OJSC Cherkizovo Group

Consolidated and Combined Financial Statements
Years Ended 31 December 2007, 2006 and 2005

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Statement of management's responsibilities for the preparation and approval of the consolidated and combined financial statements

For the years ended 31 December 2007, 2006 and 2005

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on page 3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated and combined financial statements of OJSC Cherkizovo Group and subsidiaries ("the Group").

Management is responsible for the preparation of the consolidated and combined financial statements that present fairly, in all material respects, the consolidated financial position of the Group at 31 December 2007, 2006 and 2005 and the consolidated and combined results of its operations, cash flows and changes in shareholders' equity and comprehensive income for the years then ended, in conformity with accounting principles generally accepted in the United States of America ("US GAAP").

In preparing the consolidated and combined 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 consolidated and combined financial statements, and
- Preparing the consolidated and combined 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 consolidated and combined 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 consolidated and combined financial statements for the years ended 31 December 2007, 2006 and 2005 were approved on 4 April 2008 by:

Mr. Sergei I. Mikhailov Chief Executive Officer	Mr. Arthur M. Minosyants Chief Operating Officer	Ms. Ludmila I. Mikhailova Chief Financial Officer

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Independent auditors' report

To the Shareholders of OJSC Cherkizovo Group:

We have audited the accompanying consolidated balance sheets of OJSC Cherkizovo Group and its subsidiaries (the "Group") as of 31 December 2007, 2006 and 2005 and the related consolidated and combined statements of income, cash flows and changes in shareholders' equity and comprehensive income for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, the Group did not maintain historical cost records for property, plant and equipment acquired prior to 31 December 2001. On 31 December 2001, the Group established the carrying value of such assets based on the estimated fair values at such date. In our opinion, accounting principles generally accepted in the United States of America require that property, plant and equipment be stated at historical cost. The information needed to quantify the effects of these items on the financial position, results of operations, and cash flows of the Group is not reasonably determinable from the accounts and records.

In our opinion, except for the effects of including property, plant and equipment based on fair values as described in the preceding paragraph, such financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2007, 2006 and 2005 and the consolidated and combined results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, effective as of 1 January 2007, the Group adopted Financial Accounting Standards Board Interpretation 48, which established new accounting and reporting standards for uncertainty in income taxes recognized in financial statements.

Deloitte & Touche CIS

4 April 2008

Consolidated balance sheets

As of 31 December 2007, 2006 and 2005

		2007 US$000	2006 US$000 As restated	2005 US$000 As restated
ASSETS				
Current assets				
Cash and cash equivalents	3	16 920	106 982	5 142
Trade receivables, net of allowance for doubtful accounts of 2 795, 2 102 and 2 940 as of 31 December 2007, 2006 and 2005, respectively		88 306	64 212	32 745
Advances paid, net of allowance for doubtful accounts of 936, 309 and 735 as of 31 December 2007, 2006 and 2005, respectively		37 686	17 796	8 498
Inventory	4	156 222	86 712	54 383
Loans receivable		2 807	2 628	2 743
Deferred tax assets	18	7 496	4 614	3 620
Other receivables, net of allowance for doubtful accounts of 688, 208 and 522 as of 31 December 2007, 2006 and 2005, respectively		20 051	9 216	3 468
Other current assets	5	41 255	27 594	27 408
Total current assets of continuing operations		**370 743**	**319 754**	**138 007**
Current assets of discontinued operations	23	1 395	2 057	3 739
Total current assets		**372 138**	**321 811**	**141 746**
Non-current assets				
Property, plant and equipment, net	6	711 580	351 800	248 352
Goodwill	7	10 959	9 538	8 725
Other intangible assets, net	7	55 007	17 990	13 964
Loans to affiliated companies	20	3 362	3 581	711
Deferred tax assets	18	2 865	1 729	388
Long term notes receivable	8	8 357	6 904	–
VAT receivable		21 034	13 353	8 108
Total long-term assets of continuing operations		**813 164**	**404 895**	**280 248**
Long-term assets of discontinued operations	23	1 730	1 908	3 261
Total non-current assets		**814 894**	**406 803**	**283 509**
Total assets		**1 187 032**	**728 614**	**425 255**

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

Consolidated balance sheets continued

As of 31 December 2007, 2006 and 2005

		2007 US$000	2006 US$000 As restated	2005 US$000 As restated
Liabilities and shareholders' equity				
Current liabilities				
Trade accounts payable		75 571	38 589	47 799
Short-term debt and current portion of finance leases	9	231 358	104 006	90 285
Deferred tax liabilities	18	177	46	–
Tax related payables	10	6 908	8 124	13 550
Payroll related liability		14 463	9 988	7 516
Advances received		2 899	1 954	2 071
Payables for non-current assets		16 108	2 831	10 394
Interest payable		2 673	2 316	3 339
Other payables		2 951	5 761	4 244
Total current liabilities of continuing operations		**353 108**	**173 615**	**179 198**
Current liabilities of discontinued operations	23	1 510	1 578	3 633
Total current liabilities		**354 618**	**175 193**	**182 831**
Non-current liabilities				
Long-term debt and finance leases	9	425 231	262 656	143 175
Deferred tax liabilities	18	42 982	19 843	19 525
Tax related payables	10	10 004	392	372
Payables to shareholders	21	1 167	1 133	1 115
Other liabilities		212	11	40
Total non-current liabilities of continuing operations		**479 596**	**284 035**	**164 227**
Total non-current liabilities of discontinued operations	23	2 068	2 020	2 088
Total non-current liabilities		**481 664**	**286 055**	**166 315**
Commitments and contingencies	25			
Minority interest		21 226	18 700	14 414
Shareholders' equity				
Share capital (par value – 0.01 Russian Roubles; total authorized shares – 54 702 600 at 31 December 31 2007, 2006 and 2005; issued and outstanding shares – 39 564 300, 39 564 300 and 32 821 600 as of 31 December 2007, 2006 and 2005, respectively)	11	14	14	12
Additional paid-in capital		209 861	209 861	63 614
Other accumulated comprehensive income (loss)		20 891	(1 049)	(13 115)
Retained earnings		98 758	39 840	11 184
Total shareholders' equity		**329 524**	**248 666**	**61 695**
Total liabilities and shareholders' equity		**1 187 032**	**728 614**	**425 255**

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

Consolidated and combined income statements

For the years ended 31 December 2007, 2006 and 2005

		2007 US$000	2006 US$000 As restated	2005 US$000 As restated
Sales	12	840 815	631 642	543 165
Cost of sales	13	(617 021)	(483 816)	(417 825)
Gross profit		**223 794**	**147 826**	**125 340**
Selling, general and administrative expenses	14	(140 535)	(98 013)	(80 418)
Other operating expenses	15	(145)	(1 723)	(1 141)
Operating income		**83 114**	**48 090**	**43 781**
Other income (expense), net	16	6 829	6 595	(1 250)
Interest expense, net	17	(18 613)	(17 480)	(15 498)
Income from continuing operations before income tax, minority interest and extraordinary item		**71 330**	**37 205**	**27 033**
Income tax	18	(6 832)	(2 453)	(8 013)
Income from continuing operations before minority interest and extraordinary item		**64 498**	**34 752**	**19 020**
Minority interest		(2 265)	(2 287)	(1 511)
Income from continuing operations before extraordinary item		**62 233**	**32 465**	**17 509**
Loss from discontinued operations, net of income tax	23	(651)	(226)	(552)
Loss on disposal of discontinued operations, net of income tax		–	(2 813)	–
Income before extraordinary item		**61 582**	**29 426**	**16 957**
Extraordinary gain on purchase of interests in consolidating entities, net of income tax	23	–	–	79
Net income		**61 582**	**29 426**	**17 036**
Weighted average number of shares outstanding	11	39 564 300	36 878 334	32 821 600

	US$	US$	US$
Earnings per share:			
Income from continuing operations	1.57	0.88	0.53
Loss from discontinued operations, net of income tax	(0.01)	(0.01)	(0.01)
Loss on disposal of discontinued operations, net of income tax	–	(0.07)	–
Extraordinary gain	–	–	0.00
Net income per share	1.56	0.80	0.52

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

Consolidated and combined cash flow statements

For the years ended 31 December 2007, 2006 and 2005

		2007 US$000	2006 US$000 As restated	2005 US$000 As restated
Cash flows from operating activities:				
Income from continuing operations before extraordinary item		62 233	32 465	17 509
Adjustments to reconcile income from continuing operations to net cash from (used in) operating activities:				
Amortisation of discount on loans from third parties	17	17	18	129
Depreciation and amortization		32 089	24 352	19 999
Bad debt expense (recovery)	14	2 551	(231)	(393)
Gain from debt forgiveness	16	(467)	(787)	(982)
Loss on disposal of property, plant and equipment	15	145	1 723	674
Minority interest		2 265	2 287	1 511
Foreign exchange (gain) loss	16	(3 217)	(4 567)	2 219
Deferred tax benefit		(168)	(4 207)	(1 853)
Income related to expiration of statute of limitations on tax risks accrued under Interpretation 48, net of penalties accrued on Interpretation 48 tax liabilities	18	(2 528)	–	–
Other adjustments		(502)	(184)	(179)
Changes in operating assets and liabilities				
Increase in inventories		(38 677)	(26 290)	(12 698)
Increase in trade receivables		(19 068)	(27 774)	(26 739)
Increase in advances paid		(15 557)	(7 291)	(4 169)
Increase in VAT for property, plant and equipment		(6 440)	(4 351)	–
Increase in other current assets		(13 804)	(2 616)	(18 629)
Increase (decrease) in trade accounts payable		22 781	(14 460)	17 357
(Decrease) increase in taxes payable		(2 228)	(6 585)	7 058
Increase in other payables		582	5 420	12 432
Net cash from (used in operating activities associated with continuing operations		**20 007**	**(33 078)**	**13 246**
Cash flows from discontinued operating activities:				
Loss from discontinued operations		(651)	(226)	(552)
Adjustments to reconcile loss from discontinued operations to net cash used in operating activities associated with discontinued operations:				
Bad debt expense		69	26	34
Gain from debt extinguishment		(26)	(15)	–
Minority interest in loss from discontinued operations		(161)	(46)	(27)
Deferred tax expense (benefit)		31	41	(94)
Depreciation		122	171	164
Loss (gain) on disposal of property, plant and equipment		11	3	(60)
Net change in operating assets and liabilities		511	(2 064)	1 535
Net cash (used in) from operating activities associated with discontinued operations		**(94)**	**(2 110)**	**1 000**
Total net cash from (used in) operating activities		**19 913**	**(35 188)**	**14 246**
Cash flows from investing activities:				
Purchases of property, plant and equipment		(173 782)	(112 775)	(75 751)
Proceeds from sale of property, plant and equipment		3 631	324	1 419
Acquisitions of minority interest in consolidating entities		–	(137)	(291)
Acquisitions of subsidiaries, net of cash acquired		(139 775)	–	56
Proceeds from sale of consolidated entities, net of cash disposed		–	47	–
Proceeds from sale of investments		–	184	–
Issuance of long-term loans		(1 281)	(6 094)	–
Repayments of long-term loans issued		1 560	2 508	–
Issuance of short-term loans		(435)	(3 662)	(6 382)
Repayments of short term loans issued		433	3 186	10 998
Purchase of notes receivable		–	(6 690)	–
Net cash used in investing activities associated with continuing operations		**(309 649)**	**(123 109)**	**(69 951)**

