# OJSC Cherkizovo Group

**Independent Accountants' Review Report**

**Condensed Consolidated Interim**
**Financial Statements**
For the Six Months Ended 30 June 2008 and 2007
(UNAUDITED)

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

For the six months ended 30 June 2008 and 2007 (UNAUDITED)

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 consolidated interim financial statements of OJSC Cherkizovo Group and subsidiaries ("the Group").

Management is responsible for the preparation of the condensed consolidated interim financial statements that present fairly the financial position of the Group at 30 June 2008 and 31 December 2007 and the results of its operations, cash flows and changes in equity for the six months ended 30 June 2008 and 2007, 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:

- 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 consolidated interim financial statements; and
- Preparing the condensed 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 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 consolidated interim financial statements for the six months ended 30 June 2008 and 2007 were approved on behalf of the Board of Directors on 3 October 2008 by:

| Mr. Sergei I. Mikhailov<br>Chief Executive Officer | Mr. Arthur M. Minosyants<br>Chief Operating Officer | Mrs. Ludmila I. Mikhailova<br>Chief Financial Officer |
|---|---|---|

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# Independent Accountants' Review Report

To the Shareholders of OJSC Cherkizovo Group:

We have reviewed the accompanying condensed consolidated interim balance sheet of OJSC Cherkizovo Group and subsidiaries (together "the Group") as of 30 June 2008 and the related condensed consolidated interim statements of income, cash flows and changes in shareholders' equity and comprehensive income for the six-month periods ended 30 June 2008 and 2007 ( "the Financial Statements"). 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 in the United States of America, 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 31 December 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 reviews, with the exception of the matter described in the preceding paragraph, we are not aware of any material modifications that should be made to the 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 balance sheet of the Group as of 31 December 2007, and the related consolidated statements of income, cash flows and changes in shareholders' equity and comprehensive income (not presented herein) for the year then ended; and in our report dated 4 April 2008, we expressed a qualified opinion on those 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 balance sheet as of 31 December 2007, and the condensed consolidated statements of operations and cash flows for the year then ended is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

Deloitte & Touche CIS

3 October 2008

# Condensed consolidated interim balance sheets

As of 30 June 2008 (UNAUDITED) and 31 December 2007

| | | 30 June 2008 US$000 | 31 December 2007 US$000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 26 295 | 16 920 |
| Trade receivables, net of allowance for doubtful accounts of 3 271 and 2 795 as of 30 June 2008 and 31 December 2007, respectively | | 100 300 | 88 306 |
| Advances paid, net of allowance for doubtful accounts of 731 and 936 as of 30 June 2008 and 31 December 2007, respectively | | 47 176 | 37 686 |
| Inventory | 3 | 160 578 | 156 222 |
| Loans receivable | | 2 892 | 2 807 |
| Deferred tax assets | | 7 844 | 7 496 |
| Other receivables, net of allowance for doubtful accounts of 711 and 688 as of 30 June 2008 and 31 December 2007, respectively | 16 | 57 762 | 20 051 |
| Other assets | | 35 036 | 41 255 |
| **Total current assets of continuing operations** | | **437 883** | **370 743** |
| Current assets of discontinued operations | | 482 | 1 395 |
| **Total current assets** | | **438 365** | **372 138** |
| **Non-current assets** | | | |
| Property, plant and equipment, net | 4 | 809 863 | 711 580 |
| Goodwill | | 11 468 | 10 959 |
| Other intangible assets, net | | 58 133 | 55 007 |
| Loans to affiliated companies | | 1 917 | 3 362 |
| Deferred tax assets | | 2 998 | 2 865 |
| Notes receivable, net | | 9 100 | 8 357 |
| VAT receivable | | 11 363 | 21 034 |
| **Total non-current assets of continuing operations** | | **904 842** | **813 164** |
| Non-current assets of discontinued operations | | 1 992 | 1 730 |
| **Total non-current assets** | | **906 834** | **814 894** |
| **Total assets** | | **1 345 199** | **1 187 032** |

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

# Condensed consolidated interim balance sheets
continued

As of 30 June 2008 (UNAUDITED) and 31 December 2007

| | | 30 June 2008 US$000 | 31 December 2007 US$000 |
|---|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current liabilities** | | | |
| Trade accounts payable | | 81 611 | 75 571 |
| Loans and finance leases | 5 | 294 495 | 231 358 |
| Tax related payables | | 6 088 | 6 908 |
| Deferred tax liabilities | | 185 | 177 |
| Payroll related liability | | 17 118 | 14 463 |
| Advances received | | 1 175 | 2 899 |
| Payables for non-current assets | | 11 450 | 16 108 |
| Interest payable | | 2 844 | 2 673 |
| Other payables | | 6 805 | 2 951 |
| **Total current liabilities of continuing operations** | | **421 771** | **353 108** |
| Current liabilities of discontinued operations | | 2 139 | 1 510 |
| **Total current liabilities** | | **423 910** | **354 618** |
| | | | |
| **Non-current liabilities** | | | |
| Loans and finance leases | 5 | 380 296 | 425 231 |
| Deferred tax liabilities | | 42 681 | 42 982 |
| Tax related payables | | 10 889 | 10 004 |
| Payables to shareholders | 13 | 1 193 | 1 167 |
| Other liabilities | | 264 | 212 |
| **Total non-current liabilities of continuing operations** | | **435 323** | **479 596** |
| Non-current liabilities of discontinued operations | | 1 025 | 2 068 |
| **Total non current liabilities** | | **436 348** | **481 664** |
| | | | |
| Commitments and contingencies | 15 | | |
| **Minority interest** | | **21 545** | **21 226** |
| | | | |
| **Shareholders' equity:** | | | |
| Share capital | 6 | 15 | 14 |
| Additional paid-in capital | 6 | 289 146 | 209 861 |
| Other accumulated comprehensive income | 6 | 39 224 | 20 891 |
| Retained earnings | 6 | 135 011 | 98 758 |
| **Total equity** | | **463 396** | **329 524** |
| **Total liabilities and equity** | | **1 345 199** | **1 187 032** |

