# OJSC Cherkizovo Group

**Consolidated Financial Statements**
Years Ended 31 December 2009 and 2008

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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 (together the "Group") as of 31 December 2009 and 2008 and the related consolidated statements of income, cash flows and changes in 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. At 31 December 2009 and 2008, the stated amounts of such property, plant and equipment approximated US $47 670 thousands and US $51 864 thousands, respectively. 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 such adjustments, if any, as might have been determined to be necessary had we been able to examine competent evidential matter regarding the carrying value of property, plant and equipment, the financial statements referred to in the first paragraph present fairly, in all material respects the consolidated financial position of the Group as of 31 December 2009 and 2008 and the consolidated 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.

Deloitte & Touche CIS

29 March 2010
Moscow, Russia

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# Consolidated balance sheets

As of 31 December 2009 and 2008

| | | 2009<br>US$000 | 2008<br>US$000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets:** | | | |
| Cash and cash equivalents | 3 | 38 961 | 49 667 |
| Trade receivables, net of allowance for doubtful accounts of 4 940 and of 3 259 as of 31 December 2009 and 2008, respectively | 20 | 86 631 | 87 909 |
| Advances paid, net of allowance for doubtful accounts of 1 634 and of 1 351 as of 31 December 2009 and 2008, respectively | 20 | 31 200 | 29 660 |
| Inventory | 4 | 138 364 | 133 870 |
| Loans receivable | 19 | 5 199 | 8 303 |
| Deferred tax assets | 18 | 5 879 | 4 668 |
| Other receivables, net of allowance for doubtful accounts of 1 394 and of 562 as of 31 December 2009 and 2008, respectively | 5 | 16 308 | 28 356 |
| Other current assets | 6 | 22 858 | 26 398 |
| **Total current assets** | | **345 400** | **368 831** |
| **Non-current assets:** | | | |
| Property, plant and equipment, net | 7 | 754 720 | 685 205 |
| Goodwill | 8 | 8 677 | 8 548 |
| Other intangible assets, net | 8 | 41 889 | 43 210 |
| Loans receivable, net of allowance of 2 531 and 0 as of 31 December 2009 and 2008, respectively | 19 | 156 | 6 036 |
| Deferred tax assets | 18 | 2 182 | 579 |
| Notes receivable, net | 9 | 1 327 | 7 903 |
| Other non-current receivables | 5 | 5 146 | – |
| VAT receivable | | 10 620 | 11 462 |
| **Total non-current assets** | | **824 717** | **762 943** |
| **Total assets** | | **1 170 117** | **1 131 774** |

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

# **Consolidated balance sheets** continued

As of 31 December 2009 and 2008

| | Note | 2009<br>US$000 | 2008<br>US$000 |
|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities:** | | | |
| Trade accounts payable | | 64 190 | 66 299 |
| Short-term debt and current portion of finance leases | 10 | 108 456 | 236 351 |
| Tax related payables | 11 | 10 889 | 7 561 |
| Deferred tax liabilities | 18 | 28 | 54 |
| Payroll related liability | | 13 807 | 12 237 |
| Advances received | | 5 563 | 3 810 |
| Payables for non-current assets | | 6 532 | 11 285 |
| Interest payable | | 2 448 | 2 713 |
| Other payables | | 5 159 | 4 049 |
| **Total current liabilities** | | **217 072** | **344 359** |
| | | | |
| **Non-current liabilities:** | | | |
| Long-term debt and finance leases | 10 | 375 689 | 325 666 |
| Deferred tax liabilities | 18 | 27 057 | 28 594 |
| Tax related payables | 11 | 4 255 | 6 935 |
| Payables to shareholders | 21 | 632 | 929 |
| Other liabilities | | 7 | 144 |
| **Total non-current liabilities** | | **407 640** | **362 268** |
| **Total liabilities** | | **624 712** | **706 627** |
| | | | |
| Commitments and contingencies | 24 | | |
| | | | |
| **Equity:** | | | |
| Share capital | 12 | 15 | 15 |
| Additional paid-in capital | 12 | 289 213 | 289 146 |
| Treasury shares | 12 | (496) | (496) |
| Other accumulated comprehensive loss | 12 | (71 039) | (64 551) |
| Retained earnings | | 297 035 | 176 864 |
| **Total shareholders' equity** | | **514 728** | **400 978** |
| | | | |
| Non-controlling interests | | 30 677 | 24 169 |
| | | | |
| **Total equity** | | **545 405** | **425 147** |
| **Total liabilities and equity** | | **1 170 117** | **1 131 774** |

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

# Consolidated income statements

For the years ended 31 December 2009 and 2008

| | Note | 2009<br>US$000 | 2008<br>US$000 |
|---|---|---|---|
| Sales | 13 | 1 022 457 | 1 166 406 |
| Cost of sales | 14 | (741 187) | (887 015) |
| **Gross profit** | | **281 270** | **279 391** |
| Selling, general and administrative expenses | 15 | (139 872) | (172 843) |
| Impairment of non-current assets | | – | (2 258) |
| Other operating expense | | (1 208) | (822) |
| **Operating Income** | | **140 190** | **103 468** |
| Other income, net | 16 | 386 | 1 185 |
| Interest expense, net | 17 | (19 644) | (22 725) |
| **Income from continuing operations before tax** | | **120 932** | **81 928** |
| Income tax | 18 | 3 347 | (1 462) |
| **Income from continuing operations** | | **124 279** | **80 466** |
| Loss from discontinued operations, net of tax | 23 | – | (4 000) |
| Discontinued operations, net of tax | 23 | – | 4 599 |
| **Net Income** | | **124 279** | **81 065** |
| Less: Net income attributable to non-controlling interests | | (4 108) | (2 960) |
| **Net Income attributable to Group Cherkizovo** | | **120 171** | **78 105** |

| | | | |
|---|---|---|---|
| **Amounts attributable to Group Cherkizovo:** | | | |
| Income from continuing operations, net of tax | | 120 171 | 76 508 |
| Discontinued operations, net of tax | | – | 1 597 |
| **Net income** | | **120 171** | **78 105** |

| | | | |
|---|---|---|---|
| Weighted average number of shares outstanding | | 43 028 022 | 41 725 834 |

| | | | |
|---|---|---|---|
| **Earnings per share – basic and diluted:** | | **US$** | **US$** |
| Income from continuing operations attributable to Group Cherkizovo | 12 | 2.79 | 1.83 |
| Discontinued operations attributable to Group Cherkizovo, net of tax | | – | 0.04 |
| **Net income attributable to Group Cherkizovo per share** | | **2.79** | **1.87** |

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

# Consolidated cash flow statements

For the years ended 31 December 2009 and 2008

| | 2009<br>US$000 | 2008<br>US$000 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Income from continuing operations | 124 279 | 80 466 |
| Adjustments to reconcile income from continuing operations to net cash from operating activities: | | |
| Impairment of non-current assets | – | 2 258 |
| Depreciation and amortisation | 40 106 | 45 791 |
| Bad debt expense (including allowance for non-current loans receivable of 2 413 and 0 as of 31 December 2009 and 2008) | 10 022 | 3 681 |
| Foreign exchange loss | 165 | 1 596 |
| Deferred tax benefit | (4 510) | (5 504) |
| (Reversal of) provisions related to unrecognised tax benefits (Note 18) | (2 366) | 867 |
| Share-based compensation expense | 908 | – |
| Other adjustments | 80 | (879) |
| **Changes in operating assets and liabilities** | | |
| Decrease in inventories | 775 | 3 101 |
| Increase in trade receivables | (5 760) | (18 414) |
| (Increase) decrease in advances paid | (2 531) | 1 346 |
| Decrease in value added tax receivable | 490 | 7 226 |
| Decrease (increase) in other current assets | 6 729 | (4 325) |
| Increase in trade accounts payable | 214 | 5 744 |
| Increase in taxes payable | 3 057 | 2 287 |
| Increase in other current payables | 4 558 | 4 080 |
| **Net cash from operating activities associated with continuing operations** | **176 216** | **129 321** |
| **Net cash used in operating activities associated with discontinued operations** | **–** | **(1 101)** |
| **Total net cash from operating activities** | **176 216** | **128 220** |

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

# **Consolidated cash flow statements** continued

For the years ended 31 December 2009 and 2008

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| **Cash flows from (used in) investing activities:** | | |
| Purchases of long-lived assets | (130 287) | (165 248) |
| Proceeds from sale of property, plant and equipment | 855 | 1 028 |
| Sale of consolidated entities net of cash surrendered | – | 58 |
| Acquisition of subsidiaries, net of 14 cash acquired (Note 23) | (2 140) | – |
| Sale of notes receivable | 10 310 | – |
| Purchases of notes receivable | (3 260) | (402) |
| Issuance of long-term loans | (901) | (1 968) |
| Repayment on long-term loans issued | 784 | 1 342 |
| Issuance of short-term loans | (17 950) | (7 098) |
| Repayments on short-term loans issued | 21 100 | 56 |
| **Net cash flow used in investing activities associated with continuing operations** | **(121 489)** | **(172 232)** |
| **Net cash used in investing activities associated with discontinued operations** | **–** | **(143)** |
| **Total net cash used in investing activities** | **(121 489)** | **(172 375)** |
| **Cash flows from (used in) financing activities:** | | |
| Proceeds from long-term loans | 89 508 | 113 954 |
| Repayment of long-term loans | (128 967) | (46 223) |
| Proceeds from long-term loans from related parties | 1 004 | 149 |
| Repayment of long-term loans from related parties | (85) | (1 025) |
| Purchase of treasury stock | – | (496) |
| Proceeds from short-term loans | 90 733 | 273 951 |
| Repayment of short-term loans | (115 279) | (330 665) |
| Proceeds from shares issued | – | 82 340 |
| Payments for services related to share issuance | – | (2 903) |
| Cash distributed to shareholders | (246) | (48) |
| **Net cash (used in) from financing activities associated with continuing operations** | **(63 332)** | **89 034** |
| **Net cash from financing activities associated with discontinued operations** | **–** | **376** |
| **Total net cash (used in) from financing activities** | **(63 332)** | **89 410** |
| **Total cash (used in) from operating, investing and financing activities** | **(8 605)** | **45 255** |
| Impact of exchange rate difference on cash and cash equivalents | (2 101) | (12 526) |
| **Net increase (decrease) in cash and cash equivalents:** | **(10 706)** | **32 729** |
| Cash and cash equivalents associated with continuing operations, at the beginning of the period | 49 667 | 16 859 |
| Cash and cash equivalents associated with discontinued operations, at the beginning of the period | – | 79 |
| **Cash and cash equivalents associated with continuing operations, at the end of the period** | **38 961** | **49 667** |
| **Cash and cash equivalents associated with discontinued operations, at the end of the period** | **–** | **–** |

| | | |
|---|---|---|
| **Supplemental Information:** | | |
| Income taxes paid | 4 649 | 8 521 |
| Interest paid | 62 056 | 71 697 |
| Property, plant and equipment acquired on account | 6 532 | 11 285 |
| Property, plant and equipment acquired under finance leases | 599 | 6 494 |