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

Consolidated and combined cash flow statements
continued

For the years ended 31 December 2007, 2006 and 2005

	2007 US$000	2006 US$000 As restated	2005 US$000 As restated
Cash flows from investing activities associated with discontinued operations:			
Purchases of property, plant and equipment	(23)	(300)	(1 249)
Proceeds from sale of property, plant and equipment	117	23	125
Net cash from (used in) investing activities associated with discontinued operations	**94**	**(277)**	**(1 124)**
Total net cash used in investing activities	**(309 555)**	**(123 386)**	**(71 075)**
Cash flows from financing activities:			
Proceeds from long-term loans	121 825	187 956	69 250
Repayment of long-term loans	(23 576)	(81 089)	(23 591)
Repayments of notes payable	(195)	(2 482)	–
Proceeds from short-term loans	314 512	289 901	113 643
Repayments of short-term loans	(216 780)	(281 490)	(95 832)
Proceeds from shares issued	–	146 249	–
Cash distributed to shareholders	(44)	(951)	(4 823)
Net cash from financing activities associated with continuing operations	**195 742**	**258 094**	**58 647**
Cash flows from financing activities associated with discontinued operations:			
Proceeds from long-term loans	–	1 220	707
Repayments of long-term loans	–	(735)	(40)
Proceeds from short-term loans	–	–	5 293
Repayment of short-term loans	–	(1 150)	(4 766)
Net cash (used in) from financing activities associated with discontinued operations	–	**(665)**	**1 194**
Total net cash from financing activities	**195 742**	**257 429**	**59 841**
Total cash (used in) from operating, investing and financing activities	**(93 900)**	**98 855**	**3 012**
Impact of exchange rate difference on cash and cash equivalents	3 850	2 933	(216)
Net (decrease) increase in cash and cash equivalents	**(90 050)**	**101 788**	**2 796**
Cash and cash equivalents associated with continuing operations at the beginning of the year	**106 982**	**5 142**	**2 394**
Cash and cash equivalents associated with discontinued operations at the beginning of the year	**6**	**58**	**10**
Cash and cash equivalents associated with continuing operations at the end of the year	**16 920**	**106 982**	**5 142**
Cash and cash equivalents associated with discontinued operations at the end of the year	**18**	**6**	**58**
Supplemental Information:			
Income taxes paid	11 381	5 370	9 350
Interest paid	47 806	33 814	15 853
Property, plant and equipment acquired under finance leases	8 425	1 237	1 637
Repayment of loan with notes receivable	–	1 529	–
Acquisitions made for non-cash consideration	–	–	26 154

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

Consolidated and combined statements of changes in shareholders' equity and comprehensive income

For the years ended 31 December 2007, 2006 and 2005

	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 2005 (As restated)	**11**	**37 461**	**5 069**	**(10 464)**	**32 077**	
Net income for the year		–	17 036	–	17 036	17 036
Shares issued in exchange for minority interest	1	26 153	–	–	26 154	
Distributions to shareholders (Note 11)	–	–	(1 841)	–	(1 841)	
Net distribution to shareholders through Spin-Off (Note 20)	–	–	(9 080)	–	(9 080)	
Translation loss	–	–	–	(2 651)	(2 651)	(2 651)
Balances at 31 December 2005 (As restated)	**12**	**63 614**	**11 184**	**(13 115)**	**61 695**	
For the year ended 31 December 2005 (As restated)						**14 385**
Net income for the year	–	–	29 426	–	29 426	29 426
New share issue (Note 11)	2	146 247	–	–	146 249	
Distributions to shareholders (Note 11)	–	–	(770)	–	(770)	
Translation gain	–	–	–	12 066	12 066	12 066
Balances at 31 December 2006 (As restated)	**14**	**209 861**	**39 840**	**(1 049)**	**248 666**	
For the year ended 31 December 2006 (As restated)						**41 492**
Net income for the year	–	–	61 582	–	61 582	61 582
Cumulative effect adjustment upon adoption of Interpretation 48 (Note 2)	–	–	(2 664)	–	(2 664)	
Translation gain	–	–	–	21 940	21 940	21 940
Balances at 31 December 2007	**14**	**209 861**	**98 758**	**20 891**	**329 524**	
For the year ended 31 December 2007						**83 522**

No dividends were declared or paid for the years ended 31 December 2007, 2006 and 2005.

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

Notes to the consolidated and combined financial statements

For the years ended 31 December 2007, 2006 and 2005

1 Business and environment

Business

Incorporation and history

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

The structure of the Group prior to the transfer by the Control Group of its ownership in the Group companies to the Company was not united in a form of a legal consolidated group. As the companies were operated by the Control Group as if it were a consolidated group, management believes that in order to show a fair presentation of the results of operations for the Group for the year ended 31 December 2005 it was necessary to combine the holdings of the Control Group for that year.

During November 2005, the Control Group completed a restructuring of its ownership in the Group companies through the transfer of its direct interests in group companies to the Company and its wholly owned subsidiaries ("Restructuring"). The Restructuring was performed in order to legally consolidate control over the Group's agricultural holdings and meat processing companies. This Restructuring eliminated all direct ownership in such companies by the Control Group. This was accomplished by contributing shares of these companies held by the Control Group to the share capital of wholly owned subsidiaries. Companies whose business activities were not in line with the overall business strategy of the Group were transferred to members of the Control Group (the "Spin-Off"). The Spin-Off was treated as a distribution to owners. See Note 23 for further details regarding the structure, acquisition, and divestiture transactions of the Group. The historical share capital and additional paid in capital presented in these consolidated and combined financial statements represent that of the Company for all periods presented.

The business of the Group

The Group's operations are spread over the full production cycle from feed production and breeding to meat processing and distribution. The operational facilities of the Group include eight meat processing plants, four pig production complexes, four poultry production complexes and one combined fodder production plant. The Group also operates two trading houses with subsidiaries in 13 major Russian cities.

The Group's geographical reach covers Moscow, the Moscow region, the regions of Saint Petersburg, Penza, Lipetsk, Vologda, Belgorod, Ulyanovsk, Rostov, Tver, Chelyabinsk, Tambov, Voronezh, Krasnodar, Ufa, Saratov, Samara, Ekaterinburg, Perm, Briansk and Kazan. The Group is represented in the European part of Russia through its own distribution network; the logistical reach of this network is further aided by its own fleet of over 870 trucks.

The Group owns locally recognised brands which include «Черкизовский» (Cherkizovsky), «Петелинка» (Petelinka), «Куриное Царство» (Kurinoe Tsarstvo) and «Империя вкуса» (Imperia vkusa).

At 31 December 2007, 2006 and 2005, the number of staff employed by the Group was 15 295, 12 511 and 12 066, respectively.

2 Summary of significant accounting policies

Accounting principles
The Group's companies maintain their accounting books and records in accordance with Russian or foreign statutory accounting regulations, as applicable. The accompanying consolidated and combined financial statements have been prepared in order to present the consolidated financial position and consolidated and combined results of operations and cash flows of the Group in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The accompanying consolidated and combined 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.

Basis of consolidation
The consolidated and combined financial statements of the Group include the accounts of the Company and subsidiaries controlled through direct ownership of the majority of the voting interests as described in Note 23. Companies acquired or disposed of during the periods presented are included in the consolidated financial statements from the date of acquisition or to the date of disposal.

Prior to November 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 results of operations, and cash flows of the companies under common control for the period prior to the Restructuring, in order to achieve fair presentation for 2005. All significant inter-company balances and transactions are eliminated on consolidation.

Changes to the financial statements of 2006 and 2005
The Group made certain adjustments to the prior year financial statements due to the change to an accounting policy which complies with US GAAP (Note 24) and to reflect the effects of discontinued operations (Note 23).

Foreign currency translation
The Group follows a translation policy in accordance with SFAS No. 52, "Foreign Currency Translation" and has determined the Russian rouble to be the Company's and the wholly owned subsidiaries' functional currency.

The Company has selected the U.S. Dollar as its reporting currency and translates its consolidated financial statements into U.S. Dollars. Assets and liabilities are translated at reporting period-end exchange rates. Shareholders' equity items, other than retained earnings, are translated at the rate effective on the latter of 1 January 2003 (date of change in functional currency due to cessation of hyperinflation), or the date when the transaction occurred. Income and expense items are translated at average rates of exchange prevailing during the reporting period. The resulting translation adjustment is recorded as a separate component of other comprehensive income.

