

# **OJSC Cherkizovo Group**

**Consolidated Financial Statements**  
For the Year Ended 31 December 2011

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## OJSC CHERKIZOVO GROUP

### STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of OJSC Cherkizovo Group and subsidiaries (together "the Group") as of 31 December 2011, and the results of its operations, cash flows and changes in equity and comprehensive income for the year then ended, in compliance with accounting principles generally accepted in the United States of America ("US GAAP").

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

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in US GAAP are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and,
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with US GAAP;
- maintaining statutory accounting records in compliance with Russian legislation and accounting standards;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2011 were approved by management on 13 March 2012.

On behalf of the Management:



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**Sergei Mikhailov**  
Chief Executive Officer

13 March 2012



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**Ludmila Mikhailova**  
Chief Financial Officer

13 March 2012

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of OJSC Cherkizovo Group and subsidiaries (together "the Group"), which comprise the consolidated balance sheet as of 31 December 2011, and the consolidated statements of income, cash flow, and changes in equity and comprehensive income for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*DELOITTE & TOUCHE CIS*

13 March 2012  
Moscow, Russia

# Consolidated balance sheet

As of 31 December 2011

		2011 US\$000	2010 US\$000 (as adjusted)*
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	3	28 247	68 164
Trade receivables, net of allowance for doubtful accounts of 5 150 and of 4 808 as of 31 December 2011 and 2010, respectively	4	77 623	81 300
Advances paid, net of allowance for doubtful accounts of 2 845 and of 1 820 as of 31 December 2011 and 2010, respectively		26 001	42 087
Inventory	5	219 712	183 170
Short-term deposits in banks		931	33 796
Deferred tax assets	19	4 186	5 003
Other receivables, net of allowance for doubtful accounts of 2 769 and of 1 935 as of 31 December 2011 and 2010, respectively	6	20 964	12 594
Other current assets	7	46 486	41 557
<b>Total current assets</b>		<b>424 150</b>	<b>467 671</b>
<b>Non-current assets:</b>			
Property, plant and equipment, net	8	1 142 435	937 590
Goodwill	9	66 089	11 879
Other intangible assets, net	9	39 823	41 821
Deferred tax assets	19	4 785	3 246
Notes receivable, net	10	1 497	1 427
Other non-current receivables		3 892	8 296
<b>Total non-current assets</b>		<b>1 258 521</b>	<b>1 004 259</b>
<b>Total assets</b>		<b>1 682 671</b>	<b>1 471 930</b>

\* As required by US GAAP comparative information for the year ended 31 December 2010 has been retrospectively adjusted for the finalisation of the allocation of purchase price of Otechestvenny Product and Zarechnaya (Note 23).

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

# Consolidated balance sheet continued

As of 31 December 2011

		2011 US\$000	2010 US\$000 (as adjusted)*
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Trade accounts payable		88 172	73 251
Short-term borrowings	11	214 102	182 467
Tax related liabilities	12	11 676	10 132
Deferred tax liabilities	19	92	-
Payroll related liabilities		17 769	14 159
Advances received		7 552	6 121
Payables for non-current assets		10 092	10 450
Interest payable		1 082	3 131
Other payables and accruals		7 738	6 656
<b>Total current liabilities</b>		<b>358 275</b>	<b>306 367</b>
<b>Non-current liabilities:</b>			
Long-term borrowings	11	533 303	465 889
Deferred tax liabilities	19	25 478	26 246
Tax related liabilities	12	2 576	2 726
Payables to shareholders		463	563
Other liabilities		2 110	27
<b>Total non-current liabilities</b>		<b>563 930</b>	<b>495 451</b>
Commitments and contingencies	24		
<b>Equity:</b>			
Share capital	13	15	15
Additional paid-in capital		277 892	272 682
Treasury shares		(16 195)	(496)
Other accumulated comprehensive loss		(122 057)	(76 062)
Retained earnings		590 234	442 408
<b>Total shareholders' equity</b>		<b>729 889</b>	<b>638 547</b>
Non-controlling interests		30 577	31 565
<b>Total equity</b>		<b>760 466</b>	<b>670 112</b>
<b>Total liabilities and equity</b>		<b>1 682 671</b>	<b>1 471 930</b>

\* As required by US GAAP comparative information for the year ended 31 December 2010 has been retrospectively adjusted for the finalisation of the allocation of purchase price of Otechestvenny Product and Zarechnaya (Note 23).

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

# Consolidated income statement

For the year ended 31 December 2011

		2011 US\$000	2010 US\$000 (as adjusted)*
Sales	14	1 472 891	1 188 213
Cost of sales	15	(1 103 576)	(864 445)
<b>Gross profit</b>		<b>369 315</b>	<b>323 768</b>
Selling, general and administrative expense	16	(194 881)	(155 720)
Impairment of assets		(3 395)	-
Other operating expense, net		(670)	(1 139)
<b>Operating income</b>		<b>170 369</b>	<b>166 909</b>
Other (expense) income, net	17	(30)	1 811
Financial expense, net	18	(14 772)	(15 936)
<b>Income before income tax</b>		<b>155 567</b>	<b>152 784</b>
Income tax	19	(4 757)	(4 125)
<b>Net income</b>		<b>150 810</b>	<b>148 659</b>
Less: Net income attributable to non-controlling interests		(2 984)	(4 249)
<b>Net income attributable to Cherkizovo Group</b>		<b>147 826</b>	<b>144 410</b>
<hr/>			
Weighted average number of shares outstanding – basic:		42 953 544	43 028 022
Net income attributable to Cherkizovo Group per share – basic:		3.44	3.36
<hr/>			
Weighted average number of shares outstanding – diluted:	13	42 958 044	43 028 022
Net income attributable to Cherkizovo Group per share –diluted:		3.44	3.36

\* As required by US GAAP comparative information for the year ended 31 December 2010 has been retrospectively adjusted for the finalisation of the allocation of purchase price of Otechestvenny Product and Zarechnaya (Note 23).