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

# Consolidated statements of changes in equity and comprehensive income

For the years ended 31 December 2009 and 2008

| | Share capital US$000 | Additional paid-in capital US$000 | Retained earnings US$000 | Treasury shares US$000 | Other accumulated comprehensive income (loss) US$000 | Total shareholders' equity US$000 | Non-controlling interests US$000 | Total equity US$000 |
|---|---|---|---|---|---|---|---|---|
| **Balances at 1 January 2008** | **14** | **209 861** | **98 759** | – | **20 890** | **329 524** | **21 226** | **350 750** |
| Net income | – | – | 78 105 | – | – | 78 105 | 2 960 | 81 065 |
| Other comprehensive loss from translation adjustment | – | – | – | – | (85 441) | (85 441) | – | (85 441) |
| **Total comprehensive income (loss)** | | | **78 105** | | **(85 441)** | **(7 336)** | **2 960** | **(4 376)** |
| New share issue | 1 | 79 285 | – | – | – | 79 286 | – | **79 286** |
| Sale of consolidated entities | – | – | – | – | – | – | (17) | **(17)** |
| Purchase of treasury shares | – | – | – | (496) | – | (496) | – | **(496)** |
| **Balances at 31 December 2008** | **15** | **289 146** | **176 864** | **(496)** | **(64 551)** | **400 978** | **24 169** | **425 147** |
| | | | | | | | | |
| **Balances at 1 January 2009** | **15** | **289 146** | **176 864** | **(496)** | **(64 551)** | **400 978** | **24 169** | **425 147** |
| Net income | – | – | 120 171 | – | – | 120 171 | 4 108 | 124 279 |
| Other comprehensive income (loss) from translation adjustment | – | – | – | – | (6 488) | (6 488) | 517 | (5 971) |
| **Total comprehensive income (loss)** | **–** | **–** | **120 171** | **–** | **(6 488)** | **113 683** | **4 625** | **118 308** |
| Contribution from shareholder (Note 12) | – | 908 | – | – | – | 908 | – | **908** |
| Sale and purchase of non-controlling interests (Note 23) | – | (841) | – | – | – | (841) | 562 | **(279)** |
| Purchase of subsidiary (Note 23) | – | – | – | – | – | – | 1 321 | **1 321** |
| **Balances at 31 December 2009** | **15** | **289 213** | **297 035** | **(496)** | **(71 039)** | **514 728** | **30 677** | **545 405** |

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

## 1 Business and environment

### Incorporation and history

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

### 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 six meat processing plants, four pig production complexes, four poultry production complexes and one combined fodder production plant. The Group also operates three trading houses with subsidiaries in 12 major Russian cities.

The Group’s geographical reach covers Moscow, the Moscow region, the regions of Saint Petersburg, Penza, Lipetsk, Vologda, Ulyanovsk, Chelyabinsk, Tambov, Krasnodar, Ekaterinburg, Rostov, Briansk and Kazan. The Group is represented in the European part of Russia through its own distribution network.

The Group owns locally recognised brands which include Cherkizovsky (“Черкизовский”), Pyat Zvezd (“Пять Звезд”), Petelinka (“Петелинка”), Kurinoe Tsarstvo (“Куриное Царство”) and Imperia vkusa (“Империя вкуса”) and has a diverse customer base. At 31 December 2009 and 2008 the number of staff employed by the Group was 14 430 and 13 943, respectively.

During 2008, the Group was impacted by significant volatility in grain and feed prices, increased financing costs due to the worldwide financial crisis and by the devaluation of the rouble by approximately 25% resulting from the economic crisis. During 2009, the Group continued to be impacted by a weakened rouble, which fell further during early 2009 before beginning a gradual recovery for the rest of the year, and higher borrowing costs. During the period, while the borrowing cost was higher than prior to the economic crisis, the increase was less than had been expected and the Group continued to have access to third party financing and low-cost, government subsidised financing.

The Group’s operations have not been significantly impacted by the global economic downturn due to a lower elasticity of demand on food products. In addition, while sales in the poultry segment declined slightly during the current year, the Group made significant operational improvements. These improvements, combined with an increase in rouble wholesale prices, resulted in increased profits compared to 2008. Similarly in the meat processing segment, changes in product mix to higher margin products as well as continued implementation of cost cutting measures decreased the segment loss for the period by approximately forty-five percent.

Management expects to fund its forecasted 2010 investing cash outflow both through operating cash inflows, as well as through refinancing of its short-term debt as it becomes due. Management is confident based on current economic conditions that it will be able to refinance its borrowings and fund its ongoing operations.

## 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 financial statements have been prepared in order to present the consolidated financial position, results of operations and cash flows of the Group in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The accompanying consolidated financial statements differ from the financial statements prepared for statutory purposes in Russia or foreign jurisdictions in that they reflect certain adjustments that are appropriate to present the financial position, results of operations and cash flows in accordance with US GAAP.

### Basis of consolidation

The consolidated financial statements of the Group include the accounts of the Company and subsidiaries controlled through direct ownership of the majority of the voting interests as described in Note 23. 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.

### Foreign currency translation

The Group follows a translation policy in accordance with the Foreign Currency Matters Topic of the Financial Accounting Standards Board's (further "FASB") Accounting Standards Codification (further "ASC") 830, and has determined the Russian rouble to be the Group companies' functional currency.

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

The following table summarizes the exchange rates of the Russian rouble to 1 US dollar at 31 December 2009 and 2008.

| | **Exchange rate** |
|---|---|
| 31 December 2009 | 30.2442 |
| Average exchange rate for the year ended 31 December 2009 | 31.7231 |
| 31 December 2008 | 29.3804 |
| Average exchange rate for the year ended 31 December 2008 | 24.8553 |

### Management estimates

The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

The principal management estimates underlying these consolidated financial statements include estimations used in assessing long lived assets for impairment, allowances for bad debts, valuation allowances for deferred tax assets, 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.

## 2 Summary of significant accounting policies continued

### 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 receivables, including the turnover 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 | 1 | 2 |
| Cattle | 2 | 7 |

### Value added tax

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

### Property, plant and equipment

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 (the date of the first US GAAP balance sheet) were determined through valuation and are stated based on estimated fair value. Certain fixed assets were adjusted for the allocation of 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.

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 | 3-10 years |
| Cattle | 7 years |
| Sows | 2 years |
| Other | 3-10 years |

## 2 Summary of significant accounting policies continued

### Capitalised interest expense

Interest is capitalised on expenditures made in connection with capital projects that could have been avoided if expenditures for the assets had not been made. Interest is only capitalised for the period when construction activities are actually in progress and until the resulting properties are put into operation.

### Business combinations

The acquisition of businesses from third parties is accounted for using the purchase method as required by the Business Combinations and Consolidation Topics of FASB ASC, 805 and 810, respectively. On acquisition, identifiable 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 fair value at the date of acquisition. 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 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.

### 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 for income tax purpose in the Russian Federation.

Other intangible assets represent trademarks and computer software acquired. The fair value of the Group's acquired trademarks is determined using a relief from royalty method based on expected 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 or earlier if indications of impairment exist, in accordance with the Intangibles – Goodwill and Other Topic of the FASB ASC 350. 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, management has determined that each segment represents a reporting unit.

The goodwill impairment analysis is a two-step process. The first step used to identify potential impairment involves comparing each reporting unit's estimated fair value to its carrying value, including goodwill. The Group uses a discounted cash flow approach to estimate the fair value of its reporting units. The assumptions used are disclosed in Note 8. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is considered to not be impaired. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment.

The second step of the process involves the calculation of an implied fair value of goodwill for each reporting unit for which step one indicated impairment. The implied fair value of goodwill is determined similar to how goodwill is calculated in a business combination, by measuring the excess of the estimated fair value of the reporting unit as calculated in step one, over the estimated fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit were being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss cannot exceed the carrying value of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted.

## 2 Summary of significant accounting policies continued

### 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.

### Loans receivable not held for sale

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported in the balance sheet at outstanding principal adjusted for any chargeoffs, an allowance for loan losses and any deferred fees or costs on originated loans, and any unamortized premiums or discounts.

### Notes receivables

Notes receivable purchased are valued at cost upon acquisition with any discounts or premiums arising on purchase reported in the balance sheet as direct deductions / additions to the face value. Amortisation of such discounts / premiums is recorded as additions to / reductions from interest income. Notes receivable for which the Group has the intent and ability to hold to maturity are classified as not held for sale.

### 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, on contracts with certain large retail chains, title transfers upon acceptance of goods by the customer at delivery. Sales made under these contracts are recognized upon acceptance.

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 18.8% for the meat processing segment and 13.5% for the poultry and pork segments. The discounts are graduated to increase when actual sales exceed target sales. Discounts are accrued against sales and accounts receivable in the month earned.

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

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

## 2 Summary of significant accounting policies continued

### Marketing expenses

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

### Government subsidies

In accordance with Russian legislation, enterprises engaged in agricultural activities receive certain subsidies. The largest of such subsidies received relate to reimbursement of interest expense. The Group records interest subsidies as an offset to interest expense during the period to which they relate. The Group also regularly receives subsidies from regional authorities based on volumes of meat production and fodder purchased. These amounts are recorded as reductions to cost of sales during the period to which they relate.

### 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 tax assets and tax liabilities for the different legal entities. Accordingly, deferred tax assets are offset, as appropriate, with deferred tax liabilities at each legal entity within the Group. Valuation allowances are recorded for deferred tax assets where it is more likely than not that such assets will not be realized.