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

# Condensed consolidated interim income statements

For the six months ended 30 June 2008 and 2007 (UNAUDITED)
and for the year ended 31 December 2007

| | | Six months ended 30 June 2008 US$000 | Six months ended 30 June 2007 US$000 | Year ended 31 December 2007 US$000 |
|---|---|---|---|---|
| Sales | 7 | 559 214 | 343 053 | 840 815 |
| Cost of sales | 8 | (418 980) | (248 552) | (617 021) |
| **Gross profit** | | **140 234** | **94 501** | **223 794** |
| Selling, general and administrative expenses | 9 | (91 162) | (63 946) | (140 535) |
| Other operating income (expense) | | 154 | 457 | (145) |
| **Operating income** | | **49 226** | **31 012** | **83 114** |
| Other income, net | 10 | 3 664 | 1 873 | 6 829 |
| Interest expense | 11 | (15 585) | (7 231) | (18 613) |
| **Income from continuing operations before income tax and minority interest** | | **37 305** | **25 654** | **71 330** |
| Income tax | | (522) | (3 021) | (6 832) |
| Minority interest | | (357) | (570) | (2 265) |
| **Income from continuing operations** | | **36 426** | **22 063** | **62 233** |
| Loss from discontinued operations, net of income tax | | (173) | (198) | (651) |
| **Net income** | | **36 253** | **21 865** | **61 582** |
| Weighted average number of shares outstanding | | 40 377 628 | 39 564 300 | 39 564 300 |

| | | | |
|---|---|---|---|
| | **US$** | **US$** | **US$** |
| Earnings per share: | | | |
| Income from continuing operations | 0.90 | 0.56 | 1.57 |
| Loss from discontinued operations, net of income tax | - | (0.01) | (0.01) |
| Net income per share | 0.90 | 0.55 | 1.56 |

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

# Condensed consolidated interim cash flow statements

For the six months ended 30 June 2008 and 2007 (UNAUDITED)
and for the year ended 31 December 2007

| | | Six months ended 30 June 2008 US$000 | Six months ended 30 June 2007 US$000 | Year ended 31 December 2007 US$000 |
|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | |
| Income from continuing operations | | 36 426 | 22 063 | 62 233 |
| Adjustments to reconcile income from continuing operations to net cash from operating activities: | | | | |
| Amortisation of discount on loans from third parties | | 8 | 7 | 17 |
| Depreciation and amortisation | | 23 208 | 13 563 | 32 089 |
| Interest income on notes payable | | (351) | (346) | (502) |
| Bad debt expense | 9 | 333 | 1 819 | 2 551 |
| Gain from debt forgiveness | 10 | (151) | (103) | (467) |
| (Gain) loss on disposal of property, plant and equipment | | (154) | (457) | 145 |
| Minority interest | | 357 | 570 | 2 265 |
| Foreign exchange (gain) loss | 10 | (2 777) | 520 | (3 217) |
| Deferred tax benefit | | (2 250) | (469) | (168) |
| Penalties accrued on Interpretation 48 tax liabilities | | 413 | 103 | 434 |
| Income related to expiration of statute of limitations on tax risks accrued under Interpretation 48 | | - | - | (2 962) |
| **Changes in operating assets and liabilities** | | | | |
| Decrease (increase) in inventories, other than livestock | | 7 749 | (3 395) | (28 805) |
| (Increase) decrease in trade receivables | | (7 397) | 3 942 | (19 068) |
| Increase in advances paid | | (7 340) | (1 563) | (15 557) |
| Increase in livestock | | (758) | (2 613) | (9 872) |
| Decrease (increase) in VAT for property, plant and equipment | | 10 434 | (5 543) | (6 440) |
| Increase in other assets | | (28 050) | (5 709) | (13 804) |
| Increase in trade accounts payable | | 2 481 | 4 777 | 22 781 |
| Decrease in taxes payable | | (1 534) | (2 194) | (2 228) |
| Increase in other payables | | 1 685 | 645 | 582 |
| **Net cash from operating activities associated with continuing operations** | | **32 332** | **25 617** | **20 007** |
| **Net cash (used in) from operating activities associated with discontinued operations** | | **(13)** | **13** | **(94)** |
| **Total net cash from operating activities** | | **32 319** | **25 630** | **19 913** |

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

# Condensed consolidated interim cash flow statements
continued

For the six months ended 30 June 2008 and 2007 (UNAUDITED)
and for the year ended 31 December 2007

| | Note | Six months ended 30 June 2008 US$000 | Six months ended 30 June 2007 US$000 | Year ended 31 December 2007 US$000 |
|---|---|---|---|---|
| **Cash flows from investing activities:** | | | | |
| Purchases of property, plant and equipment | | (95 440) | (70 531) | (173 782) |
| Proceeds from sale of property, plant and equipment | | 187 | 1 790 | 3 631 |
| Acquisition of subsidiaries, net of cash acquired | | - | - | (139 775) |
| Long-term loans granted | | (394) | (52) | (1 281) |
| Repayment on long-term loans granted | | 1 970 | 1 520 | 1 560 |
| Short-term loans granted | | - | (786) | (435) |
| Repayments on short-term loans granted | | 45 | 187 | 433 |
| **Net cash flow used in investing activities associated with continuing operations** | | **(93 632)** | **(67 872)** | **(309 649)** |
| **Net cash from investing activities associated with discontinued operations** | | **13** | **-** | **94** |
| **Total net cash used in investing activities** | | **(93 619)** | **(67 872)** | **(309 555)** |
| **Cash flows from financing activities:** | | | | |
| Proceeds from long-term loans | | 61 028 | 59 290 | 121 781 |
| Repayment of long-term loans | | (19 595) | (7 401) | (23 576) |
| Repayment of notes payable | | - | (192) | (195) |
| Proceeds from short-term loans | | 168 375 | 99 814 | 314 512 |
| Repayment of short-term loans | | (221 525) | (118 368) | (216 780) |
| Proceeds from shares issued | 6 | 82 340 | - | - |
| Payments for expenses related to the issuance of shares | 6 | (547) | - | - |
| **Total net cash from financing activities** | | **70 076** | **33 143** | **195 742** |
| **Total cash from (used in) operating, investing and financing activities** | | **8 776** | **(9 099)** | **(93 900)** |
| Impact of exchange rate difference on cash and cash equivalents | | 599 | 2 032 | 3 850 |
| **Net increase (decrease) in cash and cash equivalents:** | | **9 375** | **(7 067)** | **(90 050)** |
| **Cash and cash equivalents associated with continuing operations, at the beginning of the period** | | **16 920** | **106 982** | **106 982** |
| **Cash and cash equivalents associated with discontinued operations, at the beginning of the period** | | **2** | **6** | **6** |
| **Cash and cash equivalents associated with continuing operations, at the end of the period** | | **26 295** | **99 919** | **16 920** |
| **Cash and cash equivalents associated with discontinued operations, at the end of the period** | | **2** | **2** | **18** |
| Supplemental Information: | | | | |
| Income taxes paid | | 4 975 | 4 094 | 11 381 |
| Interest paid | | 36 206 | 19 456 | 47 806 |
| Property, plant and equipment acquired under finance leases | | 2 507 | 3 078 | 8 425 |

