Cherkizovsky meat processing plant (JSC CMPP)	Open Joint Stock Company	Meat processing plant	87%	87%	87%
AIC Cherkizovsky Ltd. (CJSC Eko-Torg prior to September 1, 2004)	Limited Liability Company	Asset holding company	100%	100%	100%
MPP Salsky Ltd.	Limited Liability Company	Meat processing plant	81%	81%	81%
TIC Cherkizovo Ltd. (Cherkizovo-2)	Limited Liability Company	Procurement company	100%	100%	100%
LLC Cherkizovo-Kashira (Cherkizovo-Kashira Ltd.)	Limited Liability Company	Meat processing plant	99%	99%	99%
JSC Trading Company of Agroindustrial Complex Cherkizovsky (JSC Trading Company of AIC Cherkizovsky)	Open Joint Stock Company	Trading company: distribution of products of APK Cherkizovsky	100%	100%	100%

Prior to September 2005, all companies listed above were under the control of the Control Group who owned, directly or indirectly, a majority of the voting rights in each company.

During September 2005, a restructuring of APK Cherkizovsky was performed in order to establish control over all meat processing companies solely through AIC Cherkizovsky Ltd., thereby eliminating all direct ownership in such companies by the Control Group. This was primarily accomplished by contributing the shares of companies held by the Control Group to the share capital of AIC Cherkizovsky Ltd. As of December 31, 2005, all companies listed above were under the control of AIC Cherkizovsky Ltd.

(in thousands of US dollars)

APK Mikhailovsky is a sub-group of companies registered and operating in the Russian Federation engaged in the production of various types of compound feed, raising of poultry, pigs and cattle and the distribution of meat. On June 30, 2006, December 31, 2005 and June 30, 2005 the following principal companies were included in the APK Mikhailovsky sub-group:

			Consolidated / combined interest		
			%	**%**	**%**
Name of company	**Legal form**	**Nature of business**	**30.06.2006**	**31.12.2005**	**30.06.2005**
CJSC Budenovets Agrifirm	Closed Joint Stock Company	Pig breeding	73%	73%	73%
CJSC Krugovskaya	Closed Joint Stock Company	Raising poultry	76%	76%	76%
CJSC Petelinskaya	Closed Joint Stock Company	Raising poultry	84%	84%	84%
JSC Vasiljevskaya	Open Joint Stock Company	Raising poultry	100%	100%	100%
LLC Ardymsky Feed Milling Plant (Ardymsky Feed Milling Plant Ltd.)	Limited Liability Company	Mixed fodder production	89%	89%	89%
LLC Penzenskaya	Limited Liability Company	Raising poultry	100%	100%	100%
LLC Petelino Trade House	Limited Liability Company	Trading company: distribution of products of APK Mikhailovsky	84%	84%	84%
CJSC Botovo	Closed Joint Stock Company	Pig breeding	76%	76%	76%
LLC Petelinsky Poultry Factory	Limited Liability Company	Meat processing	84%	84%	84%
LLC Trading House Petelino-Samara	Limited Liability Company	Trading company: distribution of products of APK Mikhailovsky	100%	100%	100%
LLC Kuvak-Nikolskoie Poultry Factory	Limited Liability Company	Raising poultry	100%	100%	100%
JSC Lipetskmyasoprom	Open Joint Stock Company	Pig breeding	100%	100%	100%
LLC Mikhailovsky Feed Milling Plant (*)	Limited Liability Company	Mixed fodder production	100%	100%	-
LLC Kuznetsovsky Kombinat (*)	Limited Liability Company	Pig breeding	100%	100%	-
LLC Agro-industrial Complex Mikhailovsky (AIC Mikhailovsky Ltd.) (*)	Limited Liability Company	Holding company	100%	100%	100%
CJSC Glebovskaya Poultry Factory (**)	Closed Joint Stock Company	Raising poultry	-	-	70%
CJSC Golitsinskaya Poultry Factory (**)	Closed Joint Stock Company	Raising poultry	-	-	89%
CJSC Krasnopolyanskaya Poultry Factory (**)	Closed Joint Stock Company	Raising poultry	-	-	87%
CJSC Kuznetsovsky Kombinat (**)	Closed Joint Stock Company	Pig breeding	-	-	67%
OJSC APK Mikhailovsky (**)	Open Joint Stock Company	Holding company	-	-	100%
OJSC Luninsky Elevator (**)	Open Joint Stock Company	Grain storage	-	-	87%
OJSC Rastovtsy (***)	Open Joint Stock Company	Crop production	-	-	74%

(in thousands of US dollars)

			Consolidated / combined interest		
			%	%	%
Name of company	**Legal form**	**Nature of business**	**30.06.2006**	**31.12.2005**	**30.06.2005**
LLC Ardymsky Grain Company (**)	Limited Liability Company	Crop production	-	-	89%
LLC Glebovsky Poultry Plant (**)	Limited Liability Company	Raising poultry	-	-	70%
LLC Uspenskoe (**)	Limited Liability Company	Crop production	-	-	100%
LLC Trading House Cherkizovsky (Kuznetsovsky) (**)	Limited Liability Company	Trading company: distribution of products of APK Mikhailovsky	-	-	100%
LLC Agriculture Surskoe (**)	Limited Liability Company	Crop production	-	-	100%
LLC Ardymskaya Feed Mill Company (**)	Limited Liability Company	Holding company	-	-	89%
LLC RAO Penzenskaya Grain Company (**)	Limited Liability Company	Crop production	-	-	80%
CJSC Penzamyasoprom (**)	Closed Joint Stock Company	Crop production	-	-	80%

*Companies created in the process of Restructuring
**Companies disposed of in Spin-off
***Discontinued operations

As of June 30, 2006, all companies listed above with ownership interest as of that date were under the control of AIC Mikhailovsky Ltd. which owned, directly or indirectly, a majority of the shares in each company.

At June 30, 2006 and December 31, 2005, the approximate number of staff employed by the Group was 11 630 and 12 066, respectively.

2. RUSSIAN ENVIRONMENT AND CURRENT ECONOMIC SITUATION

General

Over the past decade the Russian Federation has undergone substantial political, economic and social changes. As an emerging market, the Russian Federation does not possess a fully developed business and regulatory infrastructure that would generally exist in a more mature market economy.

The current government is attempting to address these issues, however, it has not yet fully implemented the reforms necessary to create banking, judicial and regulatory systems that usually exist in more developed markets. As a result, operations in the Russian Federation involve risks that are not typically associated with those in more developed markets. Such risks persist in the current environment with results that include, but are not limited to, a currency that is not freely convertible outside of the country, various currency controls, low liquidity levels for debt and equity markets and continuing inflation. Furthermore, substantially all privatizations in the Russian Federation in the early 1990's were flawed in some manner, and even the most minor administrative flaw in the privatization documents may be invoked as a basis for challenging the validity of the privatization process as a whole and thus the title to assets acquired as a result of the privatization. The environment is such that the federal and local authorities, the administration and the former owners of property and other interested parties can attempt to obstruct normal business operations of a company. Accordingly, the stability and success of the Group's business will depend upon the government's ability to institute supervisory, judicial and other regulatory reforms.