Income Taxes Topic of the FASB ASC 740 spell out the accounting for uncertain tax positions. Those provisions apply to all tax positions that are within the scope of the Topic and require a two-step approach for recognizing and measuring tax benefits. The topic 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, the enterprise is required to recognise 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.

### 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 2009, 36%, 19% and 13% of total cash balances were held on deposit in three Russian financial institutions. As of 31 December 2008, 52% and 28% of total cash balances were held on deposit in two Russian financial institutions.

As of 31 December 2009 and 2008, approximately 12% of the Group’s net accounts receivable were due from one customer.

As of 31 December 2009, approximately 20% and 17% of advances paid were outstanding with two vendors, respectively. As of 31 December 2008, approximately 24% and 16% of advances paid were outstanding with two vendors, respectively.

The maximum amount of loss due to credit risk, based on the fair value of trade receivables, other receivables and advances issued that the Group would incur if related parties failed to perform according to the terms of contracts, was 41 912 and 32 596 as of 31 December 2009 and 2008 respectively.

### Non-controlling interest

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

## 2 Summary of significant accounting policies continued

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at inception of the lease. The corresponding liability is included in the balance sheet as debt from finance leases. Lease payments are apportioned between interest expense and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Interest expense is charged directly against income, unless it is directly attributable to qualifying assets, in which case it is capitalised in accordance with the Group's general policy on interest costs.

### 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 obligations other than said cash contribution.

### Fair value of financial instruments

Effective 1 January 2008, the Group adopted the provisions of Fair Value Measurements and Disclosures Topic of the FASB ASC 820 applicable to financial assets and liabilities. These provisions were adopted in relation to other applicable assets and liabilities on 1 January 2009. Fair Value Measurements and Disclosures Topic of the FASB ASC 820 provides a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Group's assumptions with respect to how market participants would price an asset or liability. These two inputs used to measure fair value fall into the following three different levels of the fair value hierarchy:

- Level One: Quoted prices for identical instruments in active markets that are observable.
- Level Two: Quoted prices for similar instruments in active markets; quote prices for identical or similar instruments in markets that are non-active; inputs other than quoted prices that are observable and derived from or corroborated by observable market data.
- Level Three: Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

This hierarchy requires the use of observable market data when available.

The Group has no financial instruments, other than cash, measured at fair value.

The carrying amounts of cash and cash equivalents, trade and other current receivables, trade and other payables reported in the consolidated balance sheet approximate fair value due to the short maturity of those instruments.

The Group has various borrowings that are measured at amortised cost. Solely for the purpose of presentation, the Group has estimated fair value based on expected discounted cash flows incorporating interest rates on other similar debt adjusted for the Group's estimated non-performance risk, including credit risk (Note 19). Other similar debt was determined based on rates available for similar facilities in the Russian Federation at 31 December 2009. Non-performance risk was estimated based on spreads between debt obtained by the Group and average interest rates in the Russian Federation on other similar debt at the reporting date.

Additionally, the Group has various loans and notes receivable classified as not held for sale. Solely for the purpose of presentation, the Group has estimated fair value based on expected discounted cash flows incorporating the Group's weighted average cost of capital (Note 19).

## 2 Summary of significant accounting policies continued

### Effect of accounting pronouncements adopted

Effective 30 June 2009, the Group adopted the FASB ASC, which is now the single source of authoritative generally accepted accounting principles in the United States of America. The Codification changed the referencing of financial standards but did not change or alter existing US GAAP. Effective 1 July 2009, changes to the ASC are communicated through an Accounting Standards Update ("ASU").

Effective 1 January 2009, the Group adopted the provisions for accounting for business combinations as required by the Business Combinations Topic of the Codification. Under the provisions an acquiring entity is required to recognize all the assets acquired, liabilities assumed and any non-controlling interest in the acquiree at their acquisition-date fair value with limited exceptions. The definition of a business is expected to be applicable to more transactions than under previous guidance. The specific provisions amend the accounting treatment for changes in control, step acquisitions, transaction costs, acquired contingent liabilities, in-process research and development, restructuring costs, changes in deferred tax asset valuation allowances as a result of a business combination and changes in income tax uncertainties after the acquisition date. Accounting for changes in valuation allowances for acquired deferred tax assets and the resolution of uncertain tax positions for prior business combinations will impact tax expense instead of impacting recorded goodwill. Additional disclosures are also required. The Group's acquisitions subsequent to the adoption (Note 23) have been accounted for under the provisions of the Business Combinations Topic.

Effective 1 January 2009, the Group adopted the authoritative guidance of FASB ASC 810, Consolidation, as it relates to non-controlling interests formerly "minority interests". All changes in the parent's ownership interests are required to be accounted for consistently as equity transactions and any non-controlling equity investments in unconsolidated subsidiaries must be measured initially at fair value. This guidance clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity and may be reported as equity in the consolidated financial statements, rather than in the liability or mezzanine section between liabilities and equity. This guidance also requires consolidated net income be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. As result of the adoption of this guidance the presentation of non-controlling interest in these consolidated financial statements has been changed retrospectively to comply with the requirements of this guidance.

In January 2010, the FASB issued ASU 2010-1, Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash ("ASU 2010-1") that amends Topic 505, Equity, and Topic 260, Earnings per share, of the FASB Codification. ASU 2010-1 clarifies that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash is considered a share issuance that is reflected in earnings-per-share prospectively and is not a stock dividend for the purpose of applying Topic 505, Equity, and Topic 260, Earning per share. ASU 2010-1 is effective for interim and annual reporting periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The adoption of this topic did not have a material impact on the Group's consolidated financial statements.

Effective June 30, 2009, the Group adopted the subsequent events provisions of the FASB ASC 855. These provisions provide guidance on management's assessment of subsequent events. The adoption of this topic did not have a material impact on the Group's consolidated financial statements.

## 2 Summary of significant accounting policies continued

### New accounting pronouncements

In June 2009, the FASB issued provisions related to accounting for transfers of financial assets removing the concept of a qualifying special-purpose entity and the exception from applying guidance related to variable interest entities that are qualifying special-purpose entities. The new provisions require that a transferor recognize and initially measure at fair value all assets obtained and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. The standard also requires additional disclosures about any transfers of financial assets and a transferor's continuing involvement with transferred financial assets. The provisions are effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years.

In December 2009, ASU No. 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities, was issued and will become effective for the Group on 1 January 2010. This ASU amends ASC 810, Consolidation, and changes the rules for determination when an entity should be consolidated. The new guidance requires the Group to perform an analysis to determine whether the Group's variable interest or interests give it a controlling financial interest in a variable interest entity. The Group is also required to assess whether it has an implicit financial responsibility to ensure that the variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance. It is expected that the adoption of this ASU will have no material effect on the Group's results of operations, financial position or liquidity.

In January 2010, the FASB issued guidance related to new disclosures about fair value measurements and clarification on certain existing disclosure requirements. This guidance requires new disclosures on significant transfers in and out of Level 1 and Level 2 categories of fair value measurements. This guidance also clarifies existing requirements on (i) the level of disaggregation in determining the appropriate classes of assets and liabilities for fair value measurement disclosures, and (ii) disclosures about inputs and valuation techniques. The Group will adopt the provisions of this guidance effective 1 January 2010, except for the new disclosures around the activity in Level 3 categories of fair value measurements, which will be adopted on 1 January 2011, as required.

In January 2010, the FASB issued guidance related to accounting and reporting for decreases in ownership of a subsidiary. This guidance clarifies the scope of the requirements surrounding the decrease in ownership and situations where the guidance does not apply. This guidance also expands the disclosure requirements for deconsolidation of a subsidiary or de-recognition of a group of assets. The Group will adopt the provisions of this guidance, as required.

The Group is currently evaluating the impact of adopting the provisions on its financial position, results of operations and cash flows.

## 3 Cash and cash equivalents

Cash as of 31 December 2009 and 2008 comprised:

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Cash in hand | 279 | 145 |
| Bank accounts | 38 682 | 49 522 |
| **Total cash and cash equivalents** | **38 961** | **49 667** |

Cash in bank accounts includes short-term, redeemable on-demand deposits of 14 215 and 8 549 as of 31 December 2009 and 2008, respectively.

## 4 Inventory

Inventory as of 31 December 2009 and 2008 comprised:

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Raw materials and goods for resale | 69 705 | 70 173 |
| Livestock | 59 314 | 55 316 |
| Work in-process | 4 283 | 5 280 |
| Finished goods | 5 062 | 3 101 |
| **Total inventory** | **138 364** | **133 870** |

## 5 Other receivables, net

Other receivables, net, as of 31 December 2009 and 2008 comprised:

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Subsidies receivable for interest expense reimbursement | 8 712 | 13 961 |
| Subsidies receivable for purchase of fodder | 361 | 5 086 |
| Subsidies receivable for meat produced | 228 | 1 416 |
| Other receivables | 8 401 | 8 455 |
| Allowance for doubtful accounts | (1 394) | (562) |
| **Total other receivables, net** | **16 308** | **28 356** |

In 2008, the Federal Budget of the Russian Federation was amended to increase the total assignment of funds for subsidies to agricultural producers by introducing subsidies designed to compensate producers for the high cost of mixed fodder used in production of poultry and pork during the first half of 2008. 5 146 not yet received of this amount as at 31 December 2009 is included in other non-current receivables.

## 6 Other current assets

Other current assets as of 31 December 2009 and 2008 comprised:

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| VAT and other taxes receivable | 12 683 | 16 767 |
| Notes receivable (effective annual interest rate of 9.5% and 9.41% as of 31 December 2009 and 2008, respectively) | 2 590 | 3 160 |
| Prepaid expenses | 3 439 | 2 627 |
| Spare parts | 4 144 | 3 841 |
| Other assets | 2 | 3 |
| **Total other assets** | **22 858** | **26 398** |

## 7 Property, plant and equipment, net

The carrying amounts of property, plant and equipment as of 31 December 2009 and 2008 comprised:

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Land | 3 830 | 2 373 |
| Buildings, infrastructure and leasehold improvements | 434 118 | 367 487 |
| Machinery and equipment | 159 035 | 136 162 |
| Vehicles | 26 673 | 27 168 |
| Sows | 13 746 | 7 838 |
| Cattle | 190 | 183 |
| Other | 1 188 | 1 685 |
| Advances paid for property, plant and equipment | 45 167 | 43 817 |
| Construction in progress and equipment for installation | 70 773 | 98 492 |
| **Total property, plant and equipment, net** | **754 720** | **685 205** |

Accumulated depreciation amounted to 182 207 and 145 777 as of 31 December 2009 and 2008, respectively. Depreciation expense amounted to 39 667 and 45 312 for the years ended 31 December 2009 and 2008, respectively, which includes depreciation of leased equipment.