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

# Condensed consolidated interim statements of changes in shareholders’ equity and comprehensive income

For the six months ended 30 June 2008 and 2007 (UNAUDITED)

| | Share capital US$000 | Additional paid-in capital US$000 | Retained earnings US$000 | Other accumulated comprehensive income (loss) US$000 | Total shareholders' equity US$000 | Total comprehensive income US$000 |
|---|---|---|---|---|---|---|
| **Balances at 1 January 2007** | **14** | **209 861** | **39 840** | **(1 049)** | **248 666** | |
| Net income for the six months ended 30 June 2007 | - | - | 21 865 | - | 21 865 | 21 865 |
| Cumulative effect adjustment upon adoption of Interpretation 48 | - | - | (2 664) | - | (2 664) | |
| Translation effect | - | - | - | 5 517 | 5 517 | 5 517 |
| **Balances at 30 June 2007** | **14** | **209 861** | **59 041** | **4 468** | **273 384** | |
| **For the six months ended 30 June 2007** | | | | | | **27 382** |
| **Balances at 1 January 2008** | **14** | **209 861** | **98 758** | **20 891** | **329 524** | |
| New share issue | 1 | 79 285 | - | - | 79 286 | |
| Net income for the six months ended 30 June 2008 | - | - | 36 253 | - | 36 253 | 36 253 |
| Translation effect | - | - | - | 18 333 | 18 333 | 18 333 |
| **Balances at 30 June 2008** | **15** | **289 146** | **135 011** | **39 224** | **463 396** | |
| **For the six months ended 30 June 2008** | | | | | | **54 586** |

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

# Notes to the condensed consolidated interim financial statements

For the six months ended 30 June 2008 and 2007 (UNAUDITED)
and for the year ended 31 December 2007
(In US$000)

## 1 Business

OJSC Cherkizovo Group and subsidiaries (together “the Group”) 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.
As the Group evolved with continuing acquisitions, two distinctive operating structures emerged made up of meat processing (APK Cherkizovsky) and agricultural entities (APK Mikhailovsky and Golden Rooster Co. Limited).

## 2 Summary of significant accounting policies

### Basis of preparation

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

The unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the United States (“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 unaudited condensed consolidated 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 2007. The condensed consolidated balance sheet as of 31 December 2007 is derived from the 31 December 2007 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 financial statements and the reported amounts of revenues and expenses during the reporting period. 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, calculation of deferred taxes and valuation allowances for deferred tax assets.

Management believes that all adjustments necessary for a fair statement of the results for the periods presented have been made and all such adjustments were of a normal recurring nature unless otherwise disclosed. The financial results for the six months ended 30 June 2008 are not necessarily indicative of financial results for the full year. The unaudited condensed consolidated financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2007.

### Taxation

The Group’s effective tax rate for the six months ended 30 June 2008 was 1.4%, which differs from the statutory rate of 24% largely due to the tax holidays enacted for the companies engaged in agricultural production, as well as receipt of non-taxable subsidies by some of the Group companies.

### Subsidies

In accordance with Russian legislation, enterprises engaged in agricultural activities receive subsidies on certain qualifying loans (see Note 11), as well as targeted subsidies based on the amount of meat produced (see Notes 3 and 8).

For the six months ended 30 June 2008 the Federal Budget of the Russian Federation was amended to increase the total assignment of funds for subsidies to agricultural producers by introducing subsidies designed to compensate the producers for the high cost of mixed fodder used in production of poultry and pork during the first half of 2008. The subsidies were recorded in other receivables in the amount of 33,077 with the offset against cost of sales of 31 279 and inventory of 1 149, with the difference due to the effects of foreign currency translation (see Note 16 for more information regarding the subsidies). Out of the total amount of subsidies, 24 547 and 8 530 are related to the poultry and pork segments, respectively.

## 2 Summary of significant accounting policies continued

### Discontinued operations

In November 2007, management of the Group made a decision to dispose of a subsidiary in the meat processing segment – MPP Salsky Ltd. The disposal has been classified as a discontinued operation in the year ended 31 December 2007. No changes were made to the plan of sale, as the management is actively looking for a buyer and the sale is expected to be completed in the latter part of 2008.