The following table summarizes the exchange rates of the Russian rouble to 1 US dollar at 31 December 2007, 2006 and 2005.

	Exchange rate
31 December 2007	24.5462
31 December 2006	26.3311
31 December 2005	28.7825

Management estimates
The preparation of the consolidated and combined financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated and combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2 Summary of significant accounting policies continued

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, valuation allowances for deferred tax assets and valuation of assets and liabilities of the acquired entities used in determining purchase price allocation.

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

Accounts receivable and allowance for doubtful accounts
Accounts receivable are stated at their net realizable value, which approximates their fair value.

Group companies provide an allowance for doubtful accounts based on management's periodic review of 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 determined using the average cost method. Cost is the sum of the expenditures and charges, direct and indirect, in bringing goods to their existing condition or location. It includes the applicable allocation of fixed production and variable overhead costs. Write downs are made for unrealizable inventory in full.

Livestock
Animals with short productive lives, such as poultry, are classified as inventory on the balance sheet. Full cost absorption (which includes all direct and indirect costs) is used in determining the asset value of livestock.

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

	Age of transfer to property, plant and equipment, years	Depreciation, years
Sows	0.5	2
Cattle	2	7

Value Added Tax
Value Added Tax ("VAT") related to sales is payable based upon invoices issued to customers. Input VAT incurred on purchases may be offset, subject to certain restrictions, against VAT related to sales.

Input VAT related to purchase transactions that are subject to offset against taxes payable after the financial statement date are recognized 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 31 December 2001 were determined through valuation and are stated based on estimated fair value. 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 31 December 2001. Assets acquired subsequent to 31 December 2001 are stated at historical cost.

2 Summary of significant accounting policies continued

The Group capitalizes interest costs on qualifying property, plant, and equipment in accordance with the provisions of SFAS No. 34 "Capitalization of Interest Costs." Interest capitalized in the years ended 31 December 2007, 2006 and 2005 was 4 475, 2 534 and 1 016, respectively.

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
Sows	2 years
Other	3-10 years

Repairs and maintenance costs are expensed as incurred.

Business Combination

The acquisition of businesses from third parties is accounted for using the purchase method. On acquisition, the assets and liabilities of an entity are measured at their fair values as at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the book values of the assets and liabilities recognized if applicable. Goodwill arising on acquisitions is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized.

Acquisitions of entities under common control are accounted for on a carryover basis, which results in the historical book value of assets and liabilities of the acquired entity being combined with that of the Company. The consolidated and combined historical financial statements of the Group are retroactively restated to reflect the effect of the acquisition as if it occurred during the period in which the entities were under common control. Any difference between the purchase price and the net assets acquired is reflected in shareholders' equity.

Impairment of long-lived assets, except for goodwill and intangible assets with indefinite lives

When events and circumstances occur indicating that the carrying amount of a long-lived asset (group) may not be recoverable, the Group estimates the future undiscounted cash flows expected to be derived from the use and eventual disposition of the asset (group). If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the long-lived asset (group), the Group then calculates impairment as the excess of the carrying value of the asset (group) over the estimate of its fair market value.

Goodwill and other intangible assets

Goodwill represents the purchase price for businesses acquired in excess of the fair value of identifiable net assets acquired. Goodwill is not deductible in the Russian Federation for income tax purpose.

Other intangible assets represent trademarks and computer software acquired. The fair value of the Group's acquired trademarks is determined using a royalty rate method based on expected revenues by trademark. Certain trademarks have been determined to have an indefinite life. Management evaluates a number of factors to determine whether an indefinite life is appropriate, including product sales history, operating plans and the macroeconomic environment. Intangible assets with determinable useful lives and computer software are amortized over their useful lives.

Goodwill and intangible assets deemed to have indefinite lives are subject to annual impairment tests at fiscal year end in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangibles, or earlier if indication of impairment exist. In the Group's assessment of goodwill, management makes assumptions regarding estimates of future cash flows and other factors to determine the fair value of the reporting unit. For purposes of testing goodwill for impairment, the management has determined that each segment represents a reporting unit.

2 Summary of significant accounting policies continued

Investments
The Group holds equity interests in certain companies, which are not readily marketable securities and the Group does not have the ability to exercise significant influence. These investments are recorded at acquisition cost less provisions for other than temporary impairment in value. Management periodically assesses the ability of the Group to realize the carrying values of these investments and records any impairment as required.

Notes Receivables
Notes receivable purchased valued at cost upon acquisition with any discounts or premiums arising on purchase reported in the balance sheet as direct deductions / additions to the face value. Amortization of such discounts / premiums is recorded as additions / reductions to interest income.

Revenue recognition
The Group derives its revenue from three main sources: sale of processed meat, poultry, and pork. Revenue is recognised when the products are shipped or when goods are received by its customer, title and risk of ownership have passed, the price to the buyer is fixed or determinable and recoverability is reasonably assured.

In accordance with the Group's standard sales terms, title is transferred and the customer assumes the risks and rewards of ownership upon shipment. However, contracts with certain large retail chains, title transfers upon acceptance of goods by the customer at delivery. Sales made under these contracts are recognized upon acceptance.

Sales are recognised, net of VAT and discounts, when goods are shipped to customers. The Group grants discounts to customers primarily based on the volume of goods purchased. Discounts are based on monthly, quarterly, or annual target sales. Discounts range up to 15% for meat processing segment and 10% for poultry and pork segment. The discounts are graduated to increase when actual sales exceed target sales. Discounts are accrued against sales and accounts receivable in the month earned.

Any consideration given to direct or indirect customers of the Group in the form of cash, such as listing fees, are included in the consolidated and combined income statements as deductions from sales in the period which it relates to.

The Group offers product guarantees to its customers, providing them with an option to return damaged and non conforming goods and goods of initial improper quality. The period that goods may be returned is set to a maximum of one month from the date of shipment. Returns are accounted for as deductions to sales.

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

Government subsidies
In accordance with Russian legislation, enterprises engaged in agricultural activities receive subsidies to repay their interest expense. The Group records interest subsidies as an offset to interest expense during the period to which they relate.

Taxation
Deferred tax assets and liabilities are recognized for the expected future tax consequences of existing differences between the financial and tax reporting bases of assets and liabilities, as well as loss carry forwards, using enacted tax rates expected to be in effect at the time these differences are realized. Under Russian tax law, the Group is not allowed to file a consolidated tax return and is not allowed to offset deferred tax assets and deferred tax liabilities for the different legal entities. Deferred tax assets are offset, as appropriate, with deferred tax liabilities at each legal entity within the Group. Valuation allowances are recorded for deferred tax assets where it is more likely than not that such assets will not be realized.

2 Summary of significant accounting policies continued

Fair value of financial instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and short-term notes and loans receivable and payable reported in the consolidated balance sheets approximate fair value due to the short maturity of those instruments.

The carrying amounts of long-term notes and loans receivable in the consolidated balance sheets approximate fair value due to the fact that the interest rates on such instruments approximate the market rates prevalent in the market for similar investments.

The fair values of lines of credit, bank loans and loans from government were estimated by discounting future cash flows using a discount rate that reflects estimated market borrowing rates. The market borrowing rates available to the Group at 31 December 2007 was estimated at 11%, 11% and 4%, for such instruments, respectively.

The carrying amounts of bonds in the consolidated balance sheets approximate fair value due to the fact that the interest rates approximate the prevailing market rates for similar instruments.

The carrying amounts of other borrowings in the consolidated balance sheets approximate fair value, due to the fact that there is no active market for such borrowings. Other borrowings primarily represent unsecured loans from shareholders, and, therefore, are obtained at rates significantly lower than market rates. The Group expects to be able to borrow such funds at similar rates in the future.

As of 31 December 2007	**Book value US$000**	**Fair value US$000**
Lines of credit	434 427	439 245
Bonds	81 479	81 479
Loans from government	33 198	33 216
Bank loans	88 380	88 865
Other borrowings	4 889	4 889

Further disclosures of long-term notes payable and loans are contained in Note 9.

Concentration of credit risk

Financial instruments that potentially expose the Group to concentration of credit risk consist primarily of cash and cash equivalents, accounts receivable from customers and advances paid to vendors. As of 31 December 2007, 47%, 22% and 14% of total cash balances are held on deposit in three Russian financial institutions. As of 31 December 2006, 86% of the total cash balance was held on deposit in one Russian financial institution. As of 31 December 2005, 51% and 27% of the total cash balance was held on deposit in two Russian financial institutions.

As of 31 December 2007 and 2005, the Group’s risk associated with customers was diversified due to a large customer base, with no single customer or customer group representing greater than 10% of accounts receivable. As of 31 December 2006, approximately 10% of the Group’s net accounts receivable were due from one customer.

As of 31 December 2007, approximately 22% and 14% of advances paid were outstanding with two vendors, respectively.
As of 31 December 2006, approximately 17% and 15% of advances paid were outstanding with two vendors, respectively.
As of 31 December 2005, no single vendor or vendor group represented greater than 10% of advances paid.

The maximum amount of loss due to credit risk, based on the fair value of trade receivables and other receivables that the Group would incur if related parties failed to perform according to the terms of contracts, was 25 066, 12 897 and 8 011 as of 31 December 2007, 2006 and 2005 respectively.

2 Summary of significant accounting policies continued

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 on the date, when the control over a subsidiary was established by the Group. 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.

Effect of accounting pronouncements adopted

As of 1 January 2007, the Group implemented Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," ("FIN 48"), which clarifies the accounting for uncertain tax positions stated in SFAS No. 109, "Accounting for Income Tax." FIN 48 applies to all tax positions that are within the scope of FAS No. 109 and requires a two-step approach for recognizing and measuring tax benefits. FIN 48 establishes a "more-likely-than-not" recognition threshold that must be met before a tax benefit can be recognized in the financial statements. To meet this threshold, the enterprise must determine that upon examination by the taxing authority, the tax position is more likely to be sustained than not, based on the technical merits of the position. Once the recognition threshold has been met, enterprises are required to recognize the largest amount of tax benefit that is greater than fifty percent likely of being realized upon ultimate settlement with the taxing authority. In both steps, enterprises must presume that the taxing authority has full knowledge of all relevant information.