Net book values of vehicles and machinery and equipment include 11 812 and 15 424 of leased equipment as of 31 December 2009 and 2008, respectively. Net book values of buildings, infrastructure and leasehold improvements include 11 814 and 13 830 of leased buildings and constructions as of 31 December 2009 and 2008, respectively. Accumulated depreciation on leased property and equipment amounted to 6 520 and 3 775 as of 31 December 2009 and 2008, respectively.

Loss on disposal of property, plant and equipment of 1 208 and 822 was recognized in the other operating expenses line item in the consolidated income statement for the year ended 31 December 2009 and 2008, respectively.

## 8 Goodwill and other intangible assets, net

Goodwill and other intangible assets as of 31 December 2009 and 2008 comprised:

| | 2009<br>US$000 | 2008<br>US$000 |
|---|---|---|
| Goodwill | 8 677 | 8 548 |
| Trademarks | 38 118 | 39 239 |
| Computer software | 3 771 | 3 971 |
| **Total goodwill and other intangible assets, net** | **50 566** | **51 758** |

**Goodwill**

The changes in the carrying amount of goodwill for 2009 and 2008 were as follows:

| | Total<br>US$000 |
|---|---|
| **Balance at 31 December 2007** | **10 959** |
| Adjustment related to expiration of statute of limitations on uncertain tax positions accrued upon acquisition of Golden Rooster Co. Limited (Note 18) | (608) |
| Translation loss | (1 803) |
| **Balance at 31 December 2008** | **8 548** |
| Additions | 313 |
| Translation loss | (184) |
| **Balance at 31 December 2009** | **8 677** |

As of 31 December 2007, the Group had recorded goodwill of 10 235 and 724, net of translation gain (loss) of 697 and (4), respectively, from the purchase of its controlling stakes in JSC BMPP (which is included in the meat processing segment) and Golden Rooster Co. Limited (which is included in the poultry segment).

In March 2009, the Group purchased Penzensky Kombinat Hleboproductov (see Note 23). Goodwill in the amount of 313 arose on the purchase.

As of 31 December 2009, management performed an annual impairment test and determined that goodwill was not impaired. The following specific assumptions were used in the impairment test:

- Sales volumes increase by 8% and 4% during 2010 and 2011 respectively, and remain constant thereafter,
- Prices are forecast to increase by 10% and 8% in 2010 and 2011 respectively, and increase at an average of 8% per annum thereafter,
- Operating costs are forecast to increase by 19% and 13% in 2010 and 2011, respectively, and increase by 7% per annum thereafter,
- Pre-tax discount rate of 21.9%.

Management believes that a 4% increase in future planned operating expenses, which is a key variable in determination of cash flows, would result in the carrying value of the meat processing segment exceeding its fair value, thereby indicating potential impairment.

## 8 Goodwill and other intangible assets, net continued

### Other intangible assets

Other intangible assets as of 31 December 2009 and 2008 comprised:

| | 2009 US$000 | | | 2008 US$000 | | |
|---|---|---|---|---|---|---|
| | Gross carrying amount | Accumulated amortisation | Net carrying amount | Gross carrying amount | Accumulated amortisation | Net carrying amount |
| Computer software | 3 999 | (229) | 3 770 | 4 034 | (63) | 3 971 |
| Indefinite life trademarks | 38 119 | – | 38 119 | 39 239 | – | 39 239 |
| **Other intangible assets, net** | **42 118** | **(229)** | **41 889** | **43 273** | **(63)** | **43 210** |

**Computer software**

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

**Biruliovsky (“Бирюлевский”) trademark**

The Biruliovsky trademark was fully impaired in 2008.

Prior to July 2007, the Biruliovsky trademark had an indefinite useful life. Based on operational plans to reposition the Biruliovsky trademark into a lower-margin market segment during the second half of 2007, management reassessed the classification of this intangible as of 1 July 2007. As a result, management determined that the trademark had a finite life and began amortisation of the asset over its estimated useful life of ten years. Amortisation expense for the Biruliovsky trademark was 107 for the year ended 31 December 2008.

As of 31 December 2008, management tested the Biruliovsky trademark for impairment and determined the trademark to be fully impaired as a result of implementation of a cost optimization plan which includes cessation of sales of products under the Biruliovsky trademark, with impairment loss of 481 recognized in Impairment of non-current assets in the consolidated income statement.

**Kurinoe Tsarstvo (“Куриное Царство”) trademark**

The carrying value of the Kurinoe Tsarstvo trademark was 23 711 and 24 408 as of 31 December 2009 and 2008, respectively.

In 2008, the carrying value of the Kurinoe Tsarstvo trademark decreased by 1 548 due to expiration of the statute of limitations on uncertain tax benefits accrued on acquisition of Golden Rooster Co. Limited (Note 18).

As of 31 December 2008, management tested the Kurinoe Tsarstvo trademark for impairment and determined the trademark to be impaired primarily due to an increase in the Group’s weighted average cost of capital from the time of the original valuation of the trademark in August of 2007. An impairment loss in the amount of 1 777 was recognized in Impairment of non-current assets in the consolidated income statement for 2008.

As of 31 December 2009, management tested the Kurinoe Tsarstvo trademark for impairment and determined that the trademark is not further impaired.

## 8 Goodwill and other intangible assets, net continued

The fair value measurements are classified within Level 3 of the fair value hierarchy described in ASC 820. The following significant unobservable inputs were used in the impairment test:

- Sales volumes of Kurinoe Tsarstvo branded products increase by 33%, 31% and 16% during 2010, 2011 and 2012, respectively, based on currently approved capital expenditure projects related to the brand and remain stable thereafter (this represents a change from 2008 assumptions of 20%, 27% and 25% during 2009, 2010 and 2011 based on changes made during the year in projects directed at increasing production capacity),
- Prices are forecast to increase by 10% in 2010 and grow steadily by 10% a year thereafter (estimates unchanged from prior year) based on historical trends and a shift to more expensive product types,
- Pre-tax discount rate of 26.9% (25.5% in 2008).

A 3% increase in the discount rate would lead to an impairment loss of 1 049; a 15% decrease in future planned trademark revenues would lead to an impairment loss of 1 043.

**Cherkizovsky (“Черкизовский”) trademark**
The carrying value of the Cherkizovsky trademark was 14 407 and 14 831 as of 31 December 2009 and 2008, respectively.

As of 31 December 2009 and 2008, management tested the Cherkizovsky trademark for impairment and determined that the trademark was not impaired.

For the impairment analysis as of 31 December 2009, the Group used cash flow projections based on actual operating results and business plans approved by management. The fair value measurements are classified within Level 3 of the fair value hierarchy described ASC 820. The following significant unobservable inputs were used in the impairment test.

- Sales volumes were projected to remain stable through the period,
- Expected selling prices were projected to grow along with inflation of 8.8%,
- Pre-tax discount rate of 26.9%.

**Impairment summary**
The impairment of non-current assets was reflected as follows as of 31 December 2009 and 2008:

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Impairment of Biruliovsky trademark | – | 481 |
| Impairment of Kurinoe Tsarstvo trademark | – | 1 777 |
| **Total impairment of non-current assets** | **–** | **2 258** |

Values assigned to key assumptions and estimates used to measure fair value were consistent with external sources of information. Management believes that the values assigned to the key assumptions and estimates represented the most realistic assessment of future trends. The rates used in the analysis are meant to provide information regarding levels of sensitivity of assumptions used and have, therefore, been tailored to reflect the specifics of each business segment.

## 9 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 at the issuance date for total cash consideration of 6 762. In May 2009, the Group redeemed one of these notes with a face value of 10 709 in exchange for 6 492.

In addition, the Group purchased Russian rouble denominated notes receivable from Sberbank in December 2008 at par value for total cash consideration of 357. This note was redeemed at face value in June 2009.

As of 31 December 2009, the balance comprised:

| | Book Value US$000 | Discount US$000 | Face Value US$000 | Effective % |
|---|---|---|---|---|
| Gazprombank notes receivable | 1 327 | (577) | 1 904 | 8.36% |

As of 31 December 2008, the balance comprised:

| | Carrying Value US$000 | Discount US$000 | Face Value US$000 | Effective % |
|---|---|---|---|---|
| Gazprombank notes receivable | 7 563 | (4 198) | 11 761 | 8.36% |
| Sberbank notes receivable | 340 | – | 340 | 11.00% |
| **Total long-term notes receivable** | **7 903** | **(4 198)** | **12 101** | |

## 10 Borrowings

Borrowings of the Group as of 31 December 2009 and 2008 comprised:

| | | | | 2009 US$000 | | 2008 US$000 | |
|---|---|---|---|---|---|---|---|
| | Interest rates | WAIR* | EIR** | Current | Non-current | Current | Non-current |
| Finance leases | 8.30% - 17.52% | 14.69% | 14.69% | 2 372 | 5 367 | 4 179 | 7 476 |
| Bonds | 12.75% | 12.75% | 12.75% | – | 10 560 | 68 073 | – |
| Bank loans | 11.50% - 20.00% | 16.52% | 6.96% | 1 152 | 6 943 | 5 058 | 7 206 |
| Credit lines | 11.06% - 17.50% | 13.74% | 3.85% | 90 348 | 335 700 | 129 449 | 305 686 |
| Loans from government | 3.00% - 6.00% | 4.48% | 4.48% | 12 178 | 16 935 | 27 308 | 5 054 |
| Other borrowings | 0.00% - 16.88% | 11.79% | 11.79% | 2 406 | 184 | 2 284 | 244 |
| | | | | **108 456** | **375 689** | **236 351** | **325 666** |
| **Total borrowings** | | | | | **484 145** | | **562 017** |

* 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.