### Foreign currency translation

The following table summarizes the exchange rates of the Russian rouble to 1 US dollar at 30 June 2008, 31 December 2007 and 30 June 2007.

| | Exchange rate |
|---|---|
| 30 June 2008 | 23.4573 |
| 31 December 2007 | 24.5462 |
| 30 June 2007 | 25.8162 |

### Effect of accounting pronouncements adopted

As of 1 January 2008, the Group adopted SFAS No. 157, "Fair Value Measurement" ("SFAS 157"). SFAS 157 provides a single definition of fair value, along with a framework for measurement and requires additional disclosure about using fair value to measure assets and liabilities. SFAS 157 emphasizes that fair value measurement is market-based, not entity-specific, and establishes a fair value hierarchy in which the highest priority is quoted prices in active markets. Under SFAS 157, fair value measurements are disclosed according to their level within this hierarchy. While the statement does not add any new fair value measurements, it does change practice as follows: requiring entities to include their own credit standing when measuring their liabilities, modifying the transaction price assumption, prohibiting broker-dealers and investment companies from using block discounts when valuing large blocks of securities and requiring entities to adjust the value of restricted securities for the effect of the restriction even when the restriction lapses within one year. The application of SFAS 157 did not have a material impact on the financial statements as of the date of adoption.

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

### New accounting pronouncements

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), "Business Combinations" ("SFAS 141R"). SFAS 141R significantly changes the accounting for business combinations. Under SFAS 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition date fair value with limited exceptions. SFAS 141R will change the accounting treatment for certain specific acquisition related items including expensing acquisition related costs as incurred, valuing noncontrolling interests at fair value at the acquisition date and expensing restructuring costs associated with an acquired business. SFAS 141R also includes a substantial number of new disclosure requirements. SFAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. The Group is currently assessing the impact of adopting the statement.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements— an amendment of Accounting Research Bulletin No. 51" ("SFAS 160"). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective on January 1, 2009. The Group is currently assessing the impact of adopting the statement.

## 2 Summary of significant accounting policies continued

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133” (“SFAS 161”). SFAS 161 requires enhanced disclosures about an entity’s derivative and hedging activities. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Group is currently assessing the impact of adopting the statement.

In April 2008, the FASB issued FSP SFAS No. 142-3, “Determination of the Useful Life of Intangible Assets” (“FSP SFAS 142-3”). FSP SFAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, “Goodwill and Other Intangible Assets”. FSP SFAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, with early adoption prohibited. The Group is currently assessing the impact of adopting the statement.

## 3 Inventory

Inventory as of 30 June 2008 and 31 December 2007 comprised:

| | 30 June 2008<br>US$000 | 31 December 2007<br>US$000 |
|---|---|---|
| Raw materials and goods for resale | 85 333 | 90 243 |
| Livestock | 58 264 | 52 879 |
| Work in-process | 9 589 | 7 246 |
| Finished goods | 7 392 | 5 854 |
| **Total inventory** | **160 578** | **156 222** |

## 4 Property, plant and equipment, net

Property, plant and equipment, net, as of 30 June 2008 and 31 December 2007 comprised:

| | 30 June 2008<br>US$000 | 31 December 2007<br>US$000 |
|---|---|---|
| Buildings, infrastructure and leasehold improvements | 398 054 | 323 951 |
| Land | 2 972 | 2 711 |
| Machinery and equipment | 150 187 | 126 963 |
| Vehicles | 34 655 | 31 169 |
| Cattle | 204 | 830 |
| Sows | 8 965 | 10 156 |
| Other | 1 065 | 1 958 |
| Advances paid for property, plant and equipment | 73 386 | 52 976 |
| Construction in progress and equipment for installation | 140 375 | 160 866 |
| **Total property, plant and equipment, net** | **809 863** | **711 580** |

Accumulated depreciation amounted to 163 857 and 135 339 as of 30 June 2008 and 31 December 2007, respectively.

Vehicles and Machinery and equipment include 17 168 and 16 116 of leased equipment as of 30 June 2008 and 31 December 2007, respectively. Buildings, infrastructure and leasehold improvements include 18 381 and 18 556 of leased buildings and constructions as of 30 June 2008 and 31 December 2007, respectively.

## 5 Borrowings

Borrowings of the Group as of 30 June 2008 and 31 December 2007 comprised:

| | | | | 30 June 2008 US$000 | | 31 December 2007 US$000 | |
|---|---|---|---|---|---|---|---|
| | Interest rates | WAIR* | EIR** | Current | Non-current | Current | Non-current |
| Finance leases | 8.30%-16.90% | 13.83% | 13.83% | 4 714 | 9 297 | 4 550 | 9 666 |
| Bonds | 8.85% | 8.85% | 8.85% | 85 261 | - | - | 81 479 |
| Bank loans | 12.00%-16.75% | 13.07% | 5.36% | 6 297 | 7 674 | 77 816 | 10 564 |
| Credit lines | 6.62%-16.00% | 11.61% | 3.86% | 160 412 | 356 313 | 125 283 | 309 144 |
| Loans from government | 1.00%-6.00% | 4.03% | 4.03% | 35 443 | 7 012 | 19 545 | 13 653 |
| Other borrowings | 0.00%-7.00% | 3.57% | 3.57% | 2 368 | - | 4 164 | 725 |
| | | | | **294 495** | **380 296** | **231 358** | **425 231** |
| **Total borrowings** | | | | | **674 791** | | **656 589** |

* WAIR represents the weighted average interest rate on borrowings as of 30 June 2008.
** EIR represents the effective rate on borrowings as of 30 June 2008, adjusted by government subsidies for certain qualifying debt. Since approvals for subsidies are received annually by the Group as required by law, the existence of such subsidies in any given period is not necessarily indicative of their existence in future periods. See Note 2 for further disclosure of government subsidies related to interest on borrowings.

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

| | 01.07.2009 US$000 | 01.07.2010 US$000 | 01.07.2011 US$000 | 01.07.2012 US$000 | 01.07.2013 US$000 | 01.07.2014 US$000 | > 01.07.2014 US$000 | Total US$000 |
|---|---|---|---|---|---|---|---|---|
| **Total borrowings** | 158 386 | 96 981 | 36 801 | 103 360 | 56 853 | 65 407 | 11 597 | **529 385** |

The Group's borrowings are denominated in roubles 649 713, Euro 643 and US dollars 24 435.