The adoption of FIN 48 resulted in a cumulative effect adjustment to the opening balance of retained earnings as of 1 January 2007, of 2 664 (of which approximately 229 for the payment of penalties and 387 for the payment of fines). As of 31 December 2007, the Group included accruals for unrecognized income tax benefits totalling approximately 9 582 as a component of long-term tax related payables (of which approximately 732 and 1 040 were penalties and fines, respectively).

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	US$000
Balance at 1 January 2007	2 048
Purchase of Golden Rooster Co. Limited (Note 23)	7 214
Translation loss	395
Additions based on tax positions related to the current year	45
Reversal of tax positions from prior years due to expiration of statute of limitations	(1 892)
Balance at 31 December 2007	**7 810**

As of 31 December 2007, it is estimated that 1 678 of the unrecognized tax benefit will affect future effective tax rates.

The Group considers it reasonably possible that approximately 2 866 of the unrecognized income tax benefit (including interest and penalties) will be reversed within the next year, due to the expiration of the statute of limitations.

The Group recognizes accrued interest related to unrecognized tax benefits and penalties in income tax expenses. During the year ended 31 December 2007, the Group recognized approximately 371 and 9 in interest and penalties, respectively.

As of 31 December 2007, the tax years ended 31 December 2005, 2006 and 2007 remained subject to examination by the Russian tax authorities.

2 Summary of significant accounting policies continued

Accounting pronouncements to be adopted
In September 2006, the FASB issued 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 stock for the effect of the restriction even when the restriction lapses within one year. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Group is currently assessing the impact of adopting the statement.

In February 2007, the FASB issued 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. SFAS 159 is effective as of the beginning of the first fiscal year that begins after 15 November 2007. If an entity chooses to elect the fair value option for existing items at the date of adoption, the difference between their carrying amount and fair value should be included in a cumulative-effect adjustment to the opening balance of retained earnings. The Group is currently assessing the impact of adopting the statement.

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 acquired 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"). FAS 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.

3 Cash and cash equivalents

Cash as of 31 December 2007, 2006 and 2005 comprised:

	2007 US$000	2006 US$000	2005 US$000
Rouble cash	1 045	221	250
Rouble bank accounts	15 875	106 761	4 892
Total cash and cash equivalents	**16 920**	**106 982**	**5 142**

4 Inventory

Inventory as of 31 December 2007, 2006 and 2005 comprised:

	2007 US$000	2006 US$000 As restated	2005 US$000 As restated
Raw materials and goods for resale	90 243	49 455	29 316
Livestock	52 879	26 867	12 283
Work in-process	7 246	6 623	5 717
Finished goods	5 854	3 767	7 067
Total inventory	**156 222**	**86 712**	**54 383**

5 Other current assets

Other current assets as of 31 December 2007, 2006 and 2005 comprised:

	2007 US$000	2006 US$000	2005 US$000
VAT and other taxes receivable	29 473	18 349	21 125
Current portion of notes receivable (effective annual interest rate of 7.52% and 9.67% as of 31 December 2007 and 2006, respectively) (Note 9)	3 678	3 456	165
Prepaid expenses	3 398	2 286	2 508
Other assets	4 706	3 503	3 610
Total other assets	**41 255**	**27 594**	**27 408**

6 Property, plant and equipment, net

The carrying amounts of property, plant and equipment as of 31 December 2007, 2006 and 2005 comprised:

	2007 US$000	2006 US$000	2005 US$000
Buildings, infrastructure and leasehold improvements	323 951	171 804	103 781
Land	2 711	1	1
Machinery and equipment	126 963	78 439	62 183
Vehicles	31 169	14 574	6 743
Cattle	830	567	382
Sows	10 156	4 878	2 462
Other	1 958	1 813	1 734
Advances for property, plant and equipment	52 976	22 120	8 024
Construction in progress and equipment for installation	160 866	57 604	63 042
Total property, plant and equipment, net	**711 580**	**351 800**	**248 352**

6 Property, plant and equipment, net continued

Accumulated depreciation amounted to 135 339, 97 629 and 67 530 as of 31 December 2007, 2006 and 2005, respectively. Depreciation expense amounted to 31 839, 24 352 and 19 999 for the years ended 31 December 2007, 2006 and 2005, respectively, which includes depreciation of leased equipment.

Vehicles and Machinery and equipment include 16 116, 3 965 and 4 396 of leased equipment as of 31 December 2007, 2006 and 2005, respectively. Buildings, infrastructure and leasehold improvements include 18 556 of leased buildings and constructions as of 31 December 2007. Accumulated depreciation on leased property and equipment amounted to 1 498, 835 and 981 as of 31 December 2007, 2006 and 2005, respectively.

7 Goodwill and other intangible assets, net

As of 31 December 2005, goodwill of 8 725 arose from the purchase by the Group of its controlling stakes in JSC BMPP (which is included in the meat processing segment). During 2006, goodwill increased by 813 due to the effect of foreign currency translation. During 2007, the Company purchased Golden Rooster Co. Limited (which is included in the poultry segment), a company that holds 100% of the share capital of OJSC Kurinoe Tsarstvo, and recorded goodwill of 728. In addition to the acquisition, goodwill increased by 693 due to the effect of foreign currency translation.

Other intangibles include the «Черкизовский» (Cherkizovsky), «Бирюлевский» (Biruliovsky) and «Куриное Царство» (Kurinoe Tsarstvo) trademarks. Prior to July 2007 these trademarks had indefinite useful life. Based on changes made to operational plans to reposition the Biruliovsky trademark into a lower-margin market segment during the second half of 2007, management has reassessed the classification of this intangible as of 1 July 2007. As a result of this reassessment, management assessed the asset for impairment and determined that the asset was not impaired. In addition, management determined that the trademark had a finite life and began amortization of the asset over its estimated useful life of ten years. As of 31 December 2007, the Cherkizovsky and Kurinoe Tsarstvo trademarks have a total carrying value of 50,946, which have been determined to have indefinite useful lives and are not subject to amortization.

In addition, other intangibles includes computer software with net book value of 3 377, 771 and 439 as of 31 December 2007, 2006 and 2005, respectively. Software is amortized over its useful life of two to three years, with the exception of Oracle software, which, upon its planned implementation in 2009, will be amortized over its estimated useful life of ten years.

Management does not believe that goodwill or trademarks are impaired as of 31 December 2007.

Gross carrying amount and accumulated amortization for computer software and intangibles subject to amortization as of 31 December 2007, 2006 and 2005 are as follows:

	2007 US$000		2006 US$000		2005 US$000	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Computer software	3 567	(190)	882	(111)	600	(161)
Biruliovsky trademark	720	(36)	–	–	–	–

7 Goodwill and other intangible assets, net continued

Aggregate amortization expense and estimated amortization expense for the year ended 31 December 2007 and five subsequent years are as follows:

	2007 US$000	2008 US$000	2009 US$000	2010 US$000	2011 US$000	2012 US$000
Biruliovsky trademark	35	72	72	72	72	72
Computer software	215	740	822	665	315	224
Total	**250**	**812**	**894**	**737**	**387**	**296**

8 Long-term notes receivable

During June 2006, the Group purchased Russian rouble denominated notes receivable from Gazprombank with a maturity date of June 2014 and a face value of 12 851 for total cash consideration of 6 762. As of 31 December 2007, the balance comprised:

	Carrying Value US$000	Discount US$000	Face Value US$000	Effective %
Gazprombank notes receivable	8 357	(5 723)	14 080	8.36%

As of 31 December 2006, the balance comprised:

	Carrying Value US$000	Discount US$000	Face Value US$000	Effective %
Gazprombank notes receivable	6 904	(6 219)	13 123	8.36%

9 Borrowings

Borrowings of the Group as of 31 December 2007, 2006 and 2005 comprised:

				2007 US$000		2006 US$000		2005 US$000	
	Interest rates	WAIR*	EIR**	Current	Non-current	Current	Non-current	Current	Non-current
Finance leases	8.00%-15.30%	14.32%	14.32%	4 550	9 666	714	129	1 060	244
Bonds	8.85%	8.85%	8.85%	–	81 479	–	75 956	–	–
Bank loans	6.88%-16.00%	7.99%	6.64%	77 816	10 564	7 360	6 836	20 993	57 412
Credit lines	6.88%-16.00%	11.03%	4.04%	125 283	309 144	65 586	162 236	45 849	71 680
Loans from government	1.00%-6.00%	3.90%	3.90%	19 545	13 653	28 874	17 309	20 692	8 296
Other borrowings	0.00%-1.00%	0.37%	0.37%	4 164	725	1 472	–	1 691	1 984
Notes payable (Note 20)	12.00%	12.00%	12.00%	–	–	–	190	–	3 559
				231 358	**425 231**	**104 006**	**262 656**	**90 285**	**143 175**
Total borrowings					**656 589**		**366 662**		**233 460**

* WAIR represents the weighted average interest rate on outstanding loans.
** EIR represents the effective rate on borrowings at year end, adjusted by government subsidies for certain qualifying debt. Since approvals for subsidies are submitted annually by the Group as required by law, the existence of such subsidies in any given year is not necessarily indicative of their existence in future periods. See Note 17 for further disclosure of government subsidies related to interest on borrowings.

9 Borrowings continued

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

	2008 US$000	2009 US$000	2010 US$000	2011 US$000	2012 US$000	>2012 US$000	Total US$000
Total borrowings	47 482	137 297	91 122	85 719	12 478	88 949	**463 047**

As of 31 December 2007, the Group's borrowings are denominated in the following currencies: 554 784 in Russian roubles, 1 983 in Euro and 99 822 in US dollars. As of December 31 2006, the Group's borrowings are denominated in the following currencies: 364 309 in Russian roubles, 1 742 in Euro and 611 in US dollars. As of December 31 2005, the Group's borrowings are denominated in the following currencies: 168 133 in Russian roubles, 3 092 in Euro and 62 235 in US dollars.