(in thousands of US dollars)

Business Seasonality

The results of operations of the Group are affected by seasonality, with the first quarter of the year historically accounting for the lowest proportion of annual volume, sales and profitability levels. Our results in the fourth quarter have historically accounted for the highest proportion of our annual sales and profitability, driven by the New Year holidays in Russia. Our average selling prices are also significantly affected by seasonality, as retail consumers generally purchase a higher proportion of more expensive high-quality products in the fourth quarter of the year. There is also an increase in poultry demand during the summer due to the popularity of outdoor barbeques.

Currency Exchange and Control

Foreign currencies, in particular the US dollar, play a significant role in the underlying economics of many business transactions in Russia. The following table summarizes the exchange rate of the ruble to 1 US dollar at June 30, 2006, December 31, 2005 and June 30, 2005:

	Exchange rate
June 30, 2006	27.0789
December 31, 2005	28.7825
June 30, 2005	28.6721

The Group has not entered into any transactions designed to hedge against foreign currency risk.

The Central Bank of Russia has established currency control regulations designed to promote the commercial utilization of the ruble.

Interest Rates

The meat processing segment's principal interest rate risks relate to the fact that interest rates on certain loans are fixed at 3% for Euro loans and in the range of 4% to 17% for ruble loans. (Notes 15 and 17). The Group has not entered into any transactions designed to hedge against such interest rate risks.

The poultry and pork segments' principal interest rate risks relate to the fact that interest rates on certain loans are fixed at 1% to 18% for ruble loans (Notes 15 and 17). The Group has not entered into transactions designed to hedge against interest rate risk.

Liquidity and Financial Resources

At June 30, 2006 the Group had positive working capital of $107 906 compared to a negative working capital of $40 139 at December 31, 2005. The increase in working capital arose mainly from the issuance of new shares which lead to a large increase in cash balances, as well as repayment of current debt. Notes 17 and 31 contain additional information relating to debt structure, liquidity and refinancing.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles

The Group's companies maintain their accounting books and records in Russian rubles in accordance with Russian statutory accounting regulations. The accompanying condensed, combined and consolidated interim financial statements have been prepared in order to present the combined and consolidated financial position and combined and consolidated results of operations and cash flows of the Group in accordance with accounting principles generally accepted in the United States of America "US GAAP" and expressed in terms of US dollars (paragraph "Translation Methodology" below). The accompanying condensed, combined and consolidated interim financial statements differ from the financial statements prepared for statutory purposes in Russia in that they reflect certain adjustments that are appropriate to present the financial position, results of operations and cash flows in accordance with US GAAP.

The condensed combined and consolidated interim financial statements do not include all of the information required for disclosure in annual financial statements and should be read in conjunction with the last issued audited combined and consolidated financial statements as of and for the year ended December 31, 2005. Accounting policies applied in the condensed combined and consolidated interim financial statements are consistent with those applied in the combined and consolidated financial statements for the year ended December 31, 2005.

In the opinion of management, these condensed, combined and consolidated interim financial statements contain all adjustments necessary for a fair presentation of the results of the interim periods. Certain information and related footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. Group management believes that the disclosures in these condensed combined and consolidated interim financial statements are adequate to ensure that the information presented is not misleading. The results of operations for the interim periods shown are not necessarily indicative of the results for any future interim period or for the entire fiscal year.

Basis of Combination and Consolidation of Subsidiaries

The condensed combined and consolidated interim financial statements of the Group include companies controlled by the Control Group through direct and indirect ownership of the majority of the voting interests as described in Note 1. Prior to September 2005, no formal legal structure was in place which would allow for full consolidation based on ownership; however, the companies of the Group conducted their operations as a unified business. Management believes that it is necessary to present combined interim financial statements of the companies under common control for the six months ended June 30, 2005 in order to achieve a fair presentation of the results of operations of the Group.

Where companies owned and controlled directly by the Control Group have investments in other entities of more than 50% of voting shares and are able to govern the investee's financial and operating policies so as to benefit from its activities, the respective subsidiaries are consolidated into their parents in these condensed interim financial statements. Beginning January 1, 2005, the Group amended its consolidation policy to include any variable interest entities where management determined the Group to be the primary beneficiary. At June 30, 2006, management determined that no entities exist where the Group has a significant variable interest.

The purchase method of accounting is used for acquired businesses. Companies acquired or disposed of during the period are included in the condensed combined and consolidated interim financial statements from the date of acquisition or to the date of disposal.

All significant inter-company balances and transactions are eliminated on combination and consolidation.

Fiscal Year

The Group's fiscal year end is the last day of each calendar year.

Translation Methodology

The Group follows a translation policy in accordance with SFAS No. 52, "Foreign Currency Translation" and has determined the ruble to be its functional currency.

The Group determined the U.S. Dollar to be its reporting currency and translates its functional currency financial statements into U.S. Dollars. Assets and liabilities are translated at year-end exchange rates, equity, other than retained earnings, at the later of the rate on January 1, 2003 (date of change in functional currency due to cessation of hyperinflation) or the historical rate, while income and expense items are translated at average rates of exchange prevailing during the year. The resulting translation adjustment is recorded as a separate component of other comprehensive income (loss).

The Group's future operating cash flows will be generated in Russian rubles. Future movements in the exchange rate between the ruble and the US dollar will affect the carrying value of the Group's ruble denominated monetary assets and liabilities and the US dollar amounts of revenues and expenses. Such changes may also affect the Group's ability to realize assets as represented in terms of US dollars in the accompanying condensed combined and consolidated interim financial statements.

Management Estimates

The preparation of the condensed combined and consolidated interim 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 condensed combined and consolidated interim financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The principal management estimates underlying these financial statements include estimation of discounted future cash flows used in assessing the existence of impairment of goodwill, valuation of intangible assets determined to have an indefinite life, allowances for bad debts, valuation allowances on deferred tax assets and anticipated effective tax rates for 2006.

Cash and Cash Equivalents

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

Accounts Receivable and Allowance for Doubtful Accounts

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

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

Inventory

Inventories, including work-in-process, are valued at the lower of cost or market value. Cost is the price paid or the consideration given to acquire the asset. Cost is determined on the basis of weighted average cost. For processed inventories, 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. Market value is the current replacement cost, whether by purchase or by reproduction, limited to the estimated selling price less any costs of completion and disposal (net realizable value) at the maximum level, and net realizable value, less an allowance for normal profit at the minimum level. Net realizable value is the selling price in the ordinary course of business, less costs to complete, market and distribute. Write downs are made for unrealizable inventory in full.