# Notes to the consolidated financial statements
continued

For the years ended 31 December 2009 and 2008

## 10 Borrowings continued

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

| | 2010 US$000 | 2011 US$000 | 2012 US$000 | 2013 US$000 | 2014 US$000 | 2015 US$000 | >2015 US$000 | Total US$000 |
|---|---|---|---|---|---|---|---|---|
| **Total borrowings** | 31 038 | 152 807 | 68 060 | 70 490 | 42 306 | 17 102 | 19 557 | **401 360** |

As of 31 December 2009, the Group's borrowings are denominated in the following currencies: 477 871 in Russian roubles, 713 in Euro and 5 561 in USD. As of 31 December 2008, the Group's borrowings are denominated in the following currencies: 542 042 in Russian roubles, 663 in Euro and 19 312 in USD.

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 2009 and 2008, the Group used certain fixed assets under leasing contracts that qualified for treatment as finance leases. The lower of the incremental borrowing rate and the rate implicit in the lease agreement was used in capitalizing the leases.

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

| | 2009 US$000 | | 2008 US$000 | |
|---|---|---|---|---|
| **Payments falling due** | **Total minimum lease payments US$000** | **Portion related to interest US$000** | **Total minimum lease payments US$000** | **Portion related to interest US$000** |
| Within one year | 3 304 | 932 | 5 525 | 1 346 |
| In year two | 1 437 | 715 | 3 051 | 910 |
| In year three | 892 | 659 | 1 319 | 720 |
| In year four | 833 | 629 | 869 | 675 |
| In year five | 833 | 597 | 858 | 647 |
| After year five | 6 873 | 2 901 | 7 932 | 3 601 |
| | **14 172** | **6 433** | **19 554** | **7 899** |

### Bonds

During June 2006, the Group raised two billion roubles (74 881 at the issuance date) through an issue of puttable bonds with a face value of 1 000 roubles (37 at the issuance date). The coupon rate on the bonds, payable semi-annually, was set at 8.85% per annum for the first three years.

In June 2009, as allowed by the original agreement, the Group bid a coupon rate to be paid for an additional two years. At that point, the investors in the bonds had the right to redeem the bonds at their par value or accept the Group's bid, causing the maturity to be extended to June 2011. The investors' decision to redeem was made individually by each bondholder; therefore 64.38% of the outstanding principle (1 287 662 bonds) became due and was redeemed in June 2009.

Additionally, in the period from February to May 2009, the Group repurchased 710 028 bonds on the open market for 20 394 resulting in a gain of 1 077, which was included in the "Other income, net" line item in the consolidated income statement.

In December, the Group re-issued 320 000 bonds at 99.57% of face value for 318 624 roubles (10 468 at re-issuance date) with a maturity date in June 2011. The Group is accounting for these instruments at amortized cost.

## 10 Borrowings continued

### Bank Loans

**Gazprombank**

Borrowings from Gazprombank consist of two long-term rouble denominated loans with interest ranging from 12% to 18.5% per annum. Notes receivable with a carrying value of 1 327 were pledged as collateral under these loan agreements. Principal payment is due on maturity in 2014. Amount outstanding was 5 952 and 6 127 as of 31 December 2009 and 31 December 2008, respectively.

**Savings Bank of Russia**

Borrowings from Savings Bank of Russia consist of three short-term rouble denominated loans with interest ranging from 14% to 16% per annum. Loans are guaranteed by a Group company. Amount outstanding was 876 and 1 293 as of 31 December 2009 and 31 December 2008, respectively.

**Lipetskkombank**

Borrowings from Lipetskkombank consisted of one short-term rouble denominated loan with interest of 16% per annum as of 31 December 2008. The loan was fully repaid in 2009.

### Lines of credit

**Savings Bank of Russia**

Borrowings from the Savings Bank of Russia consist of forty-eight rouble denominated lines of credit with interest ranging from 11.75% to 17.5% per annum. Several of these instruments are guaranteed by related parties. Principal payments are due from 2010 to 2017. Amount outstanding was 208 711 and 206 812 as of 31 December 2009 and 31 December 2008, respectively. Two of the lines of credit for total 11 211 outstanding as of 31 December 2009 are revolving facilities with principal payments due at maturity before 31 December 2010.

**Gazprombank**

Borrowings from Gazprombank consist of three rouble denominated lines of credit with an interest rate of 13.0% per annum. Some of these facilities are guaranteed by related parties. Principal payments are due from 2010 to 2016. Amount outstanding was 122 999 and 133 772 as of 31 December 2009 and 31 December 2008, respectively.

**Bank Zenith**

Borrowings from Bank Zenith consist of four rouble denominated lines of credit with interest ranging from 14% to 16% per annum. Some of these facilities are guaranteed by related parties. Principal payment is due on maturity in 2011 and 2013. Amount outstanding was 77 701 and 66 699 as of 31 December 2009 and 31 December 2008, respectively.

**Raiffeisenbank**

Borrowings from Raiffeisenbank consist of one rouble denominated unsecured loan facility bearing interest equal to the MosPrime one-month rate on the date of tranche issuance which ranged from 10.82% to 11.18% per annum. Amount outstanding was 16 541 and 16 257 as of 31 December 2009 and 31 December 2008, respectively. The maturity date on the loan facility was prolonged to 2010.

The total amount of unused credit on lines of credit as of 31 December 2009 is 136 675. The unused credit can be utilized from 2010 to 2015 with expiration of available amounts varying as follows: 14 362 expires by 31 December 2010 and 122 313 by the year 2015.

## 10 Borrowings continued

### Loans from governmental agencies

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

Borrowings from the Department of Food Supply of the City of Moscow consist of one rouble denominated long-term and two rouble denominated short-term loans with interest ranging from 3.42% to 4.5% per annum. Amount outstanding was 24 142 and 24 851 as of 31 December 2009 and 31 December 2008, respectively. The agreement contains a condition that volume amounting to approximately 15% of the Group's sales be realized in Moscow in 2009. Similar conditions were set for 2010. The maturity date on the loan facility was extended to 2010 – 2011.

**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 rouble denominated long-term loans with interest ranging from 5.5% to 6% per annum. Principal payments are due from 2010 to 2011. Amount outstanding was 4 034 and 6 603 as of 31 December 2009 and 31 December 2008, respectively.

### Other borrowings

Other borrowings primarily represent unsecured loans from shareholders and contractors with interest rates ranging from 0% to 16.88% per annum. Principal payments are due from 2010 to 2014.

### Collateral under borrowings

Shares of and participating interests in the following Group companies are pledged as collateral under certain borrowings as of 31 December 2009:

- JSC Vasiljevskaya – 92%;
- CJSC Petelinskaya – 51%;
- 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%;
- LLC AIC Mikhailovsky – 51%;
- JSC Biruliovsky meat processing plant – 51%;
- LLC Kurinoe Tsarstvo – Bryansk – 99%.

Inventory with a carrying value of 24 410 and 19 916 was pledged under certain borrowings as of 31 December 2009 and 31 December 2008, respectively.

Property, plant and equipment with a carrying value of 209 471 and 151 166 was pledged under loan agreements as of 31 December 2009 and 31 December 2008, respectively.

Several of the loan agreements contain various covenants which the Group is required to meet. Management believes that it is in compliance with these requirements.

## 11 Tax related payables

Short-term tax related payables as of 31 December 2009 and 2008 comprised:

| | 2009<br>US$000 | 2008<br>US$000 |
|---|---|---|
| Value added tax | 5 974 | 3 316 |
| Employee income tax withheld | 1 141 | 1 068 |
| Payroll related taxes | 1 291 | 1 180 |
| Property tax payable | 1 614 | 1 348 |
| Corporate income tax | 617 | 461 |
| Transportation tax | 102 | 80 |
| Other taxes | 150 | 108 |
| **Total short-term taxes payable** | **10 889** | **7 561** |

Long-term tax related payables as of 31 December 2009 and 2008 comprised:

| | 2009<br>US$000 | 2008<br>US$000 |
|---|---|---|
| Corporate income tax, including unrecognised tax benefits | 4 212 | 6 890 |
| Payroll related taxes | 33 | 34 |
| Value added tax | 10 | 11 |
| **Total long-term taxes payable** | **4 255** | **6 935** |

## 12 Shareholders' equity

### Share capital

As of 31 December 2007, issued shares of OJSC Cherkizovo Group had a par value of 0.01 roubles. The total number of authorized shares was 54 702 600 and the number of issued and outstanding shares was 39 564 300.

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

In October 2008, the Group purchased 62 000 global depository receipts, which equates to 41 333 ordinary shares, for 496. These treasury shares were accounted for using the cost method. This transaction decreased the number of outstanding shares to 43 028 022.

All issued and outstanding shares have equal voting rights. As of 31 December 2009, MB Capital Partners Ltd. (formerly, Cherkizovsky Group Ltd.) owned 58.7% of the outstanding share capital of OJSC Cherkizovo Group. The Group is authorized to issue preferred shares not exceeding 25% of its ordinary share capital. No such shares are currently issued.

In accordance with Russian legislation, earnings available for dividends are limited to retained earnings of OJSC Cherkizovo Group, calculated in accordance with statutory rules in local currency. No dividends were declared or paid for the years ended 31 December 2009 and 2008.

## 12 Shareholders' equity continued

### Shares granted to employees

The controlling shareholder of the Group has entered into two share compensation agreements with members of management on outstanding shares. The total amount of shares covered by the option agreements is 400 000 (600 000 GDR's) with multiple service / derived service periods ranging through May 2014 as follows:

- 200 000 shares (300 000 GDR's) with a derived service period through May 2014 and containing a cash payment option at the choice of the shareholder as well as market conditions which must be met prior to exercise,
- 120 000 shares (180 000 GDR's) with a service period through December 2010 and containing a cash payment option at the choice of the shareholder,
- 80 000 shares (120 000 GDR's) with a service period through December 2010 and containing a cash payment option at the choice of the employee.

Management used the lattice model in estimating the fair value of the share options at their grant date. Volatility of share prices was based on actual market prices of GDR's of the Group as traded on the London Stock Exchange (LSE), dividends were estimated at zero (in keeping with the Group's stated policy) and the risk free rate used in the calculation was 5%.