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

Finance leases
As of 31 December 2007, 2006 and 2005, the Group used 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 comprised:

	2007		2006		2005	
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	Total minimum lease payments US$000	Portion related to interest US$000
Within one year	6 261	1 711	760	46	1 140	80
In year two	4 099	1 192	123	5	230	13
In year three	1 807	910	11	–	27	–
In year four	1 045	837	–	–	–	–
In year five	1 026	808	–	–	–	–
After year five	10 521	5 085	–	–	–	–
	24 759	**10 543**	**894**	**51**	**1 397**	**93**

Bonds
During June 2006, the Group raised two billion roubles (74 881 at the issuance date) through an issue of putable bonds with a face value of 1 000 roubles (37 at the issuance date). The issuance was completed in June 2006 with the bonds issued at par value and the Group incurring 378 related to issuance costs that are being amortized into the income statement over the life of the borrowing. 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.

9 Borrowings continued

Bank loans
Bank of Moscow
Borrowings from Bank of Moscow consist of one short-term US dollar denominated loan with interest equal to the MosPrime six month rate which at 31 December 2007 was 6.88% per annum. Principal payment is due on maturity in 2008. Amount outstanding as of 31 December 2007 is 70 000.

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 8 357 were pledged as collateral under these loan agreements (Note 8). Principal payment is due on maturity in 2014. Amount outstanding as of 31 December 2007 is 7 333.

Lipetzkkombank
Borrowings from Lipetzkkombank consist of one short-term loan with interest of 14% per annum. The loan is guaranteed by a Group company and a related party. Principal payment is due on maturity in 2008. Amount outstanding as of 31 December 2007 is 2 037.

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 9.5% to 12.5% per annum. Several of these instruments are guaranteed by a related party. Principal payments are due from 2008 to 2013. Amount outstanding as of 31 December 2007 is 168 583.

Gazprombank
Borrowings from Gazprombank consist of five lines of credit with interest ranging from 12.0% to 14.2% per annum. Some of these facilities are guaranteed by Group companies and related parties. Principal payments are due from 2008 to 2014. Amount outstanding as of 31 December 2007 is 160 932.

Raiffeisen
Borrowings from Raiffeisen consist of two unsecured loan facilities bearing interest equal to the MosPrime six month rate which at 31 December 2007 was 6.88% per annum. Principle payment is due on maturity in 2009. Amount outstanding as of 31 December 2007 is 37 061.

Bank Zenith
Borrowings from Bank Zenith consist of two lines of credit with interest ranging from 11.5% to 12.5% per annum. Notes receivable with a carrying value of 3 678 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 31 December 2007 is 54 469.

The total amount of unused credit on lines of credit as of 31 December 2007 is 98 364. The unused credit can be utilized from 2008 to 2011 with varying expiration of available amounts.

Loans from government
Regional treasury (Lipetsk)
Borrowings from the Department of Finance of the Lipetsk regional administration consist of one long-term loan bearing interest at 1% per annum. Principal payment is due on maturity in 2011. Amount outstanding as of 31 December 2007 is 5 235.

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 loan with interest of 4.0% per annum. Principal payment is due on maturity in 2008. Amount outstanding as of 31 December 2007 is 15 483.

9 Borrowings continued

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 ranging from 5.5% to 6% per annum. Principal payments are due from 2008 to 2011. Amount outstanding as of 31 December 2007 is 9 859.

Other borrowings
Other borrowings primarily represent unsecured loans from shareholders with interest rates ranging from 0% to 0.1% per annum. Principal payments are due from 2008 to 2009.

Notes payable
Notes payable have been issued by LLC Cherkizovo-Kashira with an interest rate of 12% per annum which is paid on an annual basis. Principal payment is due on maturity. The notes payable were scheduled to mature in 2011 and 2010, but were prepaid during 2007 and 2006.

Collateral under borrowings
Shares of and participating interests in the following Group companies are pledged as collateral under certain borrowings as of 31 December 2007:

- 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%
- JSC MPP Ulyanovsky – 35%

Inventory pledged under certain borrowings totalled 37 348, 15 139 and 17 556 as of 31 December 2007, 2006 and 2005, respectively.

Property, plant and equipment with carrying value of 136 747, 49 947 and 126 056 was pledged under loan agreements as of 31 December 2007, 2006 and 2005, respectively.

10 Tax related payables

Short-term tax related payables as of 31 December 2007, 2006 and 2005 comprised:

	2007 US$000	2006 US$000	2005 US$000
Corporate income tax	774	2 742	1 290
Value added tax	1 883	1 974	9 513
Payroll related taxes	1 546	1 161	974
Personal income tax withheld	1 311	971	681
Property tax payable	1 169	945	755
Transportation tax	71	22	38
Other taxes	154	309	299
Total short-term tax related payables	**6 908**	**8 124**	**13 550**

10 Tax related payables continued

Long-term tax related payables as of 31 December 2007, 2006 and 2005 comprised:

	2007 US$000	2006 US$000	2005 US$000
Corporate income tax	9 950	342	313
Payroll related taxes	38	38	48
Value added tax	–	12	11
Other taxes	16	–	–
Total long-term tax related payables	**10 004**	**392**	**372**

The schedule of tax repayment comprises:

	US$000
2009	7 400
2010	2 568
2011	9
2012	9
2013	9
2014	9
Total tax repayments	**10 004**

11 Shareholders' equity

Share capital

In May 2006, the Group completed an offering of global depositary receipts on the London Stock Exchange. As part of this process, the Group issued 67 427 additional shares of common stock with a par value of 1 rouble per share in exchange for total consideration of 146 249.

On 10 July 2007, issued 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 stock split.

All issued and outstanding shares have equal voting rights. As of 31 December 2007, Cherkizovsky Group Ltd. owned 66.8% of the outstanding share capital of OJSC Cherkizovo Group. The Group is authorized to issue preferred shares not exceeding 25% of its ordinary stock. No such shares are currently issued or outstanding.

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.

The Group distributed 0, 770 and 1 841 during 2007, 2006 and 2005, respectively, in cash to certain shareholders, which was accounted for as a distribution to shareholders.

11 Shareholders' equity continued

Earnings per share

Earnings per share for the years ended 31 December 2007 and 2006 have been determined using the weighted average number of Group shares outstanding over the period.

Earning per share for the year ended 31 December 2005 has been determined using the number of Group shares issued on September 22, 2005 to the members of the Control Group, as if those shares had been outstanding for the entire year.

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.

12 Sales

Sales for the years ended 31 December 2007, 2006 and 2005 comprised:

	2007 US$000	2006 US$000	2005 US$000
Produced goods and goods for resale	868 975	646 632	546 412
Other sales	4 057	1 779	4 386
Discounts	(24 887)	(9 917)	(3 378)
Sales returns	(7 330)	(6 852)	(4 255)
Total sales	**840 815**	**631 642**	**543 165**

13 Cost of sales

Cost of sales for the years ended 31 December 2007, 2006 and 2005 comprised:

	2007 US$000	2006 US$000	2005 US$000
Raw materials and goods for resale, net	495 223	394 922	344 707
Personnel (excluding pension costs)	53 665	40 121	32 888
Depreciation	27 152	20 739	16 963
Utilities	18 575	11 712	9 874
Pension costs (Note 19)	7 745	6 581	5 941
Other	14 661	9 741	7 452
Total cost of sales	**617 021**	**483 816**	**417 825**

Raw materials and goods for resale are offset by subsidies received from local governments in the amount of 5 970, 956 and 557 for the years ended 31 December 2007, 2006 and 2005, respectively. These targeted subsidies are received based on the amount of meat sold.

14 Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended 31 December 2007, 2006 and 2005 comprised:

	2007 US$000	2006 US$000	2005 US$000
Personnel (excluding pension costs)	57 464	42 036	33 636
Transportation	11 703	7 446	5 991
Materials and supplies	11 270	7 285	5 545
Advertising and marketing	8 262	8 636	4 799
Pension costs (Note 19)	7 185	6 222	4 987
Taxes (other than income tax)	6 408	5 301	4 787
Depreciation and amortization	4 937	3 613	3 036
Security services	4 400	2 811	2 619
Audit, consulting and legal fees	3 994	3 824	2 743
Bad debt expense (recovery)	2 551	(231)	(393)
Repairs and maintenance	2 230	1 277	1 321
Veterinary services	2 210	1 434	871
Utilities	1 732	1 495	975
Bank charges	1 380	1 490	1 661
Other	14 809	5 374	7 840
Total selling, general and administrative expenses	**140 535**	**98 013**	**80 418**

15 Other operating expenses

Other operating expenses for the years ended 31 December 2007, 2006 and 2005 comprised:

	2007 US$000	2006 US$000	2005 US$000
Loss on disposal of property, plant and equipment	145	1 723	674
Loss related to privatisation of a subsidiary	–	–	467
Total other operating expenses	**145**	**1 723**	**1 141**

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, in accordance with court decision, legal title to 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 Loss related to privatisation of the subsidiary.

16 Other (income) expense, net

Other income and expenses for the years ended 31 December 2007, 2006 and 2005 comprised:

	2007 US$000	2006 US$000	2005 US$000
Interest income	(3 266)	(2 693)	(66)
Foreign exchange (gain) loss	(3 217)	(4 567)	2 219
Gain from debt forgiveness	(467)	(787)	(982)
Loan origination fees (EBRD loan)	–	1 690	–
Bank fees related to early repayment of EBRD loan	–	898	–
Other expenses (income)	121	(1 136)	79
Total other (income) expense, net	**(6 829)**	**(6 595)**	**1 250**

In June 2006 the Group opted for the early repayment of EBRD loan in full. According to the loan agreement the Group was required to pay an early repayment fee, which was set at 2% of the outstanding balance of the loan.