Livestock

Animals with short productive lives, such as poultry and pigs are classified as livestock on the statement of financial position. Full cost absorption is used for determining the asset value of livestock.

Newborn cattle, pigs and other immature animals purchased for breeding are initially accounted for as livestock. Immature cattle and pigs are not considered to be in service until they reach maturity, at which time their accumulated cost becomes subject to depreciation. The Group treats breeding animals as fixed assets with costs to be depreciated over their useful lives, as follows:

	Age of transfer into main herd, years	Depreciation, years
Pigs	0.5	2
Cattle	2	7

Value Added Tax

Value Added Tax ("VAT") related to sales is payable based upon invoices issued to customers or on collection of the respective receivable. 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 on the statement of financial position, gross.

Property, Plant and Equipment

Due to the state of the records relating to the construction and acquisition of a significant portion of the assets of the Group companies, their carrying amounts as of December 31, 2001 were determined through valuation and are stated based on estimated fair value. For companies acquired through business combinations, estimated fair value of property, plant and equipment was retrospectively applied to determine the fair value of acquired net assets. Certain fixed assets were adjusted for the excess of the value of net assets acquired over the purchase price paid in business combinations or adjusted to fair value as of the date of such combinations occurring subsequent to December 31, 2001. Assets acquired subsequent to December 31, 2001 are stated at historical cost.

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

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

Impairment of Long-Lived Assets

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) were less than the carrying amount of the long-lived asset (group), the Group would then calculate impairment as the excess of the carrying value of the asset (group) over the estimate of its fair market value.

Goodwill and Other Intangible Assets

Goodwill represents the purchase price for businesses acquired in excess of the fair value of identifiable net assets acquired.

Goodwill and intangible assets deemed to have indefinite lives are subject to annual impairment tests at fiscal year end in accordance with SFAS No. 142. Other intangible assets with determinable useful life are amortized over their useful lives.

In the Group’s assessment of goodwill, management makes assumptions regarding estimates of future cash flows and other factors to determine the fair value of the respective assets. Other intangible assets principally represent trademarks acquired.

The fair value of the Group’s trademarks is determined using a royalty rate method based on expected revenues by trademark. Goodwill is not deductible in the Russian Federation for income tax purposes.

Investments

The Group holds equity interests in certain companies, which are not readily marketable securities and are valued at cost. Management periodically assesses the ability of the Group to realize the carrying values of investments and records any impairment as required.

The equity accounting method is used when the Group has a twenty to fifty percent equity interest and the ability to exercise significant influence over the investee.

Product Guarantees

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 sales return allowances (Note 22). Since one month is the maximum period of time during which the goods can be returned, management has used actual data to estimate the sales return allowance at each period end.

Revenue Recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group, delivery has occurred or services have been rendered, the amount of the revenue can be measured reliably and the collectibility of the revenue is reasonably assured.

Sales are recognized, net of VAT and discounts, when goods are shipped to customers. At the time of shipment, in accordance with the Group's standard sales terms, title is transferred and the customer assumes the risk and rewards of ownership. This policy is consistent with the Russian Civil Code, which states that legal title transfers when a product is shipped to a customer unless specifically overridden by the sales agreement.

The Group grants discounts to customers primarily based on the volume of goods purchased. Such discounts range up to 12% of the sales amount and are graduated to increase with purchases made. Discounts are accrued against sales and accounts receivable in the month earned. Other strategically targeted discounts are immaterial.

Any consideration given to direct or indirect customers of the Group in the form of cash, such as listing fees, are included in the statement of operations as deductions from sales.

Shipping and Handling Costs

Shipping and handling costs incurred by the Group are reflected in selling and distribution expenses in the accompanying condensed combined and consolidated statements of operations.

Marketing Expenses

Marketing costs are expensed as incurred. Marketing expenses are reflected in selling and distribution expenses in the accompanying condensed combined and consolidated statements of operations.

Interest Expense

SFAS No. 34 "Capitalization of Interest Cost" establishes standards for capitalizing interest as part of tangible fixed assets acquired. Interest capitalized in the six months ended June 30, 2006 and 2005 was $208 and $530, respectively.

Taxation

Deferred tax assets and liabilities are recognized for the expected future tax consequences of existing differences between the financial and tax reporting basis 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. Valuation allowances are recorded for deferred tax assets where it is more likely than not that such assets will not be realized.

Earnings per Share

Earnings per share for the six months ended June 30, 2005, have been determined using the number of Group shares issued on foundation of the holding company on September 22, 2005, to the members of the Control Group, as if those shares had been outstanding for that period. Earnings per share for the 6 months ended June 30, 2006 have been determined using the weighted average number of Group shares outstanding over the period.

(in thousands of US dollars)

There are no securities to consider for dilution.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and short-term notes and loans payable reported in the condensed combined and consolidated interim statement of financial position approximate fair values due to the short maturity of those instruments. Management is of the opinion that the carrying value of the Group's long-term loans payable to third parties, except for certain long-term notes payable and borrowings with the regional treasury (Lipetsk) and the Ministry of Finance, approximate fair value.

The fair values of long-term notes and loans payable that have lower than market rates were estimated by discounting future cash flows using a discount rate that reflects the estimated market borrowing rates. Market borrowing rates on locally sourced funds available to the Group at June 30, 2006 and December 31, 2005 were estimated at 11% and 14%, respectively, for ruble denominated loans and 11% at both period ends for US dollar and EURO denominated loans.

As of June 30, 2006	Book value	Fair value
Long-term notes payable	3 783	3 783
Long-term loan payable to the regional treasury (Lipetsk)	6 278	4 458
Long-term loans payable to the Ministry of Finance	2 040	1 932
Department of Taxes and Financial Policies, City of Moscow	5 588	4 076

As of December 31, 2005	Book value	Fair value
Long-term notes payable	3 559	3 559
Long-term loan payable to the regional treasury (Lipetsk)	5 906	3 564
Long-term loans payable to the Ministry of Finance	3 071	2 642

Further disclosures of long-term notes payable and loans are contained in Notes 14 and 17, respectively.

Concentration of Credit Risk

Financial instruments that potentially expose the Group to concentration of credit risk consist primarily of cash and cash equivalents and accounts receivable. As of June 30, 2006 and December 31, 2005, all cash and cash equivalents are held in Russian financial institutions.

As of June 30, 2006, the Group's credit risk is concentrated in accounts receivable from external customers and affiliated companies. Risk associated with external customers is diversified due to a large customer base. The maximum amount of loss due to credit risk, based on the fair value of the financial instruments that the Group would incur if affiliated companies failed to perform according to the terms of the contracts, is $9 055.

Minority Interest

Minority interest is accounted for at historical value, which is the minority's share in the book value of a subsidiary's net assets at the date control over a subsidiary was established. If control over a subsidiary is lost and subsequently re-established, the minority interest is accounted for at the historical value determined at the time the company was first consolidated.