The Group will recognize the fair value of the options as management remuneration over their applicable service periods through 2014, including 908 during 2009. The additional management remuneration recognized as a result of share options granted had no impact on total income tax provisions for the Group as such remuneration is not tax deductible in the Russian Federation. Should any of the options be exercised at a date earlier than the conclusion of the derived service period, any remaining unrecognized management remuneration will be recognised as management expense in the period when exercised.

None of the options were exercised, converted or expired during the year. At the end of 2009, 80 000 of the shares had vested, however, market conditions had not yet been met in order for these options to be exercised.

### Earnings per share

Earnings per share for the years ended 31 December 2009 and 2008 have been determined using the weighted average number of Group shares outstanding over the period.

The Group has no securities which should be considered for dilution. The shares granted to employees are not expected to have any dilutive impact upon exercise since any exchange will be a transfer of already outstanding shares held by the majority shareholder.

## 13 Sales

Sales for the years ended 31 December 2009 and 2008 comprised:

| | **2009 US$000** | **2008 US$000** |
|---|---|---|
| Produced goods and goods for resale | 1 056 970 | 1 203 704 |
| Other sales | 10 736 | 13 844 |
| Sales volume discounts | (35 406) | (41 744) |
| Sales returns | (9 843) | (9 398) |
| **Total sales** | **1 022 457** | **1 166 406** |

## 14 Cost of sales

Cost of sales for the years ended 31 December 2009 and 2008 comprised:

| | 2009<br>US$000 | 2008<br>US$000 |
|---|---|---|
| Raw materials and goods for resale | 583 947 | 704 697 |
| Personnel (excluding pension costs) | 66 450 | 80 004 |
| Depreciation | 35 962 | 39 749 |
| Utilities | 28 932 | 31 230 |
| Pension costs | 9 681 | 12 451 |
| Other | 16 215 | 18 884 |
| **Total cost of sales** | **741 187** | **887 015** |

Raw materials and goods for resale are offset by subsidies received from local governments in the amount of 1 055 and 34 433 for the years ended 31 December 2009 and 2008, respectively. These targeted subsidies are received based on the amount of meat produced.

## 15 Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended 31 December 2009 and 2008 comprised:

| | 2009<br>US$000 | 2008<br>US$000 |
|---|---|---|
| Personnel (excluding pension costs) | 51 557 | 67 904 |
| Transportation | 16 707 | 20 811 |
| Materials and supplies | 9 655 | 14 379 |
| Bad debt expense | 7 609 | 3 681 |
| Taxes (other than income tax) | 7 445 | 8 172 |
| Security services | 6 990 | 7 332 |
| Pension costs | 6 416 | 9 144 |
| Depreciation and amortisation | 4 144 | 5 601 |
| Audit, consulting and legal fees | 4 114 | 4 912 |
| Advertising and marketing | 2 992 | 4 339 |
| Utilities | 2 155 | 3 025 |
| Repairs and maintenance | 2 069 | 2 804 |
| Bank charges | 1 856 | 2 015 |
| Veterinary services | 1 841 | 2 550 |
| Information technology and communication services | 1 228 | 1 620 |
| Insurance | 925 | 1 080 |
| Other | 12 169 | 13 474 |
| **Total selling, general and administrative expenses** | **139 872** | **172 843** |

## 16 Other income (expense), net

Other income and expenses for the years ended 31 December 2009 and 2008 comprised:

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Interest income | 1 123 | 1 965 |
| Gain on early retirement of bonds (Note 10) | 1 077 | – |
| Gain from debt forgiveness | 415 | 1 019 |
| Allowance on loans receivable | (2 413) | – |
| Foreign exchange loss | (165) | (1 596) |
| Other financial income (expense) | 349 | (203) |
| **Total other income, net** | **386** | **1 185** |

## 17 Interest expense, net

Interest expense for the years ended 31 December 2009 and 2008 comprised:

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Interest expense | 18 292 | 20 742 |
| Finance lease expenses | 1 345 | 1 975 |
| Amortization of discount | 7 | 8 |
| **Total interest expenses, net** | **19 644** | **22 725** |

In accordance with Russian legislation, enterprises engaged in agricultural activities and enterprises involved in purchasing of meat receive subsidies on certain qualifying loans. The Group has accounted for such subsidies by reducing the interest expense on the associated loans by 28 025 and 18 433 for the years ended 31 December 2009 and 2008, respectively.

Interest (net of subsidies) capitalized in the years ended 31 December 2009 and 2008 was 3 398 and 7 910, respectively.

## 18 Income tax

The income tax expense for the years ended 31 December 2009 and 2008 comprised:

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Current provision | 1 163 | 6 966 |
| Deferred tax benefit | (4 510) | (5 504) |
| **Income tax (benefit) provision** | **(3 347)** | **1 462** |

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 20% and 0% for agricultural operations within the poultry/pork segments for the years presented under Russian legislation.

In July 2008, the government of the Russian Federation delayed the introduction of income taxes for agricultural companies until 2013. In November 2008 the government also decreased the statutory tax rate applicable to non-agricultural entities from 24% to 20% effective from 1 January 2009. These changes in tax rates resulted in a reduction of net deferred income tax liability in the amount of 5 911 as of 31 December 2008.

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

| Years | Income tax rate |
|---|---|
| 2013 – 2015 | 18% |
| Thereafter | 20% |

Income tax charge reconciled to the theoretical tax provision at the statutory rate for the years ended 31 December 2009 and 2008 is:

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Income before income tax | 120 932 | 81 928 |
| Income from continuing operations before income tax of entities taxed at agricultural rates | 130 158 | 87 601 |
| Loss from continuing operations before income tax of generally taxed entities | (9 226) | (5 673) |
| Statutory tax rate (general) | 20% | 24% |
| Statutory tax rate (agricultural) | 0% | 0% |
| Theoretical income tax benefit at statutory rate | (1 845) | (1 362) |
| Impact from agricultural temporary differences calculated at enacted future tax rates | (1 419) | 2 094 |
| Adjusted theoretical income tax expense at statutory rates | (3 264) | 732 |
| Expenses not deductible for Russian statutory taxation purposes, net | 2 063 | 4 548 |
| Impact from accruals of current year uncertain tax benefits and (reversal) of prior years uncertain tax benefits related to expiration of statutes of limitation (including penalties and fines) | (2 366) | 867 |
| Change in tax rate | – | (5 911) |
| Other permanent differences | (304) | 824 |
| Change in valuation allowance | 524 | 402 |
| **Actual income tax provision** | **(3 347)** | **1 462** |

## 18 Income tax continued

| Deferred tax assets / (liabilities) arising from tax effect of temporary differences: | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Property, plant and equipment | (24 550) | (31 555) |
| Construction in process | 786 | 976 |
| Intangibles | (2 930) | (3 089) |
| Long-term loans | 285 | (166) |
| Other non-current assets | 7 | 43 |
| Other non-current liability | 939 | 1 281 |
| Trade receivables | 1 852 | 1 316 |
| Advances | 201 | 169 |
| Inventory | 1 229 | 725 |
| Trade payables | (24) | – |
| Payroll accruals | 866 | 799 |
| Other current liabilities | 385 | 590 |
| Other current assets | 1 341 | 1 017 |
| Tax loss carry forwards | 2 904 | 6 310 |
| Valuation allowance | (2 315) | (1 817) |
| **Net deferred tax liability** | **(19 024)** | **(23 401)** |

At 31 December 2009 and 2008, temporary differences associated with undistributed earnings of subsidiaries were not recognized in these consolidated financial statements, because the Group is in a position to control the timing of the reversal of such temporary differences and it is probable that such differences will not reverse in the foreseeable future.

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

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

| | 2012 US$000 | 2013 US$000 | 2014 US$000 | 2015 US$000 | 2016 US$000 | 2017 US$000 | 2018 US$000 | 2019 US$000 | Total US$000 |
|---|---|---|---|---|---|---|---|---|---|
| Tax loss carry forwards | 54 | – | 431 | 1 992 | 1 922 | 2 850 | 3 886 | 3 380 | **14 515** |

## 18 Income tax continued

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Deferred tax asset – long-term portion | 2 182 | 579 |
| Deferred tax liability – long-term portion | (27 057) | (28 594) |
| **Long-term deferred tax liability, net** | **(24 875)** | **(28 015)** |
| Deferred tax asset – current | 5 879 | 4 668 |
| Deferred tax liability – current | (28) | (54) |
| **Current deferred tax asset, net** | **5 851** | **4 614** |
| **Total deferred tax liability, net** | **(19 024)** | **(23 401)** |

The movements in net deferred tax liability for the years ended 31 December 2009 and 2008 comprised:

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| **Net deferred tax liability, beginning of the year** | **(23 401)** | **(33 584)** |
| Impact of translation loss on beginning balance | 841 | 4 679 |
| Deferred tax benefit | 4 510 | 5 504 |
| Deferred tax acquired on acquisition of new consolidated entities | (974) | – |
| **Net deferred tax liability, end of the year** | **(19 024)** | **(23 401)** |

### Unrecognized income tax benefits

As of 31 December 2009, the Group included accruals for unrecognized income tax benefits of approximately 3 914 as a component of long-term tax related payables (of which approximately 490 and 534 were penalties and fines, respectively).

As of 31 December 2008, the Group included accruals for unrecognized income tax benefits of approximately 6 584 as a component of long-term tax related payables (of which approximately 729 and 922 were penalties and fines, respectively).

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

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Balance at 1 January | 4 933 | 7 810 |
| Translation loss | (229) | (1 405) |
| Additions based on tax positions related to the current year | 704 | 521 |
| Reductions of tax positions from prior years | (2 518) | (1 993) |
| **Balance at 31 December** | **2 890** | **4 933** |

As of 31 December 2009, it is estimated that the entire amount of unrecognized tax benefits will affect future effective tax rates.

In 2008, certain unrecognised tax benefits were recognised due to the expiration of the statutes of limitations. Tax benefits which arose in OJSC Kurinoe Tsarstvo prior to its purchase by the Group were recognised by reducing the amount of goodwill to zero with the remainder reducing the carrying amount of the trademark “Куриное Царство” (Kurinoe Tsarstvo).

## 18 Income tax continued

In 2009, tax benefits that arose in OJSC Kurinoe Tsarstvo prior to its purchase by the Group were recognised in full as an increase in current year income tax benefit in the statement of profit and loss.