17 Interest expense

Interest expense for the years ended 31 December 2007, 2006 and 2005 comprised:

	2007 US$000	2006 US$000	2005 US$000
Finance lease expenses	714	129	289
Amortization of discount	17	18	129
Interest expense	17 882	17 333	15 080
Total interest expenses	**18 613**	**17 480**	**15 498**

In accordance with Russian legislation, enterprises engaged in agricultural activities and enterprises involved in purchasing meat receive subsidies on certain qualifying loans. The Group has accounted for such subsidies by reducing the interest expense on the associated loans by 9 730, 5 805, and 3 729 for the years ended 31 December 2007, 2006 and 2005, respectively.

18 Income tax

The income tax expense for the years ended 31 December 2007, 2006 and 2005 comprised:

	2007 US$000	2006 US$000	2005 US$000
Current provision	7 000	6 660	9 866
Deferred tax benefit	(168)	(4 207)	(1 853)
Total income tax expense	**6 832**	**2 453**	**8 013**

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

18 Income tax continued

The statutory income tax rates for all operations in the meat processing and non-agricultural operations in the poultry/pork segments are 24% and 0% for agricultural operations within the poultry/pork segments for the years presented under Russian legislation.

The agricultural operations within the poultry and pork segments will be subject to income tax starting 1 January 2009 as follows:

Years	Income tax rate
2009-2010	6%
2011-2012	12%
2013-2015	18%
Thereafter	24%

Income tax charge reconciled to the theoretical tax provision at the statutory rate for the years ended 31 December 2007, 2006 and 2005 is:

	2007 US$000	2006 US$000	2005 US$000
Income before income tax and minority interest	71 330	37 205	27 033
Income from continuing operations before income tax and minority interest of entities taxed at agricultural rates	58 692	28 363	14 951
Income from continuing operations before income tax and minority interest of generally taxed entities	12 638	8 842	12 082
Statutory tax rate (Agricultural)	0%	0%	0%
Statutory tax rate (General)	24%	24%	24%
Income tax expense at statutory rates	3 033	2 122	2 900
Impact from agricultural temporary differences calculated at enacted future tax rates	2 693	(1 130)	880
Adjusted theoretical income tax expense at statutory rates	5 726	992	3 780
Expenses not deductible for Russian statutory taxation purposes	4 337	3 152	4 881
Change in agricultural tax rates	411	290	–
Impact from reversal of FIN 48 accruals related to expiration of statute of limitations, net of penalties accrued on Interpretation 48 tax liabilities	(2 528)	–	–
Other permanent differences	(829)	(104)	(721)
Change in valuation allowance	(285)	(1 877)	73
Actual income tax provision	**6 832**	**2 453**	**8 013**

18 Income tax continued

Deferred tax assets/(liabilities) arising from tax effect of temporary differences:	2007 US$000	2006 US$000	2005 US$000
Property, plant and equipment	(44 901)	(15 620)	(16 279)
Construction in progress	1 088	1 465	336
Intangible assets	(4 312)	(4 071)	(3 184)
Long-term loans	(258)	(322)	(90)
Other non-current assets	52	–	–
Other non-current liabilities	2 299	13	37
Trade receivables	1 251	671	810
Advances paid	230	56	124
Inventory	1 079	605	561
Livestock	524	–	52
Short-term loans granted	61	–	–
Trade payables	148	–	(11)
Payroll accruals	1 309	926	587
Other current liabilities	1 037	146	314
Other current assets	1 582	1 038	738
Loss carryforwards	7 568	3 274	3 836
Valuation allowance	(1 555)	(1 727)	(3 348)
Net deferred tax liability	**(32 798)**	**(13 546)**	**(15 517)**

Analysed to:			
Deferred tax asset – long-term portion	2 865	1 729	388
Deferred tax liability – long-term portion	(42 982)	(19 843)	(19 525)
Long-term deferred tax liability, net	**(40 117)**	**(18 114)**	**(19 137)**
Deferred tax asset – current	7 496	4 614	3 620
Deferred tax liability – current	(177)	(46)	–
Current deferred tax asset, net	**7 319**	**4 568**	**3 620**
Total deferred tax liability, net	**(32 798)**	**(13 546)**	**(15 517)**

The valuation allowance is attributable to loss carryforwards which are not expected to be utilised by management. As the Group does not have a legal right to offset deferred tax assets and deferred tax liabilities, management expects that the Group will not be able to utilize all of the tax loss carryforwards as certain of Group's subsidiaries are expected to have operating losses in the future.

The Group's tax loss carry forwards expire as follows:

	2012 US$000	2013 US$000	2014 US$000	2015 US$000	2016 US$000	2017 US$000	Total US$000
Tax loss carryforwards	66	65	1 822	4 066	14 257	12 277	**32 553**

18 Income tax continued

The movements in net deferred tax liability for the years ended 31 December 2007, 2006 and 2005 comprised:

	2007 US$000	2006 US$000	2005 US$000
Net deferred tax liability, beginning of the year	(13 546)	(15 517)	(13 160)
Impact of translation loss on beginning balance	(1 723)	(2 239)	11
Deferred tax benefit	168	4 207	1 853
Deferred tax in spun-off entities	–	–	(252)
Deferred tax acquired on acquisition of subsidiaries	(17 697)	(1)	(23)
Deferred tax acquired on acquisition of minority interests in consolidated entities	–	4	(3 946)
Net deferred tax liability, end of the year	**(32 798)**	**(13 546)**	**(15 517)**

During 2007, the government of the Russian Federation delayed the introduction of income tax for agricultural companies until 2009. This resulted in a reduction of deferred income tax assets in the amount of 411 as of 31 December 2007.

19 Pension costs

The Group makes payments for employees into the Pension fund of the Russian Federation. From 1 January 2005, all contributions to the Pension fund are calculated by the application of a regressive rate from 20% to 2% of the annual gross remuneration of each employee. The Group does not have any additional obligation other than the cash contribution described herein.

20 Related parties

Shareholders

During 2007 and 2006, certain shareholders issued loans to the Group (Note 9) and served as guarantors for certain third party debts.

Distributions to shareholders

The total amount recognized as a distribution to shareholders as a result of the Spin-off transaction in 2005 comprised:

Distribution in the form of cash paid during the restructuring process	(1 871)
Distribution in the form of net liabilities of distributed companies	11 856
Distribution in the form of forgiven loans	(17 891)
Distribution in the form of liability on lease agreements (Note 21)	(1 174)
Net loss from spun off companies	**(9 080)**

20 Related parties continued

The following entities were distributed to owners during the 2005 Spin-off transaction:

Name of company	Legal form	Nature of business
CJSC Glebovskaya Poultry Factory	Closed Joint Stock Company	Raising poultry
CJSC Golitsinskaya Poultry Factory	Closed Joint Stock Company	Raising poultry
CJSC Krasnopolyanskaya Poultry Factory	Closed Joint Stock Company	Raising poultry
CJSC Kuznetsovsky Kombinat	Closed Joint Stock Company	Pig breeding
OJSC APK Mikhailovsky	Open Joint Stock Company	Holding company
OJSC Luninsky Elevator	Open Joint Stock Company	Mixed fodder production
OJSC Rastovtsy	Open Joint Stock Company	Crop production
LLC Ardymsky Grain Company	Limited Liability Company	Holding Company
LLC Ardymsky Feed Milling Company	Limited Liability Company	Holding company
LLC Glebovsky Poultry Plant	Limited Liability Company	Raising poultry
LLC Agriculture Surskoe	Limited Liability Company	Crop production
LLC Uspenskoe	Limited Liability Company	Crop production
LLC Trading House Cherkizovsky (Kuznetsovsky)	Limited Liability Company	Trading company: distribution of products of APK Mikhailovsky
LCC RAO Penzenskaya Grain Company	Limited Liability Company	Crop production
CJSC Penzamyasoprom	Closed Joint Stock Company	Pig breeding

Of the companies listed above, only OJSC Rastovtsy is classified as discontinued operations due to the fact that all other companies are expected to have continuing significant direct cash flows with the Group.

Net liabilities (at book value) of companies spun-off to shareholders comprised:

	At Spin-Off date
ASSETS	
Cash and cash equivalents	872
Trade receivables, net	23 391
Livestock	4 872
Property, plant and equipment at appraised value, net	15 407
Other assets	21 160
Total assets of continuing operations	**65 702**
Total assets of discontinued operations	1 142
Total assets	**66 844**
LIABILITIES	
Trade accounts payable	(17 924)
Short-term loans	(30 086)
Other liabilities	(21 282)
Total liabilities of continuing operations	**(69 292)**
Total liabilities of discontinued operations	(987)
Total liabilities	**(70 279)**
Minority interest	(8 421)
Net liabilities	**(11 856)**

20 Related parties continued

Revenue and losses from companies spun off to shareholders were:

	2005
Sales	39 138
Cost of sales	(35 370)
Gross profit	**3 768**
Operating expenses	(5 527)
Gain from disposal of property, plant and equipment	746
Operating Income (Loss)	**(1 013)**
Other income (expense), net	(573)
Loss before provision for income taxes and minority interest	**(1 586)**
Income tax benefit (expense)	321
Minority interest in net loss (income)	901
Loss from discontinued operations	(82)
Net loss from spun off companies	**(446)**

Transactions with entities disposed of to shareholders in prior periods comprise 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.

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 21). 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.