(in thousands of US dollars)

Segment Reporting

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

Segment information at June 30, 2006 and for the 6 months then ended comprised:

	Meat-Processing	Poultry	Pork	Corporate assets / expenditures	Inter-segment	Combined / consolidated
Total sales	210 430	66 844	12 958	1 214	-	291 446
Intersegment sales	(1 191)	(5 076)	(521)	(1 214)	-	(8 002)
Sales to external customers	209 239	61 768	12 437	-	-	283 444
Cost of sales	(173 692)	(45 359)	(8 197)	(1)	6 700	(220 549)
Gross profit	36 738	21 485	4 761	1 213	(1 302)	62 895
Operating expenses	(29 520)	(13 412)	(1 915)	(3 081)	1 297	(46 631)
Operating income	7 218	8 073	2 846	(1 868)	(5)	16 264
Financial income and expenses, net (excluding interest expenses)	2 716	64	1	316	(199)	2 898
Interest expenses	(6 209)	(6 392)	(328)	(438)	199	(13 168)
Segment profit	3 725	1 745	2 519	(1 990)	(5)	5 994
Segment assets	256 499	152 999	107 468	219 191	(137 080)	599 077
Supplemental information						
Depreciation expense	7 365	4 252	1 163	-	-	12 780
Income tax expense (benefit)	1 705	(585)	338	-	-	1 458

Reconciliation between net segment profit and combined income from continuing operations	
Total net segment profit	5 994
Minority interests	(809)
Income tax	(1 458)
Consolidated and combined income from continuing operations	3 727
Reconciliation between combined segment assets and total assets per financial statements	
Combined segment assets	599 077
Assets of discontinued operations	-
Total assets	599 077

(in thousands of US dollars)

Segment information at June 30, 2005 and for the six months then ended comprised:

	Meat-Processing	Poultry	Pork	Corporate assets / expenditures	Inter-segment	Combined / consolidated
Total sales	201 712	65 455	12 525	-	-	279 692
Intersegment sales	(3 930)	(11 163)	(4 633)	-	-	(19 726)
Sales to external customers	197 782	54 292	7 892	-	-	259 966
Cost of sales	(170 434)	(45 736)	(11 608)	-	19 643	(208 135)
Gross profit	31 278	19 719	917	-	(83)	51 831
Operating expenses	(25 149)	(11 338)	(1 657)	-	32	(38 112)
Operating income	6 129	8 381	(740)	-	(51)	13 719
Financial income and expenses, net (excluding interest expenses)	(1 650)	(139)	(2)	-	-	(1 791)
Interest expenses	(4 159)	(4 378)	(231)	-	-	(8 768)
Segment profit	320	3 864	(973)	-	(51)	3 160
Segment assets	216 687	139 161	39 960	5	(19 150)	376 663
Supplemental information						
Depreciation expense	6 952	2 813	880	-	-	10 645
Income tax expense	205	105	326	-	-	636

Reconciliation between net segment profit and combined income from continuing operations	
Total net segment profit	3 160
Minority interest	96
Income tax	(636)
Consolidated and combined income from continuing operations	2 620

Reconciliation between combined segment assets and total assets per financial statements	
Combined segment assets	376 663
Assets of discontinued operations	1 032
Total assets	377 695

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

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

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

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

(in thousands of US dollars)

All three segments are involved in other business activities, including dairy, crop cultivation and related services, which are non-core business activities and which are immaterial to the overall figures reported.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2006 and December 31, 2005 comprised:

	June 30, 2006	December 31, 2005
Cash and cash equivalents in bank	103 928	4 946
Cash on hand	262	254
Total cash and cash equivalents	**104 190**	**5 200**

Cash and cash equivalents in bank as of June 30, 2006, include deposits of $99 346 earning 4.3% annual interest with a one month original maturity.

5. TRADE RECEIVABLES, NET

Trade receivables as of June 30, 2006 and December 31, 2005 comprised:

	June 30, 2006	December 31, 2005
Trade receivables	40 980	33 819
Allowance for doubtful accounts	(2 612)	(3 212)
Total trade receivables, net	**38 368**	**30 607**

6. ADVANCES PAID, NET

Advances paid as of June 30, 2006 and December 31, 2005 comprised:

	June 30, 2006	December 31, 2005
Advances to 3rd party suppliers	10 912	7 734
Advances to related parties	1 668	1 655
Allowance for doubtful accounts (advances)	(613)	(769)
Advances paid, net	**11 967**	**8 620**

(in thousands of US dollars)

7. INVENTORY

Inventory as of June 30, 2006 and December 31, 2005 comprised:

	June 30, 2006	December 31, 2005
Raw materials	27 232	29 970
Work in progress	8 287	5 742
Finished goods	8 170	7 300
Goods for resale	228	201
Total inventory	**43 917**	**43 213**

Finished goods intended for use by other Group companies are classified as raw materials. Inventory pledged under loan agreements totaled (Notes 15 and 17) $8 144 and $8 882 as of June 30, 2006 and December 31, 2005, respectively. On June 30, 2006 the pledged amount consisted of raw materials in the amount of $6 858 and finished goods of $1 286.

8. LIVESTOCK

Livestock as of June 30, 2006 and December 31, 2005 comprised:

	June 30, 2006	December 31, 2005
Pigs	9 874	7 949
Chickens	6 587	4 582
Cattle	1 123	1 150
Other livestock	6	-
Total livestock	**17 590**	**13 681**

Livestock pledged under loan agreements totaled $2 497 and $8 674 (Notes 15 and 17) as of June 30, 2006 and December 31, 2005, respectively.

9. OTHER CURRENT ASSETS, NET

Other current assets as of June 30, 2006 and December 31, 2005 comprised:

	June 30, 2006	December 31, 2005
VAT and other taxes receivable	17 549	21 743
Promissory notes receivable	6 799	165
Other receivables, net of allowance for doubtful debts of $582 and of $507 as of June 30, 2006 and December 31, 2005, respectively)	5 462	4 885
Spare parts	3 553	2 264
Prepaid expenses	712	2 576
Total other current assets, net	**34 075**	**31 633**

(in thousands of US dollars)

10. PROPERTY, PLANT AND EQUIPMENT, NET

The carrying amounts of property, plant and equipment as of June 30, 2006 and December 31, 2005 comprised:

	June 30, 2006	December 31, 2005
Buildings and infrastructure	124 679	105 265
Machinery and equipment	69 294	62 827
Vehicles	8 583	6 885
Sows	6 188	2 462
Cattle	665	592
Other	1 998	1 751
Advances paid for property, plant and equipment	20 348	8 045
Construction in progress and equipment for installation	72 822	63 781
Total property, plant and equipment, net	**304 577**	**251 608**

Accumulated depreciation amounted to $85 122 and $68 818 as of June 30, 2006 and December 31, 2005, respectively.