### Finance leases

As of 30 June 2008 and 31 December 2007, the Group operated certain fixed assets under leasing contracts that qualified for treatment as finance leases. The lower of the incremental borrowing and the rate implicit in the lease agreement was used in capitalizing the leases. The total minimum lease payments due under these lease agreements comprise:

| | 30 June 2008 | | 31 December 2007 | |
|---|---|---|---|---|
| Payments falling due | Total minimum lease payments US$000 | Portion related to interest US$000 | Total minimum lease payments US$000 | Portion related to interest US$000 |
| Within one year | 6 344 | 1 630 | 6 261 | 1 711 |
| In year two | 3 758 | 1 129 | 4 099 | 1 192 |
| In year three | 1 541 | 909 | 1 807 | 910 |
| In year four | 1 091 | 861 | 1 045 | 837 |
| In year five | 1 074 | 829 | 1 026 | 808 |
| After year five | 10 472 | 4 911 | 10 521 | 5 085 |
| | **24 280** | **10 269** | **24 759** | **10 543** |

### Bonds

During June 2006, the Group raised two billion roubles (74 881 at the issuance date) through an issue of puttable bonds with a face value of 1 000 roubles (37 at the issuance date). The bonds will mature in 2011, unless redeemed in 2009. The coupon rate on the bonds, payable semi-annually, is set at 8.85% per annum for the first three years. At the end of the first three years, the Group will bid a coupon rate to be paid for an additional two years. At that point, the investors in the bonds have the right to redeem the bonds at their par amount or may accept the Group's bid, causing the maturity to be extended to June 2011. The investors' decision to redeem will be decided by each individual bondholder therefore it is possible that either a portion, or the entirety, of the outstanding principle may become due in June 2009.

## 5 Borrowings continued

### Bank loans

**Gazprombank**

Borrowings from Gazprombank consist of two long-term rouble denominated loans with an interest rate of 12% per annum. Notes receivable with a carrying value of 9 100 were pledged as collateral under these loan agreements. Principal payment is due on maturity in 2014. Amount outstanding as of 30 June 2008 and 31 December 2007 is 7 674 and 7 333, respectively.

### Lines of credit

**Savings Bank of Russia**

Borrowings from the Savings Bank of Russia consist of fifty six lines of credit with interest ranging from 10.0% to 14.0% per annum. Several of these instruments are guaranteed by Group companies and related parties. Principal payments are due from 2008 to 2015. Amount outstanding as of 30 June 2008 and 31 December 2007 is 208 204 and 168 583, respectively.

**Gazprombank**

Borrowings from Gazprombank consist of five lines of credit with interest ranging from 11.5% to 14.0% per annum. Some of these facilities are guaranteed by Group companies and related parties. Principal payments are due from 2009 to 2015. Amount outstanding as of 30 June 2008 and 31 December 2007 is 177 099 and 160 932, respectively.

**Raiffeisenbank**

Borrowings from Raiffeisenbank consist of two unsecured loan facilities bearing interest equal to the one-month MosPrime rate plus 1.5% and 4.35% per annum. One-month MosPrime rate at 30 June 2008 was 5.12% per annum. Principle payment is due on maturity in 2009. Amount outstanding as of 30 June 2008 and 31 December 2007 is 38 783 and 37 061, respectively.

**Bank Zenith**

Borrowings from Bank Zenith consist of two lines of credit with interest rate of 11.5% and 12.5% per annum. Notes receivable with a carrying value of 3 872 were pledged as collateral under these agreements. Some of these facilities are guaranteed by Group companies and related parties. Principal payment is due on maturity in 2011. Amount outstanding as of 30 June 2008 and 31 December 2007 is 76 801 and 54 469, respectively.

The total amount of unused credit on lines of credit as of 30 June 2008 is 106 328. The unused credit can be utilized from 2008 to 2011 with varying expiration of available amounts.

### Loans from government

**Department of Food Supply of the City of Moscow**

Borrowings from the Department of Food Supply of the City of Moscow consist of one long-term and two short-term loans with interest ranging from 3.42% to 4.0% per annum. One of the loans is guaranteed by Bank of Moscow. Principal payment is due on maturity in 2009. Amount outstanding as of 30 June 2008 and 31 December 2007 is 31 127 and 15 483, respectively.

**Department of Taxes and Financial Policies, Moscow City Government**

Borrowings from the Department of Taxes and Financial Policies of the Moscow City Government consist of two long-term loans with interest of 5.5% and 6% per annum. Principal payments are due from 2008 to 2011. Amount outstanding as of 30 June 2008 and 31 December 2007 is 9 293 and 9 859, respectively.

### Other borrowings

Other borrowings primarily represent unsecured loans from contractors involved in construction of LLC Tambovmyasoprom‘s facilities, with interest ranging from 0% to 7.0% per annum. Principal payments are due from 2008 to 2009.

### Collateral under borrowings

Shares of and participating interests in the following Group companies are pledged as collateral under certain borrowings as of 30 June 2008:

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

## 5 Borrowings continued

Inventory pledged under loan agreements totalled 25 041 and 37 348 as of 30 June 2008 and 31 December 2007, respectively.

Property, plant and equipment with carrying value of 165 421 and 136 747 was pledged under loan agreements as of 30 June 2008 and 31 December 2007, respectively.

## 6 Shareholders' equity

### Share capital

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

In May 2008, the Group issued an additional 3 505 055 ordinary shares, of which 493 447 ordinary shares were acquired by the OJSC Cherkizovo Group's existing shareholders (including holders of global depository receipts (GDRs) acting through the depositary) pursuant to their statutory pre-emptive rights. This increased the number of issued and outstanding shares to 43 069 355. The net proceeds from the offering, after share issuance costs of 3 054, were 79 286. Share issuance costs of 2 507 remained unpaid as at 30 June 2008 and were recorded in other accounts payable.

All issued and outstanding shares have equal voting rights. As of 30 June 2008, MB Capital Partners Ltd. (formerly, Cherkizovsky Group Ltd.) owned 61.1% of the outstanding share capital of OJSC Cherkizovo Group. The Group is authorized to issue preferred shares not exceeding 25% of its ordinary share capital. No such shares are currently issued.