20 Related parties continued

As of 31 December 2007, 2006 and 2005, and for the years then ended, balances and transactions with related parties are summarized as follows:

	2007 US$000	2006 US$000	2005 US$000
Balances			
Short-term loan receivable	2 703	2 544	1 880
Trade receivables	8 246	4 261	2 376
Advances issued	7 786	1 835	1 655
Other receivables and prepayments	2 132	1 561	1 397
Long-term loans receivable	4 199	2 696	702
Equity investments in affiliated companies	–	–	1
Trade payables	2 077	2 536	1 974
Short-term loans	77	319	483
Other payables	317	1 414	1 978
Current portion of long-term loans payable	163	879	752
Long-term notes payable	–	190	3 559
Long-term loans payable	725	–	1 663
Long-term payables to shareholders related to finance lease agreements	1 167	1 133	1 115
Transactions			
Sales	10 821	7 131	4 057
Rent income	4	30	241
Interest income	210	123	49
Purchases of IT services	224	266	391
Purchases of security services	912	735	712
Purchases of goods and services	13 752	15 806	7 610
Purchases of property, plant and equipment	2 632	138	652

21 Long-term 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, the Group entered into finance leasing 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 31 December 2007, 2006 and 2005 amounted to 1 215, 1 172 and 1 147, respectively, including a long-term portion of 1 167, 1 133 and 1 115, respectively.

Movements in the total liability for the years ended 31 December 2007, 2006 and 2005 were:

	2007 US$000	2006 US$000	2005 US$000
Liability incurred to shareholders for leases as of 1 January	1 172	1 147	1 174
Interest accrued at 14% on lease liability	167	162	41
Repayment	(207)	(241)	(48)
Translation loss (gain)	83	104	(20)
Liability incurred to shareholders for leases as of 31 December	**1 215**	**1 172**	**1 147**

22 Segment reporting

The Group's operations are divided into three segments by types of products produced: meat processing, poultry and pork. Substantially all of the Group's operations are located within the Russian Federation. The pork and poultry segments share a common legal and organizational structure. 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 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.

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 accounting policies of the segments are the same as those described in the summary of significant accounting policies. 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, that is, at current market prices.

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

Segment information at 31 December 2007 and for the year then ended 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**
Expenditure for segment property, plant and equipment	14 411	47 911	124 616	14	–	186 952
Segment assets	**340 103**	**390 651**	**333 886**	**355 667**	**(236 400)**	**1 183 907**
Supplemental information:						
Depreciation expense	16 318	11 267	4 502	2	–	32 089
Income tax expense	2 844	280	2 644	1 064	–	6 832

22 Segment reporting continued

Segment information at 31 December 2006 and for year then ended comprised:

	Meat-Processing US$000	Poultry US$000	Pork US$000	Corporate assets/ expenditures US$000	Intersegment US$000	Consolidated US$000
Total sales	454 850	155 682	27 816	568	–	638 916
including other sales	1 478	10 213	2 113	–	–	13 804
including sales volume discount	(6 999)	(2 918)	–	–	–	(9 917)
Intersegment sales	(1 591)	(4 661)	(455)	(567)	–	(7 274)
Sales to external customers	453 259	151 021	27 361	1	–	631 642
Cost of sales	(373 355)	(99 648)	(17 509)	(3)	6 699	(483 816)
Gross profit	**81 495**	**56 034**	**10 307**	**565**	**(575)**	**147 826**
Operating expenses	(64 965)	(27 956)	(3 093)	(4 310)	588	(99 736)
Operating income	**16 530**	**28 078**	**7 214**	**(3 745)**	**13**	**48 090**
Other income and expenses, net	3 044	1 016	63	10 213	(7 741)	6 595
Interest expenses	(11 404)	(8 958)	(518)	(4 295)	7 695	(17 480)
Segment profit	**8 170**	**20 136**	**6 759**	**2 173**	**(33)**	**37 205**
Expenditure for segment property, plant and equipment	14 465	29 398	57 275	24	–	101 162
Segment assets	**290 681**	**188 508**	**164 061**	**257 316**	**(175 917)**	**724 649**
Supplemental information:						
Depreciation expense	15 485	6 961	1 906	–	–	24 352
Income tax expense	2 650	(791)	(119)	713	–	2 453

22 Segment reporting continued

Segment information at 31 December 2005 and for year then ended comprised:

	Meat-Processing US$000	Poultry US$000	Pork US$000	Corporate assets/ expenditures US$000	Intersegment US$000	Consolidated US$000
Total sales	408 449	127 641	24 297	–	–	560 387
including other sales	2 603	7 217	6 918	–	–	16 738
including sales volume discount	(2 503)	(875)	–	–	–	(3 378)
Intersegment sales	(872)	(10 520)	(5 830)	–	–	(17 222)
Sales to external customers	407 577	117 121	18 467	–	–	543 165
Cost of sales	(334 617)	(79 579)	(20 831)	–	17 202	(417 825)
Gross profit	**73 832**	**48 062**	**3 466**	**–**	**(20)**	**125 340**
Operating expenses	(52 949)	(25 019)	(3 071)	(10)	(43)	(81 092)
Nonrecurring expense (see Note 15)	–	(467)	–	–	–	(467)
Operating income	**20 883**	**22 576**	**395**	**(10)**	**(63)**	**43 781**
Financial income and expenses, net excluding interest expenses	(1 194)	(28)	(18)	(10)	–	(1 250)
Interest expenses	(8 322)	(6 723)	(453)	–	–	(15 498)
Segment profit	**11 367**	**15 825**	**(76)**	**(20)**	**(63)**	**27 033**
Expenditure for segment property, plant and equipment	8 530	37 205	40 157	–	–	85 892
Segment assets	**238 846**	**128 069**	**62 937**	**198**	**(11 795)**	**418 255**
Supplemental information:						
Depreciation expense	13 191	4 965	1 843	–	–	19 999
Income tax expense	7 286	465	262	–	–	8 013

Reconciliation between net segment profit and income from continuing operations before extraordinary item per the consolidated and combined income statements for the years ended 31 December 2007, 2006 and 2005 is as follows:

	2007 US$000	2006 US$000	2005 US$000
Total net segment profit	71 330	37 205	27 033
Minority interest	(2 265)	(2 287)	(1 511)
Income taxes	(6 832)	(2 453)	(8 013)
Income from continuing operations before extraordinary item	**62 233**	**32 465**	**17 509**

Reconciliation between segment assets and total assets per the consolidated balance sheets as of 31 December 2007, 2006 and 2005 is as follows:

	2007 US$000	2006 US$000	2005 US$000
Segment assets	1 183 907	724 649	418 255
Assets of discontinued operations	3 125	3 965	7 000
Total assets	**1 187 032**	**728 614**	**425 255**

23 Investments in affiliates, acquisitions, divestitures

Investments in affiliates

As of 31 December 2007, 2006 and 2005 the Group controlled the meat processing and agricultural companies through its 100% ownership in AIC Cherkizovsky Ltd. and AIC Mikhailovsky Ltd. In addition to the two holding companies, as of 31 December 2007, the Group had 100% direct interest in Golden Rooster Co. Limited.

AIC Cherkizovsky Ltd. is a holding company under 100% control of the Company. AIC Cherkizovsky Ltd. includes meat-processing segment, which consists of meat processing plants, distribution companies and other companies registered and operating in the Russian Federation. As of 31 December 2007, 2006 and 2005 the following principal companies were included in the AIC Cherkizovsky Ltd.:

Name of company	Legal form	Nature of business	% 31.12.2007	% 31.12.2006	% 31.12.2005
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	85%	85%	79%
JSC Cherkizovsky meat processing plant (JSC CMPP)	Open Joint Stock Company	Meat processing plant	87%	87%	87%
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%
LLC Cherkizovsky (Saint Petersburg)	Limited Liability Company	Trading company	100%	100%	100%
JSC Trading Company of Agroindustrial Complex Cherkizovsky (JSC Trading Company of AIC Cherkizovsky)	Open Joint Stock Company	Trading company: distribution of products of AIC Cherkizovsky	100%	100%	100%

23 Investments in affiliates, acquisitions, divestitures continued

AIC Mikhailovsky Ltd. is a holding company under 100% control of the Company. AIC Mikhailovsky Ltd. includes the pork and poultry segments that consist of companies engaged in the production of various types of compound feed, raising of poultry, pigs and cattle and the distribution of meat registered and operating in the Russian Federation. As of 31 December 2007, 2006 and 2005 the following principal companies were included in the AIC Mikhailovsky Ltd. (the companies marked by an * were created by the Group in during 2006):

Name of company	Legal form	Nature of business	% 31.12.2007	% 31.12.2006	% 31.12.2005
CJSC Budenovets Agrifirm	Closed Joint Stock Company	Pig breeding	–	–	73%
CJSC Krugovskaya	Closed Joint Stock Company	Raising poultry	–	–	76%
CJSC Petelinskaya	Closed Joint Stock Company	Raising poultry	84%	84%	84%
JSC Vasiljevskaya	Open Joint Stock Company	Raising poultry	100%	100%	100%
LLC Petelino Trade House	Limited Liability Company	Trading company: distribution of products of AIC 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 AIC Mikhailovsky	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%	100%
LLC Kuznetsovsky Kombinat	Limited Liability Company	Pig breeding	100%	100%	100%
LLC Tambovmyasoprom*	Limited Liability Company	Pig breeding	99%	99%	–
LLC Budenovets Agrifirm*	Limited Liability Company	Pig breeding	100%	100%	–

Acquisitions
Golden Rooster

On 28 August 2007, the Group completed an acquisition of 100% of the share capital of Golden Rooster Co. Limited. Golden Rooster Co. Limited is a company registered in Cyprus that holds 100% of the share capital of OJSC Kurinoe Tsarstvo.

OJSC Kurinoe Tsarstvo is a major poultry producer with a fully integrated poultry production cycle and operations in both the Lipetsk and Bryansk regions of the Russian Federation. The company produces chilled and frozen poultry products under the “Chicken Kingdom” brand name.