Machinery and equipment included $5 852 and $4 814 of leased equipment as of June 30, 2006 and December 31, 2005. Accumulated depreciation of leased equipment amounted to $1 068 and $814 as of June 30, 2006 and December 31, 2005, respectively. Notes 15 and 17 disclose fixed assets pledged as collateral against loans.

11. GOODWILL

The movements in goodwill for 6 months of 2006 and 2005 were as follows:

Balance at January 1, 2005	9 050
Translation loss	(291)
Balance at June 30, 2005	8 759
Balance at January 1, 2006	8 725
Translation gain	549
Balance at June 30, 2006	9 274

Goodwill arose on the purchase by the Group of its controlling stake in JSC BMPP and relates to the meat processing segment of the business. Management does not believe that this goodwill is impaired as of June 30, 2006.

(in thousands of US dollars)

12. OTHER INTANGIBLE ASSETS, NET

Management has determined that the trademarks have indefinite useful lives and are, therefore, not subject to amortization. Software is amortized over its useful life of 2 years.

The value of other intangible assets as of June 30, 2006 and December 31, 2005 comprised:

	June 30, 2006	December 31, 2005
Trademarks	14 373	13 522
Computer software, net	671	447
Total other intangible assets, net	**15 044**	**13 969**

13. INVESTMENTS IN AFFILIATED COMPANIES

As of June 30, 2006 and December 31, 2005, investments in affiliated companies primarily comprised loans receivable:

	June 30, 2006	December 31, 2005
Long-term loans receivable from related parties	423	8
Other investments	11	-
	434	**8**

14. NOTES PAYABLE

Notes payable as of June 30, 2006 and December 31, 2005 comprised:

	June 30, 2006		December 31, 2005	
Issuer	**Long-term notes**	**Weighted average interest rate**	**Long-term notes**	**Weighted average interest rate**
Ruble denominated				
OOO Cherkizovo-Kashira	3 783	12%	3 559	12%
	3 783		**3 559**	

The aggregate contractual maturity of notes outstanding at June 30, 2006 was:

2010	1 847
2011	1 936
	3 783

(in thousands of US dollars)

15. SHORT-TERM LOANS

Short-term loans as of June 30, 2006 and December 31, 2005 comprised:

	June 30, 2006		December 31, 2005	
	Principal amount	**Weighted average interest rate**	**Principal amount**	**Weighted average interest rate**
Ruble denominated				
Savings Bank of Russia	22 151	11.69%	29 606	13.16%
Department of Food Supply of Moscow city	14 035	4.30%	19 317	3.91%
Bank Zenith	13 814	12.03%	3 127	12.50%
Vneshtorgbank	3 549	12.59%	2 971	13.78%
Gazprombank	2 954	12.25%	12 160	12.01%
Saha Diamond Bank	1 108	17.00%	-	0.00%
Individuals (members of the control group)	70	0.00%	66	0.00%
Rostpromstroybank	-	0.00%	347	16.00%
Vozrozhdenie	-	0.00%	347	14.00%
Other related parties	455	0.00%	428	0.00%
Other	2 791	11.17%	3 504	13.26%
Total short-term loans	**60 927**		**71 873**	

2006

Savings Bank of Russia
The four loans, thirty three loan facilities (with a total limit of $22 143) and seven overdraft agreements bear weighted average interest at 11.69% per annum (ranging from 9.00% to 16.00%).

Property, plant and equipment of $7 545 and inventory and living stock of $4 338 were pledged as collateral under these agreements. A number of loans are guaranteed by an affiliated person. One of the loans is also guaranteed by two members of the Control Group.

Department of Food Supply of Moscow city
The amount consists of one loan that bears interest at 4.30% per annum.

51% of the outstanding shares of JSC BMPP are pledged as collateral.

Bank Zenith
The amount consists of two loans that bear weighted average interest at 12.03% per annum (ranging from 11.50% to 12.50%). One of the loans is guaranteed by a member of the Control Group.

Vneshtorgbank
The five loans bear weighted average interest at 12.59% per annum (ranging from 12.00% to 14.75%). Property, plant and equipment of $4 056 and inventory and livestock of $233 were pledged as collateral under this loan agreement. One of the loans is guaranteed by a related party.

Gazprombank
The four loans bear weighted average interest at 12.25% per annum (ranging from 11.50% to 13.00%). Property, plant and equipment of $410, inventory and livestock of $2 361 and notes receivable in the amount of $1 119 were pledged as collateral under this loan agreement. Two of the loans are also guaranteed by a member of the Control Group.

2005

Savings Bank of Russia
The seven loans, thirty loan facilities (with a total limit of $22 681) and four overdraft agreements bear a weighted average interest at 13.16% per annum (ranging from 10.00% to 15.00%). Property, plant and equipment of $1 806 and inventory and livestock of $8 043 is pledged as collateral under these agreements. Two of the loans are guaranteed by JSC Vasiljevskaya and a member of the Control Group.

Department of Food Supply of the City of Moscow
The three loans bear a weighted average interest of 3.91% per annum (ranging from 3.00% to 4.33%). 44% of the outstanding shares of JSC BMPP (90 516 shares) and 51% of the capital of LLC Cherkizovo-Kashira are pledged as collateral. One of the loans is guaranteed by TIC Cherkizovo Ltd. (Cherkizovo-2).

Gazprombank
The three loans and one loan facility (with a total limit of $10 420) bear a weighted average interest of 12.01% per annum (ranging from 10.00% to 13.00%). Property, plant and equipment of $391 and inventory of $2 221 are pledged as collateral.

Bank Zenith
The unsecured loan bears interest at 12.50% per annum.

Vneshtorgbank
The four loans and one overdraft agreement bear weighted average interest of 13.78% per annum (ranging from 13.00% to 15.00%). Property, plant and equipment of $1 271 and inventory and livestock of $2 214 were pledged as collateral under the agreements. Two of the loans are guaranteed by JSC Vasiljevskaya.

16. CAPITAL LEASES

As of June 30, 2006 and December 31, 2005, the Group operated certain fixed assets under leasing contracts that qualified for treatment as capital leases. The lower of the incremental borrowing and the rate implicit in the lease agreement was used in capitalizing the leases. These rates range from 14% to 33% for ruble denominated leases and from 8% to 20% for US dollar and EURO denominated leases. Most lease agreements contain a bargain purchase option.