In accordance with Russian legislation, earnings available for dividends are limited to retained earnings of OJSC Cherkizovo Group, calculated in accordance with statutory rules in local currency. No dividends were declared or paid for the six months ended 30 June 2008 and 2007.

### Earnings per share

Earnings per share for the six months ended 30 June 2008 and 2007 have been determined using the weighted average number of Group shares outstanding over each period.

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

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

## 7 Sales

Sales for the six months ended 30 June 2008 and 2007 and for the year ended 31 December 2007 comprised:

| | Six months ended 30 June 2008 US$000 | Six months ended 30 June 2007 US$000 | Year ended 31 December 2007 US$000 |
|---|---|---|---|
| Produced goods and goods for resale | 575 000 | 352 626 | 868 975 |
| Other sales | 5 300 | 1 796 | 4 057 |
| Discounts | (17 357) | (7 730) | (24 887) |
| Sales returns | (3 729) | (3 639) | (7 330) |
| **Total sales** | **559 214** | **343 053** | **840 815** |

## 8 Cost of sales

Cost of sales for the six months ended 30 June 2008 and 2007 and for the year ended 31 December 2007 comprised:

| | Six months ended 30 June 2008 US$000 | Six months ended 30 June 2007 US$000 | Year ended 31 December 2007 US$000 |
|---|---|---|---|
| Raw materials and goods for resale | 324 231 | 198 974 | 495 223 |
| Personnel (excluding pension costs) | 41 038 | 22 432 | 53 665 |
| Depreciation | 20 057 | 11 477 | 27 152 |
| Utilities | 16 470 | 6 982 | 18 575 |
| Pension costs | 6 475 | 3 568 | 7 745 |
| Other | 10 709 | 5 119 | 14 661 |
| **Total cost of sales** | **418 980** | **248 552** | **617 021** |

Raw materials and goods for resale are offset by subsidies received from the government amounting to 31 891, 1 998 and 5 970 for the six months ended 30 June 2008 and 2007 and for the year ended 31 December 2007, respectively (see Note 16 for additional information).

## 9 Selling, general and administrative expenses

Selling, general and administrative expenses for the six months ended 30 June 2008 and 2007 and for the year ended 31 December 2007 comprised:

| | Six months ended 30 June 2008 US$000 | Six months ended 30 June 2007 US$000 | Year ended 31 December 2007 US$000 |
|---|---|---|---|
| Personnel (excluding pension costs) | 36 542 | 25 411 | 57 464 |
| Transportation | 10 233 | 4 851 | 11 703 |
| Materials and supplies | 7 237 | 4 623 | 11 270 |
| Pension costs | 5 619 | 4 079 | 7 185 |
| Taxes (other than income tax) | 4 115 | 2 940 | 6 408 |
| Advertising and marketing | 3 939 | 4 569 | 8 262 |
| Security services | 3 690 | 1 966 | 4 400 |
| Depreciation and amortisation | 3 151 | 2 086 | 4 937 |
| Audit, consulting and legal fees | 2 601 | 2 437 | 3 994 |
| Utilities | 1 702 | 736 | 1 732 |
| Repairs and maintenance | 1 495 | 673 | 2 230 |
| Veterinary services | 1 408 | 1 044 | 2 210 |
| Bank charges | 800 | 636 | 1 380 |
| Bad debt expense | 333 | 1 819 | 2 551 |
| Other | 8 297 | 6 076 | 14 809 |
| **Total selling, general and administrative expenses** | **91 162** | **63 946** | **140 535** |

## 10 Other income, net

Other income, net of other expenses, for the six months ended 30 June 2008 and 2007 and for the year ended 31 December 2007 comprised:

| | Six months ended 30 June 2008 US$000 | Six months ended 30 June 2007 US$000 | Year ended 31 December 2007 US$000 |
|---|---|---|---|
| Foreign exchange gain (loss) | 2 777 | (520) | 3 217 |
| Interest income | 741 | 2 266 | 3 266 |
| Gain from debt forgiveness | 151 | 103 | 467 |
| Other financial (expenses) income | (5) | 24 | (121) |
| **Total other income, net** | **3 664** | **1 873** | **6 829** |

Gain on debt forgiveness relates to debt, on which the statute of limitations has expired.

## 11 Interest expense

Interest expense for the six months ended 30 June 2008 and 2007 and for the year ended 31 December 2007 comprised:

| | Six months ended 30 June 2008 US$000 | Six months ended 30 June 2007 US$000 | Year ended 31 December 2007 US$000 |
|---|---|---|---|
| Interest expense | 14 544 | 7 095 | 17 882 |
| Finance lease expense | 1 033 | 129 | 714 |
| Amortisation of discount | 8 | 7 | 17 |
| **Total interest expense** | **15 585** | **7 231** | **18 613** |

Interest expense is offset by subsidies received from the government amounting to 7 825, 4 264, and 9 730 for the six months ended 30 June 2008 and 2007 and for the year ended 31 December 2007, respectively.

## 12 Related parties

During the first six months of 2008 and 2007, certain shareholders issued loans to the Group and served as guarantors for certain third party debts.

Transactions with entities disposed of to shareholders in prior periods are comprised mostly of purchases of raw materials from CJSC Penzamyasoprom and grain from LLC RAO Penzenskaya Grain Company, as well as sale of mixed fodder to LLC RAO Penzenskaya Grain Company and CJSC Penzamyasoprom.

Additionally, the Group has purchased from disposed companies some of their fixed assets, as well as made payments for leased property, plant and equipment (Note 13). 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 being significantly different from those that would have been obtained were such enterprises autonomous. Such transactions are expected to continue to play a role in the operations of the Group in the future.

Other related party transactions during the six months ended 30 June 2008 and 2007 and for the year ended 31 December 2007 are mostly represented by purchases of information technology and security services.