23 Investments in affiliates, acquisitions, divestitures continued

The purchase consideration was 142 466 including 673 of transaction costs. The acquisition was accounted for using the purchase method. The terms of the share purchase agreement for JSC Kurinoe Tsarstvo include a right for the purchaser to adjust the purchase price until 30 April 2008. The initial purchase price allocation was as follows:

Purchase price	**142 466**
Inventory	19 696
Other current assets	17 624
Trademark	31 767
Property, plant and equipment	166 570
Goodwill	697
Current liabilities	(29 085)
Long-term loans and finance leases	(36 405)
Other non-current liabilities	(28 019)
Minority interest	(379)

The following pro forma financial information presents consolidated income statements as if the acquisition occurred at the beginning of the respective period. As required by SFAS 141, pro forma information is presented for the preceding comparative year:

Pro forma Information	**For the year ended 31 December 2007 (UNAUDITED) US$000**	**For the year ended 31 December 2006 (UNAUDITED) US$000**
Sales	933 747	740 707
Income from continuing operations	69 784	45 337
Net income	69 133	42 298
Weighted average number of shares outstanding	39 564 300	36 878 334
Earnings per share:		
Income from continuing operations	1.76	1.23
Net income	1.75	1.15

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

Other immaterial acquisitions
In August 2006, the Group purchased an additional stake of 5.65% in JSC Meat Processing Plant Ulyanovsky for a total cash consideration of 137. An excess of fair value over purchase price of 21 arose at the purchase date.

23 Investments in affiliates, acquisitions, divestitures continued

JSC CMPP
In August 2005, one of the Group's minority shareholders (Morgan Stanley Bank Aktiengesellschaft) exchanged its 15.09% share in JSC CMPP for 0.7% of the ordinary stock in the Group. This transaction was accounted for using the purchase method and the consideration was determined as the fair market value of the net assets received of 9 854. At the same time, another of the Group's minority shareholders (Pacific Agro Ltd.) exchanged is 15.09% share in JSC CMPP and its 9.95% share in AIC Cherkizovsky Ltd. For 0.798% of the ordinary stock of the Group. This transaction was accounted for using the purchase method and the consideration was determined as the fair market value of the net assets received of 16 300.

The following table summarizes the purchase price allocation for the assets and liabilities acquired from minority shareholders in August 2005:

Purchase price	**26 154**
Current assets	14 783
Property, plant and equipment	31 078
Trademarks	13 086
Other assets	7 551
Current liabilities	(16 373)
Non-current liabilities	(23 971)

In April 2005, the Group purchased an additional stake of 3.25% in CJSC Petelinskaya for a total cash consideration of 274. An excess of fair value of net assets acquired over purchase price of 13 144 arose at the purchase date.

In January 2005, the Group acquired an additional stake of 12.61% in CJSC Botovo for a total cash consideration of 17. An excess of fair value of net assets acquired over purchase price of 1 315 arose at the purchase date. The total amount of extraordinary gain from this transaction of 79 is reflected in the statement of operations.

Divestitures

2007 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 ("2007 discontinued operations"). The operations and cash flows of the subsidiary are expected to be eliminated from the ongoing operations of the Group as a result of a sale transaction and the Group will not have any continuing involvement in the operations of the subsidiary after it is sold. The disposal has been classified as a discontinued operation as the Group has ceased production in the southern region of Russia. The assets and liabilities classified as discontinued operations are recorded at lower of cost or market. The Group is actively looking for a buyer and the sale is expected to be completed in 2008.

23 Investments in affiliates, acquisitions, divestitures continued

Net assets of the 2007 discontinued operations were as follows as of 31 December 2007, 2006 and 2005:

	2007 US$000	2006 US$000	2005 US$000
Trade and other receivables, net	640	1 157	695
Inventory	425	536	454
Deferred tax assets	241	197	123
Property, plant and equipment	1 568	1 707	1 632
Other assets	251	368	364
Total assets	**3 125**	**3 965**	**3 268**
Trade and other payables	(1 256)	(1 578)	(1 145)
Short and long-term loans	(2 322)	(2 020)	(1 754)
Total liabilities	**(3 578)**	**(3 598)**	**(2 899)**
Minority interest	**(37)**	**(192)**	**(191)**
Net assets of discontinued operations	**(490)**	**175**	**178**

Results from 2007 discontinued operations were as follows for 2007, 2006 and 2005:

	2007 US$000	2006 US$000	2005 US$000
Sales	767	3 502	7 130
Cost of sales	(874)	(3 058)	(6 692)
Gross profit	**(107)**	**444**	**438**
Operating expenses	(479)	(361)	(675)
(Loss) gain from disposal of property, plant and equipment	(11)	5	36
Operating (loss) income	**(597)**	**88**	**(201)**
Other expenses, net	(184)	(167)	(157)
Loss before income tax and minority interest	**(781)**	**(79)**	**(358)**
Income tax	(31)	35	39
Minority interest	161	17	73
Loss from discontinued operations	**(651)**	**(27)**	**(246)**

23 Investments in affiliates, acquisitions, divestitures continued

2006 Discontinued operations

In September 2006, management of the Group made a decision to dispose the non-core business operations of CJSC Budenovets Agrifirm and CJSC Krugovskaya (“2006 discontinued operations”) in exchange for a total cash consideration of 162. The disposal was completed by the end of 2006.

As of 31 December 2005, the net assets of 2006 discontinued operations were as follows:

	2005 US$000
Trade receivables, net	483
Inventory	691
Livestock	420
Property, plant and equipment	1 624
Other assets	637
Total assets	**3 855**
Trade and other payables	(1 957)
Short and long-term loans	(865)
Total liabilities	**(2 822)**
Minority interest	**(2 414)**
Net assets of discontinued operations	**(1 381)**

Results from 2006 discontinued operations were as follows for 2006 and 2005:

	2006 US$000	2005 US$000
Sales	1 377	1 284
Cost of sales	(1 082)	(956)
Gross profit	**295**	**328**
Operating expenses	(293)	(517)
Loss from disposal of property, plant and equipment	(8)	(8)
Operating loss	(6)	**(197)**
Other expenses, net	(101)	–
Loss before income tax and minority interest	**(107)**	**(197)**
Income tax	(121)	72
Minority interest	29	(99)
Loss from discontinued operations	**(199)**	**(224)**

2005 Discontinued operations

In 2005 the Group completed a Spin-off. The results of operations reflect the effect of the Spin-off. See Note 20 for details.

24 Change to an acceptable accounting policy

On 1 January 2007 the Group changed its accounting policy related to the expensing of the cost of laying hens to an accounting policy which complies with US GAAP. Before 2007 the Group expensed the full cost of laying hens at the time of their sale at the end of their productive life. After 1 January 2007, their cost is allocated evenly on the eggs they lay over their productive life.
As required by SFAS No. 154 "Accounting Changes and Error Corrections" the Group has retrospectively adjusted comparative financial statements. The following income statement line items for the years ended 31 December 2006 and 2005 and the balance sheet line items as at 31 December 2006 and 2005 were impacted by the change:

Balance sheets as of 31 December 2006 and 2005:

	2006			2005		
	As reported US$000	**As restated US$000**	**Effect of change US$000**	**As reported US$000**	**As restated US$000**	**Effect of change US$000**
Inventory	88 580	86 712	(1 868)	55 329	54 383	(946)
Minority interest	18 882	18 700	(182)	14 548	14 414	(134)
Other accumulated comprehensive loss	(934)	(1 049)	(115)	(13 114)	(13 115)	(1)
Retained earnings	41 410	39 840	(1 570)	11 996	11 184	(812)

Income statements for the years ended 31 December 2006 and 2005:

	2006			2005		
	As reported US$000	**As restated US$000**	**Effect of change US$000**	**As reported US$000**	**As restated US$000**	**Effect of change US$000**
Cost of sales	(483 009)	(483 816)	(807)	(417 837)	(417 825)	12
Minority interest	(2 336)	(2 287)	49	(1 459)	(1 511)	(52)
Income from continuing operations	33 222	32 465	(757)	17 549	17 509	(40)
Net income	30 184	29 426	(758)	17 076	17 036	(40)
Earnings per share – basic and diluted:						
Income from continuing operations	0.90	0.88	(0.02)	0.53	0.53	–
Net income	0.82	0.80	(0.02)	0.52	0.52	–

25 Commitments and contingencies

Legal

As of 31 December 2007, 2006 and 2005 several Group companies reported negative net assets in their statutory financial statements. In accordance with the Civil Code of the Russian Federation, a liquidation process may be initiated against a company reporting negative net assets. Management believes that it is remote that the liquidation process will be initiated against those companies.

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

Taxation

Laws and regulations affecting businesses in the Russian Federation continue to change rapidly. These changes are characterized by different interpretations and arbitrary application by the authorities. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. 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. 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 2 467 as of 31 December 2007.

Environmental remediation costs

The Group's management believes that it is in compliance with applicable legislation and is not aware of any potential environmental claims; therefore, no liabilities associated with such costs are recorded as of 31 December 2007.

Capital commitments

At 31 December 2007, the Group had large capital projects in progress at JSC Lipetskmyasoprom,LLC Tambovmyasoprom, and CJSC Petelinskaya. As part of these projects, commitments had been made to contractors of approximately 76 261, 35 329 and 4 981, 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 of the business. As part of this project, commitments have been made to contractors of approximately 1 784 towards completion of the project.

Operating lease commitments

At 31 December 2007, the Group had the following obligations under non-cancellable operating lease agreements:

	US$000
2008	274
2009	274
2010	274
2011	274
2012	274
Total	**1 370**

26 Subsequent events

In January 2008 the Group secured a non-renewable credit line with a total limit of 14 870 from the Savings Bank of Russia. The line is to be collateralised with fixed assets.

In February 2008, Bank of Moscow guaranteed 15 074 in Group loans owed to government. The Group pledged 50.1% of shares in LLC Cherkizovo-Kashira in exchange for this guarantee. The same shares are also pledged for another loan with Bank of Moscow.

In February 2008 the Group also pledged 48% of shares of JSC Lipetskmyasoprom as collateral for a credit line from Gazprombank.

On 13 March 2008, the Board of Directors of the Group approved a decision to issue an additional 5 000 000 ordinary shares. These additional shares had not been issued as of the date of the consolidated and combined financial statements.