(in thousands of US dollars)

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

	June 30, 2006		December 31, 2005	
Payments falling due	**Total minimum lease payments**	**Portion related to interest**	**Total minimum lease payments**	**Portion related to interest**
Within one year	1 039	75	1 140	80
In year two	351	13	230	13
In year three	12	-	27	-
	1 402	**88**	**1 397**	**93**

17. LONG-TERM LOANS

Long-term loans as of June 30, 2006 and December 31, 2005 comprised:

	June 30, 2006		December 31, 2005	
	Long-term portion	**Short-term portion**	**Long-term portion**	**Short-term portion**
US dollar denominated				
EBRD	-	-	48 000	3 000
Raiffeisen	-	-	9 412	588
Other	-	-	322	-
Total US dollar denominated	**-**	**-**	**57 734**	**3 588**
Euro denominated				
Ministry of Finance of the Russian Federation	2 040	-	2 085	986
Total Euro denominated	**2 040**	**-**	**2 085**	**986**
Ruble denominated				
Bonds	73 858	-	-	-
Gazprombank	73 034	15 141	47 412	-
Savings Bank of Russia	28 527	6 912	24 268	12 683
Department of finance of Lipetsk regional administration	5 650	628	-	-
Department of Taxes and Financial Policies, Moscow City Government	4 875	713	-	-
Individuals (members of the Control Group)	1 557	763	1 663	752
Rostpromstroybank	-	-	695	-
Other	693	331	6 236	460
Other related parties	-	194	122	-
Total Ruble denominated	**188 194**	**24 682**	**80 396**	**13 895**
Total long-term loans	**190 234**	**24 682**	**140 215**	**18 469**

2006

EBRD and Raiffeisen loans
In June 2006 the Group opted for the early repayment of EBRD and Raiffeisen loans in full. According to the loan agreement the Group was required to pay a prepayment fee which was set at 2% of the outstanding balance on Tranches Two A and Two B of EBRD loan (Note 26).

Ministry of Finance of the Russian Federation
The loan bears interest at 3% per annum and is repayable in 2008 and 2011.
Property, plant and equipment of $4 517 were pledged as collateral under this loan agreement.

Bonds
During June 2006 the Group raised 2 billion rubles through an issue of callable bonds with a nominal value of 1 000 rubles. The Bonds were sold at their nominal value and are due in 2011.

The coupon rate, payable semi-annually, was set at 8.85% for the first 3 years, with the rate for the subsequent years to be determined by the Group at a later date. Cherkizovo Group has a right to call the bonds three years after the issue.

Gazprombank
These two loans and two loan facilities (with a total limit of $33 236) bear weighted average interest at 14.00% per annum (ranging from 12.00% to 14.20%).

Property, plant and equipment of $9 491 and notes receivable in the amount of $10 633 were pledged as collateral under this loan agreement. 51% of the shares of AIC Mikhailovsky Ltd. and 100% of the outstanding shares of JSC Lipetskmyasoprom are also pledged as collateral. The facilities are guaranteed by a member of the Control Group and by a number of Group companies.

Savings Bank of Russia
These seven ruble denominated loan facilities (with the total limit of $54 299) bear weighted average interest at 12.30% per annum (ranging from 12.00% to 15.00%).

Property, plant and equipment of $18 840 were pledged as collateral under this loan agreement.
One of the loans is guaranteed by a related party.

Department of finance of Lipetsk regional administration
This loan payable in 2007-2012 bears interest at 1.00% per annum.
The loan is guaranteed by a member of the Control Group.

Department of Taxes and Financial Policies, Moscow City Government
The three loans bear weighted average interest at 6.03% per annum (ranging from 6.00% to 10.00%).
41% of the outstanding shares of JSC Vasiljevskaya are pledged as collateral.

(in thousands of US dollars)

Maturity of long-term loans
The aggregate maturity of long-term loans (including long-term loans payable to affiliated companies) outstanding as of June 30, 2006 is:

Overdue	291
June 30, 2007	24 391
June 30, 2008	42 154
June 30, 2009	39 930
June 30, 2010	24 259
June 30, 2011	77 549
June 30, 2012	695
June 30, 2013	5 647
Total	**214 916**

Refer to Note 3 for disclosure of the fair market value of loans where fair value differs significantly from carrying value.

2005

EBRD
The loan is made up of three tranches:

- Tranche One B in the amount of U.S.$5 million and bearing interest at LIBOR + 4.5%;
- Tranche Two A in the amount of U.S.$35.9 million and bearing interest at LIBOR + 5.5%;
- Tranche Two B in the amount of U.S.$10.1 million and bearing interest at LIBOR + 5%.

Property, plant and equipment of $70 211 is pledged as collateral under this loan agreement.

Shares of and participating interests in the following Group companies are pledged as collateral under the loan agreement:

- AIC Cherkizovsky Ltd. (CJSC Eko-Torg prior to September 1, 2004) – 25%;
- OJSC Cherkizovsky meat processing plant (JSC CMPP) – 25% plus one share;
- JSC Biruliovsky Meat Processing Plant – 25% plus one share;
- JSC MPP Ulyanovsky – 25%;
- JSC MPPP Penzensky – 25% plus one share;
- JSC Belmiaso – 25% plus one share;
- LLC Cherkizovo-Kashira – 25%.

The following Group companies are guarantors of the loan under the loan agreement:

- JSC CMPP;
- JSC Biruliovsky Meat Processing Plant;
- JSC MPP Babaevskiy;
- JSC MPPP Penzensky;
- JSC MPP Ulyanovsky;
- JSC Belmiaso;
- MPP Salsky Ltd.;

- LLC Cherkizovo-Kashira;
- JSC Trading Company of AIC Cherkizovsky;
- AIC Cherkizovsky Ltd.;
- LLC Cherkizovo-Ural.

The terms of the loan also include a negative covenant regarding dividends and related party payments. This covenant states that certain key companies of APK Cherkizovsky may not pay dividends or make any distributions of share capital, or purchase, redeem or otherwise acquire any of their shares or any options over the same. The covenant further stipulates that this restriction is lifted after 75% repayment of the loan providing that the borrower complies with certain financial ratios (as disclosed below) and that the payment is no more than 50% of the net profit of the meat segment of the Group for the previous financial year based on consolidated financial statements prepared in accordance with US GAAP.

Financial covenant ratios effective from 2006 and applicable to the meat segment of the business are as follows:

- Financial Debt to EBITDA: 2.75 until April 1, 2006; 2.6 from April 2, 2006 to October 1, 2006; and 2.4 from October 2, 2006 going forward;
- Financial Debt to Capitalization: 0.55 from January 1, 2006;
- Debt Service Coverage Ratio: 1.4 for 2006 (measured at January 1, 2007) and 1.5 from 2007 onwards;
- Current ratio: 0.9 until and including October 1, 2006; 1.0 on January 1, 2007; and 1.3 in 2007;
- Additionally, a cap exists on capital expenditures for the meat processing segment of the Group amounting to $8 600 for 2006 and $5 000 for years thereafter.

Raiffeisen
The loan was bearing interest of LIBOR + 4.5% per annum as of December 31, 2005, and is payable in 2006-2011. Property, plant and equipment of $16 986 is pledged as collateral under this loan agreement.

The same financial ratio covenants as noted above for the EBRD loan apply to this loan.