As of 30 June 2008 and as of 31 December 2007, balances with related parties are summarized as follows:

| | 30 June 2008 US$000 | 31 December 2007 US$000 |
|---|---|---|
| Trade receivables | 12 840 | 8 246 |
| Advances issued | 20 901 | 7 786 |
| Other receivables and prepayments | 3 135 | 2 132 |
| Short-term loan receivable | 2 779 | 2 703 |
| Long-term loans receivable | 1 510 | 4 199 |
| Trade payables | 857 | 2 077 |
| Other payables | 403 | 317 |
| Short-term loans | - | 77 |
| Long-term payables to shareholders related to lease agreements | 1 193 | 1 167 |
| Current portion of long-term loans payable | - | 163 |
| Long-term loans payable | - | 725 |

## 12 Related parties continued

For the six months then ended 30 June 2008 and 2007, and for the year ended 31 December 2007, transactions with related parties are summarized as follows:

| | 30 June 2008 US$000 | 30 June 2007 US$000 | 31 December 2007 US$000 |
|---|---|---|---|
| Sales | 6 700 | 2 302 | 11 031 |
| Purchases of goods and services | 5 762 | 2 569 | 13 752 |
| Purchases of security services | 563 | 697 | 912 |
| Purchases of IT services | 313 | 292 | 224 |
| Purchases of property, plant and equipment | 42 | 180 | 2 632 |
| Rent income | 8 | 5 | 4 |

## 13 Payables to shareholders

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

Payables to shareholders for leased property, plant and equipment as of 30 June 2008 and 31 December 2007 amounted to 1 247 and 1 215, respectively, including a long-term portion of 1 193 and 1 167, respectively.

Movements in the total liability to shareholders for leased property for the six months ended 30 June 2008 were:

| | Six months ended 30 June 2008 US$000 |
|---|---|
| Liability incurred to shareholders for leases as of 1 January 2008 | 1 215 |
| Interest accrued at 14% on lease liability | 87 |
| Repayment | (111) |
| Translation loss | 56 |
| **Liability incurred to shareholders for leases as of the period end** | **1 247** |

## 14 Segment reporting

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

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

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

## **14 Segment reporting** continued

Segment information for the six months ended 30 June 2008:

| | Meat processing US$000 | Poultry US$000 | Pork US$000 | Corporate assets/ expenditures US$000 | Intersegment US$000 | Consolidated US$000 |
|---|---|---|---|---|---|---|
| Total sales | 272 171 | 247 261 | 53 972 | 351 | | 573 755 |
| including other sales | 1 176 | 22 452 | 3 718 | - | | 27 346 |
| including sales volume discount | (11 694) | (5 663) | - | - | | (17 357) |
| Intersegment sales | (96) | (10 039) | (4 055) | (351) | | (14 541) |
| Sales to external customers | 272 075 | 237 222 | 49 917 | - | | 559 214 |
| Cost of sales | (229 126) | (173 885) | (30 058) | (18) | 14 107 | (418 980) |
| **Gross profit** | **43 045** | **73 376** | **23 914** | **333** | **(434)** | **140 234** |
| Operating expenses | (46 204) | (34 853) | (3 771) | (6 614) | 434 | (91 008) |
| **Operating income** | **(3 159)** | **38 523** | **20 143** | **(6 281)** | - | **49 226** |
| Other income and expenses, net | 569 | 947 | (17) | 14 160 | (11 995) | 3 664 |
| Interest expenses | (8 218) | (9 724) | (814) | (8 824) | 11 995 | (15 585) |
| **Segment profit** | **(10 808)** | **29 746** | **19 312** | **(945)** | - | **37 305** |
| Supplemental information: | | | | | | |
| Expenditure for segment property, plant and equipment | 5 833 | 38 232 | 45 050 | 21 | - | 89 136 |
| Depreciation and amortisation expense | 9 407 | 10 587 | 3 210 | 4 | - | 23 208 |
| Income tax (benefit)/expense | (151) | 415 | 270 | (12) | - | 522 |

Segment information for the six months ended 30 June 2007:

| | Meat processing US$000 | Poultry US$000 | Pork US$000 | Corporate assets/ expenditures US$000 | Intersegment US$000 | Consolidated US$000 |
|---|---|---|---|---|---|---|
| Total sales | 220 475 | 104 547 | 23 122 | 322 | | 348 466 |
| including other sales | 487 | 3 461 | 1 600 | - | | 5 548 |
| including sales volume discount | (5 035) | (2 695) | - | - | | (7 730) |
| Intersegment sales | (162) | (3 311) | (1 618) | (322) | | (5 413) |
| Sales to external customers | 220 313 | 101 236 | 21 504 | - | | 343 053 |
| Cost of sales | (174 398) | (64 006) | (15 222) | (1) | 5 075 | (248 552) |
| **Gross profit** | **46 077** | **40 541** | **7 900** | **321** | **(338)** | **94 501** |
| Operating expenses | (38 000) | (18 767) | (2 046) | (5 014) | 338 | (63 489) |
| **Operating income** | **8 077** | **21 774** | **5 854** | **(4 693)** | **-** | **31 012** |
| Other income and expenses, net | 217 | (32) | (137) | 10 502 | (8 677) | 1 873 |
| Interest expenses | (6 979) | (4 043) | (651) | (4 235) | 8 677 | (7 231) |
| **Segment profit** | **1 315** | **17 699** | **5 066** | **1 574** | **-** | **25 654** |
| Supplemental information: | | | | | | |
| Expenditure for segment property, plant and equipment | 7 192 | 12 512 | 56 288 | 4 | - | 75 996 |
| Depreciation and amortisation expense | 7 786 | 3 791 | 1 986 | - | - | 13 563 |
| Income tax expense/(benefit) | 1 437 | 1 069 | (105) | 620 | - | 3 021 |