The Group considers it reasonably possible that approximately 2 456 of the unrecognized income tax benefit (including interest and penalties) will be reversed within the next year, due to the expiration of the statute of limitations.

The Group recognizes accrued penalties related to unrecognized tax benefits and fines in income tax expenses. During the years ended 31 December 2009 and 2008, the Group recognized approximately 578 and 827 in penalties, respectively.

As of 31 December 2009, the tax years ended 31 December 2007, 2008 and 2009 remained subject to examination by the Russian tax authorities.

## 19 Fair value of financial instruments

The carrying values and fair values of the Group's loans and notes receivable and borrowings with the exception of finance leases, as of 31 December 2009 and 2008 are as follows:

| | 2009 US$000 | | 2008 US$000 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Loans receivable* | 5 355 | 4 954 | 14 339 | 12 408 |
| Notes receivable, net (Note 9) | 1 327 | 736 | 7 903 | 3 950 |
| Borrowings other than finance leases (Note 10) | 476 406 | 448 367 | 550 362 | 505 743 |

* This amount includes both the long-term loans to affiliates and short-term loans receivable

## 20 Related parties

Related parties include shareholders, entities under common ownership and control with the Group, members of key management personnel and affiliated companies. The Company and its subsidiaries enter into various transactions such as the sale and purchase of inventory. In addition, the Group enters into financing transactions with related parties. The amounts recognised are not necessarily indicative of the amounts that would be recognised for transactions with third parties.

### Trading transactions

Trading transactions with related parties comprise mostly of sales of mixed fodder to LLC RAO Penzenskaya Grain Company and CJSC Penzamyasoprom and purchases of raw materials from these companies as well as purchase of finished goods for resale through the Group's trading house.

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

### Financing transactions

During the years ended 31 December 2009 and 2008, certain shareholders issued loans to the Group and, as of 31 December 2009, have personally guaranteed certain of the bank loans and lines of credit for a total amount of 177 154 (Note 10).

As of 31 December 2009 and 2008, and for the years then ended, balances and transactions with related parties are summarized as follows:

## 20 Related parties continued

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| **Balances** | | |
| Short-term loan receivable | 4 390 | 8 235 |
| Trade receivables | 20 297 | 14 842 |
| Advances paid | 16 416 | 7 319 |
| Other receivables and prepayments | 674 | 2 043 |
| Long-term loans receivable | 135 | 157 |
| Trade payables | 1 350 | 2 380 |
| Short-term loans | 794 | 937 |
| Other payables | 400 | 548 |
| Current portion of long-term loans payable | 5 | 34 |
| Long-term loans payable | 997 | 5 |
| Long-term payables to shareholders related to lease agreements | 632 | 929 |

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| **Transactions** | | |
| Sales | 17 125 | 17 830 |
| Rent income | 174 | 135 |
| Purchases of IT services | 25 | 582 |
| Purchases of security services | 1 074 | 1 241 |
| Purchases of goods and services | 40 686 | 24 099 |
| Purchases of property, plant and equipment | 2 364 | 40 |

## 21 Long-term payables to shareholders

Movements in the total liability to shareholders for leased property for the years ended 31 December 2009 and 2008 were:

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Liability at the beginning of the period (including 929 and 1 167 non-current) | 975 | 1 215 |
| Interest accrued at 14% on leasing liability | 85 | 166 |
| Repayment | (123) | (213) |
| Purchase of assets | (208) | – |
| Translation gain (loss) | (40) | (193) |
| **Liability at the end of the period (including 632 and 929 non-current payables)** | **689** | **975** |

## 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. All segments have different chief operating decision makers responsible for segments' operations. The chief operating decision maker (the Chief Executive Officer) is the individual responsible for allocating resources to and assessing the performance of each component of the business.

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

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

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

Segment information at 31 December 2009 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 | Combined US$000 |
|---|---|---|---|---|---|---|
| Total Sales | 460 158 | 470 058 | 139 887 | 2 438 | – | 1 072 541 |
| including other sales | 3 693 | 55 816 | 17 634 | – | – | 77 143 |
| including sales volume discount | (17 862) | (17 544) | – | – | – | (35 406) |
| Intersegment Sales | (307) | (22 881) | (24 462) | (2 434) | – | (50 084) |
| Sales to external customers | 459 851 | 447 177 | 115 425 | 4 | – | 1 022 457 |
| Cost of Sales | (392 590) | (307 352) | (88 657) | (2) | 47 414 | (741 187) |
| **Gross profit** | **67 568** | **162 706** | **51 230** | **2 436** | **(2 670)** | **281 270** |
| Operating expenses | (59 393) | (62 366) | (8 349) | (13 642) | 2 670 | (141 080) |
| **Operating income** | **8 175** | **100 340** | **42 881** | **(11 206)** | – | **140 190** |
| Other income and expenses, net | (141) | (1 888) | (196) | 14 793 | (12 182) | 386 |
| Interest expenses | (11 841) | (9 682) | (4 879) | (5 424) | 12 182 | (19 644) |
| **Total net segment (loss) income from continuing operations before tax** | **(3 807)** | **88 770** | **37 806** | **(1 837)** | – | **120 932** |
| Supplemental information: | | | | | | |
| Expenditure for segment property, plant and equipment | 5 906 | 72 092 | 50 168 | 343 | – | 128 509 |
| Depreciation and amortisation expense | 10 966 | 20 585 | 8 448 | 107 | – | 40 106 |
| Income tax expense (benefit) | 973 | (5 560) | 1 716 | (476) | – | (3 347) |

## 22 Segment reporting continued

Segment information at 31 December 2008 and for year then ended comprised:

| | Meat Processing US$000 | Poultry US$000 | Pork US$000 | Corporate assets/ expenditures US$000 | Intersegment US$000 | Combined US$000 |
|---|---|---|---|---|---|---|
| Total Sales | 578 045 | 505 204 | 112 507 | 1 028 | – | 1 196 784 |
| including other sales | 4 640 | 39 773 | 6 148 | – | – | 50 561 |
| including sales volume discount | (26 363) | (15 380) | – | – | – | (41 743) |
| Intersegment Sales | (271) | (19 859) | (9 224) | (1 024) | – | (30 378) |
| Sales to external customers | 577 774 | 485 345 | 103 283 | 4 | – | 1 166 406 |
| Cost of Sales | (484 748) | (366 330) | (64 939) | (40) | 29 042 | (887 015) |
| **Gross profit** | **93 297** | **138 874** | **47 568** | **988** | **(1 336)** | **279 391** |
| Operating expenses | (86 343) | (70 498) | (8 293) | (12 125) | 1 336 | (175 923) |
| **Operating income (loss)** | **6 954** | **68 376** | **39 275** | **(11 137)** | **–** | **103 468** |
| Other income and expenses, net | 74 | (2 477) | (102) | 26 536 | (22 846) | 1 185 |
| Interest expenses | (14 777) | (14 611) | (1 723) | (14 460) | 22 846 | (22 725) |
| **Total net segment (loss) income from continuing operations before tax** | **(7 749)** | **51 288** | **37 450** | **939** | **–** | **81 928** |
| Supplemental information: | | | | | | |
| Expenditure for segment property, plant and equipment | 12 234 | 74 994 | 65 473 | 5 624 | – | 158 325 |
| Depreciation and amortisation expense | 17 261 | 22 248 | 6 271 | 11 | – | 45 791 |
| Income Tax expense (benefit) | 1 451 | (264) | (59) | 335 | – | 1 463 |

The reconciliation between net segment profit and net income per the consolidated income statements for the years ended 31 December 2009 and 2008 is as follows:

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Total net segment income from continuing operations before tax | 120 932 | 81 928 |
| Net income attributable to non-controlling interests | (4 108) | (2 960) |
| Income taxes | 3 347 | (1 462) |
| Loss from discontinued operations, net of income tax benefit (expense) | – | (4 000) |
| Net gain on disposal of subsidiary | – | 4 599 |
| **Net income attributable to Group Cherkizovo** | **120 171** | **78 105** |

## 22 Segment reporting continued

The reconciliation between segment assets and total assets per the consolidated balance sheets as of 31 December 2009 and 2008 is as follows:

| | 2009<br>US$000 | 2008<br>US$000 |
|---|---|---|
| Meat processing | 262 151 | 292 640 |
| Poultry | 490 410 | 404 582 |
| Pork | 371 957 | 334 204 |
| Corporate assets | 228 633 | 308 517 |
| Intersegment | (183 034) | (208 169) |
| **Total assets** | **1 170 117** | **1 131 774** |

## 23 Subsidiaries, acquisitions, divestitures

### Subsidiaries

As of 31 December 2009 and 2008, the Group controlled the meat processing and agricultural companies through its 100% ownership in AIC Cherkizovsky Ltd. and AIC Mikhailovsky Ltd. and in Golden Rooster Co. Limited.