Minfin
The loan bears interest at 3% per annum and is repayable in equal installments in 2006, 2008 and 2011. Property, plant and equipment of $5 221 is pledged as collateral under this loan agreement.

Gazprombank
These three loan facilities (with a total limit of $81 716) bear a weighted average interest of 14.11% per annum (ranging from 14% to 14.2%) and are payable between 2007 and 2009. At December 31, 2005, $34 304 was available for drawdown on these facilities. Property, plant and equipment of $7 725 is pledged as collateral. 51% of the shares of AIC Mikhailovsky Ltd. and 100% of the outstanding shares of JSC Lipetskmyasoprom are also pledged as collateral. The facilities are guaranteed by a member of the Control Group and by a number of Group companies.

(in thousands of US dollars)

Savings Bank of Russia
These nine loan facilities (with a total limit of $50 990) bearing a weighted average interest of 14.05% per annum (ranging from 12% to 22%) and are payable between 2006 and 2010. At December 31, 2005, $3 120 was available for drawdown on these facilities. Property, plant and equipment of $21 387 and inventory and livestock of $1 880 is pledged as collateral.

18. TAX RELATED PAYABLES

Short-term tax related payables as of June 30, 2006 and December 31, 2005 comprised:

	June 30, 2006	December 31, 2005
VAT	1 757	9 547
Payroll related taxes	1 408	1 070
Corporate income tax	906	1 290
Personal income tax	848	760
Property tax payable	707	797
Road user tax	34	38
Other taxes	137	321
Total short-term tax related payables	**5 797**	**13 823**

Long-term tax related payables as of June 30, 2006 and December 31, 2005 comprised:

	June 30, 2006	December 31, 2005
Payroll related taxes	385	366
VAT	298	276
Other taxes	122	115
Total long-term tax related payables under restructuring agreements	**805**	**757**
Tax contingency accruals	342	326
Total long-term tax related payables	**1 147**	**1 083**

The schedule of tax repayment comprises:

2010	169
2011	159
2012	159
2013	159
2014	159
	805

(in thousands of US dollars)

19. OTHER PAYABLES

Other payables as of June 30, 2006 and December 31, 2005 comprised:

	June 30, 2006	December 31, 2005
Payroll related liability	8 820	7 687
Payables for non-current assets	4 321	10 455
Interest payables	3 485	3 339
Advances received	1 619	2 080
Settlements with shareholders	95	131
Other payables	5 237	4 124
Total other current payables	**23 577**	**27 816**

20. MINORITY INTERESTS

The movements in minority interests for the first six months of 2006 and 2005 were as follows:

Balance at January 1, 2005	35 443
Purchase of minority interest	(2 018)
Minority share in net income	(96)
Minority share in net losses from discontinued operations	(39)
Balance at June 30, 2005	33 290
Balance at January 1, 2006	14 548
Minority share in net income	809
Balance at June 30, 2006	15 357

21. SHARE CAPITAL

During the second half of 2005 all direct ownership in Group companies was contributed by the Control Group into the share capital of OJSC Cherkizovo Group (except entities distributed to shareholders in the Spin-off). As of June 30, 2006, 91.4% of share capital was owned by Cherkizovsky Group Ltd.

As of December 31, 2005, 547 026 shares of ordinary stock were authorized, of which 328 216 were issued and outstanding with a par value of 1 ruble. The Group is authorized to issue preferred shares not exceeding 25% of its ordinary stock. No such shares are currently issued or outstanding.

In May 2006 the Group made an offering of ordinary shares and global depositary receipts on the London Stock Exchange. As part of this process, the Group issued an additional 67 427 shares of common stock with a par value of 1 ruble in exchange for $146 249.

In accordance with Russian legislation, earnings available for dividends are limited to retained profits calculated in accordance with statutory rules in local currency.

(in thousands of US dollars)

The Group accrued $764 and $948 during the six months ended June 30, 2006 and 2005, respectively, in the form of remuneration to shareholders not functioning in management roles.

22. SALES

Sales for the six months ended June 30, 2006 and 2005 and for the year ended December 31, 2005 comprised:

	Six months ended June 30, 2006	Six months ended June 30, 2005	Year ended December 31, 2005
Own made goods	284 443	258 213	539 576
Goods for resale	3 799	3 846	9 821
Other sales	1 790	1 954	4 417
Sales volume discount	(3 525)	(1 845)	(3 378)
Sales returns allowance	(3 063)	(2 202)	(4 255)
Total sales	**283 444**	**259 966**	**546 181**

During the six months ended June 30, 2006, 2005 and the year ended December 31, 2005, the Group's sales to related parties comprised:

	Six months ended June 30, 2006	Six months ended June 30, 2005	Year ended December 31, 2005
Own produced goods	2 941	-	2 081
Goods for resale	181	-	-
Other Sales	563	95	142
Total sales to related parties	**3 685**	**95**	**2 223**

23. COST OF SALES

Cost of sales for the six months ended June 30, 2006 and 2005 and for the year ended December 31, 2005 comprised:

	Six months ended June 30, 2006	Six months ended June 30, 2005	Year ended December 31, 2005
Raw materials	175 014	168 506	335 684
Personnel (excluding pension costs)	18 852	16 258	33 553
Depreciation	11 036	8 853	17 326
Utilities	5 544	5 063	10 038
Cost of goods for resale	3 478	3 408	10 815
Pension costs	3 070	2 956	6 050
Other	3 555	3 091	7 527
Total cost of sales	**220 549**	**208 135**	**420 993**

(in thousands of US dollars)

24. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the six months ended June 30, 2006 and 2005 and for the year ended December 31, 2005 comprised:

	Six months ended June 30, 2006	Six months ended June 30, 2005	Year ended December 31, 2005
Personnel (excluding pension costs)	20 200	17 003	33 967
Transportation	3 144	2 596	6 048
Materials and supplies	3 078	2 731	5 685
Advertising and marketing	3 063	1 407	4 801
Pension costs	2 767	2 402	5 042
Taxes (other than income tax)	2 327	2 246	4 939
Audit, consulting and legal fees	2 316	699	2 792
Depreciation	1 744	1 792	3 144
Security services	1 327	1 114	2 621
Bank charges	771	818	1 665
Utilities	685	549	982
Insurance	512	290	886
Information technology and communication services	282	320	667
Bad debts	(576)	(112)	(295)
Charity	-	-	178
Other	4 471	4 015	7 582
Total general and administrative expenses	**46 111**	**37 870**	**80 704**

25. OTHER OPERATING EXPENSES

Other operating expenses for the six months ended June 30, 2006 and 2005 and for the year ended December 31, 2005 comprised:

	Six months ended June 30, 2006	Six months ended June 30, 2005	Year ended December 31, 2005
Loss on disposal of property, plant and equipment	520	242	646
Unusual loss related to privatization of subsidiary	-	-	467
	520	**242**	**1 113**

In April 2004 LLC Ardymsky Feed Milling Plant entered into litigation related to the privatization of the company and legal title to certain property, plant and equipment. In 2005, according to the court's decision, legal title on some of the assets in dispute was transferred to the plaintiff. However LLC Ardymsky Feed Milling Plant was able to reach an out-of-court settlement with the plaintiff for $467. As a result, the plaintiff waived all rights to the assets in question and LLC Ardymsky Feed Milling Plant became their lawful owner. This amount has been included above as an unusual loss related to privatization of the subsidiary.