## **14 Segment reporting** continued

Segment information for the year ended 31 December 2007 comprised:

| | Meat processing US$000 | Poultry US$000 | Pork US$000 | Corporate assets/ expenditures US$000 | Intersegment US$000 | Consolidated US$000 |
|---|---|---|---|---|---|---|
| Total sales | 487 285 | 296 801 | 69 869 | 660 | | 854 615 |
| including other sales | 1 678 | 19 872 | 3 317 | - | | 24 867 |
| including sales volume discount | (17 670) | (7 217) | - | - | | (24 887) |
| Intersegment sales | (2 776) | (5 181) | (5 186) | (657) | | (13 800) |
| Sales to external customers | 484 509 | 291 620 | 64 683 | 3 | | 840 815 |
| Cost of sales | (386 085) | (203 381) | (40 684) | (4) | 13 133 | (617 021) |
| **Gross profit** | **101 200** | **93 420** | **29 185** | **656** | **(667)** | **223 794** |
| Operating expenses | (81 443) | (46 256) | (4 680) | (8 967) | 666 | (140 680) |
| **Operating income** | **19 757** | **47 164** | **24 505** | **(8 311)** | **(1)** | **83 114** |
| Other income and expenses, net | 1 027 | 2 248 | (64) | 22 097 | (18 479) | 6 829 |
| Interest expenses | (14 173) | (10 659) | (1 390) | (10 868) | 18 477 | (18 613) |
| **Segment profit** | **6 611** | **38 753** | **23 051** | **2 918** | **(3)** | **71 330** |
| Supplemental information: | | | | | | |
| Expenditure for segment property, plant and equipment | 14 411 | 47 911 | 124 616 | 14 | - | 186 952 |
| Depreciation and amortisation expense | 16 318 | 11 267 | 4 502 | 2 | - | 32 089 |
| Income tax expense | 2 844 | 280 | 2 644 | 1 064 | - | 6 832 |

Reconciliation between net segment profit and income from continuing operations per the consolidated income statements for the six months ended 30 June 2008 and 2007 and for the year ended 31 December 2007 is as follows:

| | Six months ended 30 June 2008 US$000 | Six months ended 30 June 2007 US$000 | Year ended 31 December 2007 US$000 |
|---|---|---|---|
| Total net segment profit | 37 305 | 25 654 | 71 330 |
| Minority interest | (357) | (570) | (2 265) |
| Income taxes | (522) | (3 021) | (6 832) |
| **Consolidated income from continuing operations** | **36 426** | **22 063** | **62 233** |

Segment assets as of 30 June 2008 and 31 December 2007 comprised:

| | 30 June 2008 US$000 | 31 December 2007 US$000 |
|---|---|---|
| Meat processing | 344 968 | 340 103 |
| Poultry | 481 045 | 390 651 |
| Pork | 387 185 | 333 886 |
| Corporate assets | 384 950 | 355 667 |
| Intersegment | (255 423) | (236 400) |
| Assets of discontinued operations | 2 474 | 3 125 |
| **Total assets** | **1 345 199** | **1 187 032** |

## 15 Commitments and contingencies

### Legal

As of 30 June 2008 and 31 December 2007, several Group companies reported negative net assets in their statutory financial statements. In accordance with the Civil Code of the Russian Federation, a liquidation process may be initiated against a company reporting negative net assets. Management believes that it is remote that the liquidation process will be initiated against those companies.

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

### Taxation

Laws and regulations affecting businesses in the Russian Federation continue to change. These changes are characterized by different interpretations and arbitrary application by the authorities. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. 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 reviews may cover longer periods. Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects could be significant. Management believes that the total amount of possible tax risks, in accordance with FAS 5 "Accounting for Contingencies", is 2 282 as of 30 June 2008.

### Environmental remediation costs

The Group's management believes that it is in compliance with applicable legislation and is not aware of any potential environmental claims; therefore, no liabilities associated with such costs are recorded as of 30 June 2008.

### Capital commitments

At 30 June 2008, the Group had large capital projects in progress at JSC Lipetskmyasoprom, LLC Tambovmyasoprom, JSC Vasiljevskaya and CJSC Petelinskaya. As part of these projects, commitments had been made to contractors of approximately 62 597, 59 007, 23 822 and 18 659, respectively, 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. As part of this project, commitments have been made to contractors of approximately 1 997 towards completion of the project.

### Operating lease commitments

At 30 June 2008, the Group had the following obligations under non-cancellable operating lease agreements:

| | 01.07.2009 US$000 | 01.07.2010 US$000 | 01.07.2011 US$000 | 01.07.2012 US$000 | 01.07.2013 US$000 | > 01.07.2014 US$000 | Total US$000 |
|---|---|---|---|---|---|---|---|
| **Total commitments** | 460 | 387 | 373 | 373 | 336 | 3 133 | **5 062** |

## 16 Subsequent events

In July 2008, the government of the Russian Federation delayed the introduction of income tax for agricultural companies until 2012. The agricultural operations within the poultry and pork segments will be subject to income tax starting 1 January 2013 as follows:

| Years | Income tax rate |
|---|---|
| 2013-2015 | 18% |
| Thereafter | 24% |

## 16 Subsequent events continued

In September 2008, OJSC Cherkizovo Group applied to the UK Financial Services Authority to admit additional GDRs, representing up to 100% of the issued share capital of the OJSC Group Cherkizovo, that may be issued from time to time by the depositary, subject to the limitations and requirements of the Russian law. OJSC Group Cherkizovo also applied to the London Stock Exchange (LSE) to admit the additional GDRs to trading on the regulated market for listed securities. The unconditional trading of the additional GDRs on the LSE has commenced on 26 September 2008.

In September 2008, the government of the Russian Federation issued a decree providing formulas for calculating subsidies to agricultural producers to compensate the producers for the high cost of mixed fodder used in the production of poultry and pork during the first half of 2008. The decree was based on the change to the Law on the Federal Budget of the Russian Federation that was approved by the Duma of the Russian Federation as at 30 June 2008 and increased the total assignment of funds for subsidies to agricultural producers. Based on the decree, the subsidies of 5 roubles and 10 roubles per kilogram of liveweight of poultry and pork produced for slaughter, respectively, were provided.