AIC Cherkizovsky Ltd. is a holding company under 100% control of the Company. AIC Cherkizovsky Ltd. includes the 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 2009 and 2008, the following principal companies were included in AIC Cherkizovsky Ltd.:

| Name of company | Legal form | Nature of business | %<br>31.12.2009 | %<br>31.12.2008 |
|---|---|---|---|---|
| JSC MPP Babaevskiy | Closed Joint Stock Company | Meat processing plant | 85% | 85% |
| JSC Biruliovsky meat processing plant (JSC BMPP) | Open Joint Stock Company | Meat processing plant | 89% | 95% |
| JSC Meat and Poultry Processing Plant Penzensky (JSC MPPP Penzensky) | Open Joint Stock Company | Meat processing plant | 95% | 95% |
| JSC Meat Processing Plant Ulyanovsky (JSC MPP Ulyanovsky) | Open Joint Stock Company | Meat processing plant | 85% | 85% |
| JSC Cherkizovsky meat processing plant (JSC CMPP) | Open Joint Stock Company | Meat processing plant | 87% | 87% |
| LLC MPP Salsky | Limited Liability Company | Meat processing plant | 81% | 81% |
| TIC Cherkizovo Ltd. (Cherkizovo-2) | Limited Liability Company | Procurement company | 100% | 100% |
| LLC Cherkizovo-Kashira (Cherkizovo-Kashira Ltd.) | Limited Liability Company | Meat processing plant | 99% | 99% |
| LLC Cherkizovsky (Saint Petersburg) | Limited Liability Company | Trading company | 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% |

## 23 Subsidiaries, 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 that are registered and operating in the Russian Federation. As of 31 December 2009 and 2008, the following principal companies were included in AIC Mikhailovsky Ltd.:

| Name of company | Legal form | Nature of business | % 31.12.2009 | % 31.12.2008 |
|---|---|---|---|---|
| CJSC Petelinskaya | Closed Joint Stock Company | Raising poultry | 84% | 84% |
| JSC Vasiljevskaya | Open Joint Stock Company | Raising poultry | 100% | 100% |
| LLC Petelino Trade House | Limited Liability Company | Trading company: distribution of products of AIC Mikhailovsky | 84% | 84% |
| CJSC Botovo | Closed Joint Stock Company | Pig breeding | 76% | 76% |
| LLC Petelinsky Poultry Factory | Limited Liability Company | Meat processing | 84% | 84% |
| LLC Trading House Petelino-Samara | Limited Liability Company | Trading company: distribution of products of AIC Mikhailovsky | 100% | 100% |
| JSC Lipetskmyasoprom | Open Joint Stock Company | Pig breeding | 100% | 100% |
| LLC Mikhailovsky Feed Milling Plant | Limited Liability Company | Mixed fodder production | 100% | 100% |
| LLC Kuznetsovsky Kombinat | Limited Liability Company | Pig breeding | 100% | 100% |
| LLC Tambovmyasoprom | Limited Liability Company | Pig breeding | 99% | 99% |
| LLC Budenovets Agrofirm | Limited Liability Company | Pig breeding | 100% | 100% |

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 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 frozen poultry products under the “Chicken Kingdom” brand name.

### Acquisitions

**Penzensky Kombinat Hleboproductov**

On 3 March 2009 the Group acquired 57.29% of the share capital of OJSC Penzensky Kombinat Hleboproductov in exchange for 1 867 in cash with no significant transaction costs. Penzensky Kombinat Hleboproductov (“Penzensky”) is an elevator and mixed fodder producer situated near JSC Vasiljevskaya poultry producing company in the Penza region of the Russian Federation. The Group acquired this entity in order to gain access to its grain storage facilities.

## 23 Subsidiaries, acquisitions, divestitures continued

The results of Penzensky's operations have been included in the consolidated financial statements since the acquisition date.

The following table summarizes the consideration paid for Penzensky and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date, as well as the fair value at the acquisition date of the non-controlling interest:

| | |
|---|---|
| Purchase price | 1 867 |
| | |
| Inventory | 441 |
| Other current assets (including cash of 14) | 298 |
| Property, plant and equipment | 6 150 |
| Goodwill | 313 |
| Deferred tax assets | 57 |
| Short-term loans and finance leases | (3 103) |
| Other current liabilities | (219) |
| Deferred tax liability | (912) |
| Non-controlling interest | (1 158) |

A major factor contributing to Goodwill is the expected synergies arising due to the close proximity of Penzensky to a large poultry production facility. All of the Goodwill is assigned to the Poultry segment. Goodwill is not deductible for tax purposes.

The fair value of the non-controlling interest in Penzensky, a private company, was estimated by applying the income approach. This fair value measurement is based on significant inputs that are not observable in the market and thus represents a Level 3 measurement (Note 19). Key assumptions include (a) a discount rate of 18.87%, (b) a terminal value based on long-term sustainable growth rates of 3.5%, and (c) adjustments because of the lack of control or lack of marketability that market participants would consider when estimating the fair value of the non-controlling interest based on discounts observed on similar transactions in public markets.

The following unaudited pro forma financial information presents consolidated income statements as if the acquisition occurred at the beginning of the respective period. Pro forma information is presented for all preceding comparative periods:

| **Pro forma Information** | **For the year ended 31 December 2009 (UNAUDITED) US$000** | **For the year ended 31 December 2008 (UNAUDITED) US$000** |
|---|---|---|
| Sales | 1 024 413 | 1 185 292 |
| Income from continuing operations | 120 248 | 77 873 |
| Net income | 120 248 | 78 472 |

These unaudited pro forma results have been prepared for comparative 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.

## 23 Subsidiaries, acquisitions, divestitures continued

The actual results of operations of Penzensky Kombinat Hleboproductov are included in the consolidated financial statements of the Group only from the date of acquisition and were:

| | |
|---|---|
| Sales | 5 741 |
| Operating Loss | (367) |
| **Net Loss** | **(202)** |

Subsequent to the acquisition the Group acquired a further 4.91% of Penzensky Kombinat Hleboproductov for cash consideration of 185. The purchase was accounted for as an equity transaction. The carrying amount of the non-controlling interest was adjusted to reflect the change in its ownership interest in Penzensky. The difference between the fair value of the consideration paid and the amount of the adjustment to the non-controlling interest was recognized in equity attributable to the Group.

### Other acquisitions

During 2009, the Group acquired a further 11.7% of Ardymskoe Hlebopriyomnoe Predpriyatie (AHP) for a cash consideration of 102. The purchase was accounted for as an equity transaction. The carrying amount of the non-controlling interest was adjusted to reflect the change in its ownership interest in AHP. The difference between the fair value of the consideration paid and the amount of the adjustment to the non-controlling interest was recognized in equity attributable to the Group.

### Divestitures

### Assets held for sale

#### LLC MPP Salsky

In November 2007, management of the Group made a decision to dispose of a subsidiary in the meat processing segment – LLC MPP Salsky. The entity was classified as available for sale at 31 December 2007 in accordance with the provisions of Property, Plant, and Equipment Topic of the FASB ASC 360. During 2008, market conditions changed significantly impacting the ability of the Group to complete the sale. The Group continued to actively market the entity through the end of 2008 including making adjustments to the selling price.

In 2009, there have been no new significant developments related to the sale and LLC MPP Salsky was reclassified as held for use as the sale of this entity is improbable in the near future. Management's substantial doubt of the sale results from the lack of new offers to purchase LLC MPP Salsky at a price that is considered reasonable by management. Upon reclassification to held for use, the assets and liabilities have been measured at the carrying amount prior to its designation as an asset held for sale, adjusted for any depreciation expense that would have been recognized had the asset been continuously classified as held and used.

## 23 Subsidiaries, acquisitions, divestitures continued

For comparative purposes, Salsky is being presented in continuing operations as of 31 December 2008 and for the year then ended. Intergroup balances previously presented separately between continuing operations and held for sale on the balance sheet are eliminated after being reclassified into continuing operations in these financial statements. This presentation also affects the following balances:

| **Balance sheet as of 31 December 2008** | **Adjustments made to reclassify to held for use US$000** |
|---|---|
| Total current assets | (609) |
| Total non-current assets | (1 881) |
| Total current liabilities | 1 670 |
| Total non-current liabilities | 818 |

| **Income statement for the year ended 31 December 2008** | **Adjustments made to reclassify to held for use US$000** |
|---|---|
| Sales | 126 |
| Gross profit (loss) | (51) |
| Operating income (loss) | (460) |
| Income tax expense | (53) |
| Gain (loss) from discontinued operations (net of non-controlling interest) | 523 |

**Discontinued operations**

**OJSC Belmyaso**

In November 2008, management of the Group received an offer from a third party to purchase JSC Belmyaso, a subsidiary in the meat processing segment located on the Ukrainian border in southwest Russia. Management accepted the offer as the sale was consistent with its plan to optimize the cost structure of the meat processing segment. The sale was completed in December 2008, with the Group selling its 75% share ownership in JSC Belmyaso for proceeds of 68. The gain on the sale of the subsidiary amounted to 4 599.

Results from discontinued operations were as follows for 2008:

| | **2008 US$000** |
|---|---|
| Sales | 15 473 |
| Cost of sales | (15 887) |
| **Gross (loss) profit** | **(414)** |
| Operating expenses | (2 448) |
| **Operating loss** | **(2 862)** |
| Other expenses, net | (645) |
| **Loss before income tax and noncontrolling interest** | **(3 507)** |
| Income tax expense | (493) |
| Noncontrolling interest | 998 |
| **Loss from discontinued operations** | **(3 002)** |

## 23 Subsidiaries, acquisitions, divestitures continued

**Sale of noncontrolling interest in a subsidiary**

In December 2009, the Group sold 6% of JSC Biruliovsky meat processing plant (JSC BMPP) for 12 thousand roubles. Since there was no loss of control the transaction was accounted for as a capital transaction. The carrying amount of the noncontrolling interest was adjusted to reflect the change in its ownership interest in JSC BMPP. The difference between the fair value of the consideration received and the amount of the adjustment to the non-controlling interest was recognized in equity attributable to the Group.

## 24 Commitments and contingencies

### Legal

As of 31 December 2009 and 2008, 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.

### 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 2009.

### Capital commitments

At 31 December 2009, the Group had large capital projects in progress at JSC Lipetskmyasoprom, LLC Tambovmyasoprom, LLC Kurinoe Tsarstvo – Bryansk, JSC Vasiljevskaya and CJSC Petelinskaya. As part of these projects, commitments had been made to contractors of approximately 79 037 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 1 845 towards completion of the project.

### Operating lease commitments

At 31 December 2009, the Group had the following obligations under non-cancellable operating lease agreements:

| | 31.12.2010 US$000 | 31.12.2011 US$000 | 31.12.2012 US$000 | 31.12.2013 US$000 | 31.12.2014 US$000 | >31.12.2014 US$000 | Total US$000 |
|---|---|---|---|---|---|---|---|
| Total commitments | 456 | 456 | 456 | 456 | 456 | 7 800 | 10 080 |

## 25 Subsequent events

The Group obtained 26 616 and repaid 32 857 on lines of credit, bank loans and other loans for the period from 1 January through 29 March 2010.

In March 2010, the Group signed a Memorandum of Understanding with an entity controlled by Cherkizovo Group's main shareholders to acquire a controlling interest in two pork production farms located in the Penza and Lipetsk regions of Central Russia. Each complex includes separate breeding, rearing and fattening facilities. Both farms are newly constructed greenfield complexes. Subject to satisfactory due diligence and agreement on the final terms of the acquisition as well as approval by the independent members of the Board of Directors of OJSC Cherkizovo Group, the transaction is expected to close in the second half of 2010.

The Group has evaluated subsequent events through 29 March 2010, the date on which the financial statements are available to be issued.