(in thousands of US dollars)

26. OTHER INCOME AND EXPENSE, NET

Other income and expense for the six months ended June 30, 2006 and 2005 and for the year ended December 31, 2005 comprised:

	Six months ended June 30, 2006	Six months ended June 30, 2005	Year ended December 31, 2005
Interest expense	12 279	8 768	15 611
Loan origination fees	1 661	-	-
Bank fees related to early repayment of EBRD loan	889	-	-
Foreign exchange (gain) loss	(4 140)	1 873	2 219
Gain from debt forgiveness	(65)	(171)	(987)
Other financial (income) and expenses, net	(354)	89	63
Total other income and expense, net	**10 270**	**10 559**	**16 906**

Loan origination fees expensed relate to the early repayment of EBRD loan and comprise consulting and legal fees capitalized at the inception of the loan agreement (Note 17).

According to the loan agreement with the EBRD the Group was required to pay an early repayment fee equal to 2% of the outstanding balance on the day of the repayment (Note 17).

27. PENSION COSTS

The Group makes payments for employees into the Pension fund of the Russian Federation. From January 1, 2005, all contributions to the Pension fund are calculated by the application of a regressive rate from 20% to 2% of the annual gross remuneration of each employee.

28. RELATED PARTIES

Shareholders / Control Group
In the first half of 2006 and 2005, related parties provided debt financing to the Group and served as guarantors for certain third party debts.

Entities disposed of to shareholders
Transactions with entities disposed of to shareholders comprise mostly of purchases of raw materials from CJSC Penzamyasoprom and sale of mixed fodder to CJSC Penzamyasoprom. Additionally, the Group has purchased from disposed companies some of their fixed assets and made lease payments for leased property, plant and equipment (Note 29). Settlements between related entities are generally made in cash. These related parties are under common ownership and the existence of that control could result in operating results or financial position of the Group significantly different from those that would have been obtained were the enterprises autonomous. Such transactions are expected to continue to play a role in the operations of the Group in the future.

Other related parties
Other related party purchases in the first half of 2006 and 2005 are mostly represented by purchases of IT technology and security services.

(in thousands of US dollars)

As of June 30, 2006 and for the six months then ended, balances and transactions with related parties are summarized as follows:

	Shareholders	Companies disposed to shareholders and Other related parties	Total
Balances			
Short-term loan receivable	-	2 450	2 450
Trade receivables	-	3 000	3 000
Advances issued	-	1 668	1 668
Other receivables and prepayments	-	1 543	1 543
Long-term loans receivable	12	382	394
Equity investments in affiliated companies	-	1	1
Trade payables	-	2 047	2 047
Short-term loans	70	455	525
Other payables	531	694	1 225
Current portion of long-term loans payable	763	194	957
Long-term notes payable	3 783		3 783
Long-term loans payable	1 557	-	1 557
Long-term payables to shareholders related to lease agreements	1 121		1 121
Activities			-
Sales		3 685	3 685
Rent income from related party		14	14
Purchase of IT services		152	152
Purchase of security services		540	540
Purchase of goods and services		5 081	5 081
Purchase of property plant and equipment		55	55

(in thousands of US dollars)

Balances as of December 31, 2005 and transactions for the first six months of 2005 with related parties are summarized as follows:

	Shareholders	Companies disposed to shareholders and Other related parties	Total
Balances			
Short-term loan receivable	-	1 880	1 880
Trade receivables	-	1 636	1 636
Advances issued	-	1 655	1 655
Other receivables and prepayments	-	1 396	1 396
Long-term loans receivable	-	8	8
Equity investments in affiliated companies	-	-	-
Trade payables	-	1 189	1 189
Short-term loans	66	428	494
Other payables	-	1 978	1 978
Current portion of long-term loans payable	752	-	752
Long-term notes payable	3 559	-	3 559
Long-term loans payable	1 663	122	1 785
Long-term payables to shareholders related to lease agreements	1 115	-	1 115
Activities			
Sales	95		95
Rent income from related party		530	530
Purchase of IT services		219	219
Purchase of security services		363	363
Purchase of goods and services		1	1
Purchase of property plant and equipment		-	-

29. LONG-TERM PAYABLES TO SHAREHOLDERS

During 2005 certain Group companies were spun-off of as a part of the Restructuring transaction. Some property, plant and equipment that remained in distributed entities were necessary for the continuing operations of the Group. This equipment was partly transferred to the companies remaining in the Group. The equipment that was not possible to transfer due to timing issues was leased by the distributed companies on bargain terms. The lease terms include bargain options for the Group to continue the agreement over the life of the underlying equipment. For the purposes of calculating the lease term, the Group used the remaining useful life of the underlying assets. Property, plant and equipment leased at lease inception was $4 137.

Payables to shareholders for leased property, plant and equipment as of June 30, 2006 comprise:

Settlements with shareholders for leasing, long-term portion	1 121
Settlements with shareholders for leasing, current portion	35
Total	**1 156**

(in thousands of US dollars)

Movements in the liability for the 6 months ended June 30, 2006 were:

Long-term lease liability before shareholders as of January 1, 2006	1 147
Interest accrued at 14% on leasing liability	(80)
Repayment of liability to shareholders	141
Translation gain	(52)
Long-term lease liability before shareholders as of June 30, 2006	**1 156**

30. COMMITMENTS AND CONTINGENCIES

Legal
As of June 30, 2006, several consolidating 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 joint stock 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 poor drafting, different interpretations and arbitrary application by the authorities. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances review may cover longer periods. Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects could be significant.

Environmental Remediation Costs
The Group's management believes that it is in compliance with applicable legislation and is not aware of any potential environmental claims; therefore, no liabilities associated with such costs are recorded as of June 30, 2006.

Capital Commitments
At June 30, 2006, the Group had a large capital project in progress at JSC Lipetskmyasoprom. As part of this project, commitments had been made to contractors of approximately $70 255 for completion of the project.

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 $1 431 for completion of the project.

31. SUBSEQUENT EVENTS

For the period from July 1, 2006 through September 20, 2006, the Group made repayments on short-term and long-term debt of approximately $50 561. The Group also entered into additional agreements or received additional funds under existing short and long-term loan agreements over the same period totaling approximately $94 455.

Subsequent to June 30, 2006, the Group made capital commitments of approximately $6 740 related to the construction of a new farm in the Tambov region.