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

# Consolidated cash flow statement

For the year ended 31 December 2011

	2011 US\$000	2010 US\$000 (as adjusted)*
<b>Cash flows from (used in) operating activities:</b>		
Net income	150 810	148 659
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortisation	65 281	50 645
Bad debt expense	3 182	2 834
Uncollectible subsidies	4 804	-
Impairment of assets	3 395	-
Foreign exchange loss	3 601	353
Deferred tax benefit	(1 695)	(1 980)
Recognition of previously unrecognized tax benefits (Note 19)	(364)	(1 491)
Share-based compensation expense	430	3 803
Other adjustments, net	(1 398)	959
<b>Changes in operating assets and liabilities</b>		
Decrease (increase) in trade receivables	1 054	(6 894)
Decrease (increase) in advances paid	16 169	(11 571)
Increase in inventory	(6 670)	(31 205)
Increase in other receivables and other current assets	(11 325)	(5 993)
Decrease in other non-current receivables	529	7 566
Increase in trade accounts payable	3 432	8 407
Increase (decrease) in tax related liabilities	392	(1 360)
Increase in other current payables	596	3 627
<b>Total net cash from operating activities</b>	<b>232 223</b>	<b>166 359</b>

\* As required by US GAAP comparative information for the year ended 31 December 2010 has been retrospectively adjusted for the finalisation of the allocation of purchase price of Otechestvenny Product and Zarechnaya (Note 23).

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



# Consolidated cash flow statement continued

For the year ended 31 December 2011

	2011 US\$000	2010 US\$000 (as adjusted)*
<b>Cash flows from (used in) investing activities:</b>		
Purchases of long-lived assets	(211 866)	(170 645)
Proceeds from sale of property, plant and equipment	3 504	448
Acquisitions of subsidiaries, net of cash acquired (Note 23)	(43 219)	(9 317)
Issuance of short-term loans and placing of deposits	(5 934)	(36 705)
Repayment of short-term loans issued and redemption of deposits	43 568	687
Other investing activities	28	2 590
<b>Total net cash used in investing activities</b>	<b>(213 919)</b>	<b>(212 942)</b>
<b>Cash flows from (used in) financing activities:</b>		
Proceeds from long-term loans	168 510	150 485
Repayment of long-term loans	(174 577)	(65 449)
Proceeds from long-term loans from related parties	8	761
Repayment of long-term loans from related parties	(1 310)	(8 483)
Proceeds from short-term loans	165 935	141 169
Repayment of short-term loans	(187 789)	(127 571)
Purchase of treasury stock	(15 699)	-
Acquisitions of entities under common control and non-controlling interests (Note 23)	(14 135)	(15 408)
<b>Total net cash (used in) from financing activities</b>	<b>(59 057)</b>	<b>75 504</b>
<b>Total cash (used in) from operating, investing and financing activities</b>	<b>(40 753)</b>	<b>28 921</b>
Impact of exchange rate difference on cash and cash equivalents	836	(591)
<b>Net (decrease) increase in cash and cash equivalents:</b>	<b>(39 917)</b>	<b>28 330</b>
Cash and cash equivalents at the beginning of the period	68 164	39 834
<b>Cash and cash equivalents at the end of the period</b>	<b>28 247</b>	<b>68 164</b>
<b>Supplemental Information:</b>		
Income taxes paid	6 725	7 422
Interest paid	78 221	69 229
Subsidies for compensation of interest expense received	60 821	57 344
Property, plant and equipment acquired on account	10 464	10 450
Settlement of acquisition of Mosselprom with shares	23 660	-

\* As required by US GAAP comparative information for the year ended 31 December 2010 has been retrospectively adjusted for the finalisation of the allocation of purchase price of Otechestvenny Product and Zarechnaya (Note 23).

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

# Consolidated statement of changes in equity and comprehensive income

For the year ended 31 December 2011

	Share capital		Treasury shares		Additional paid-in capital US\$000	Retained earnings US\$000	Other accumulated comprehensive loss US\$000	Total shareholders' equity US\$000	Non-controlling interests US\$000	Total equity US\$000
	US\$000	number of shares	US\$000	number of shares						
<b>Balances at 1 January 2010</b>	<b>15</b>	<b>43 069 355</b>	<b>(496)</b>	<b>(41 333)</b>	<b>281 161</b>	<b>297 998</b>	<b>(71 707)</b>	<b>506 971</b>	<b>30 676</b>	<b>537 647</b>
Net income	-	-	-	-	-	144 410	-	144 410	4 249	148 659
Other comprehensive loss from translation adjustment	-	-	-	-	-	-	(4 355)	(4 355)	(234)	(4 589)
<b>Total comprehensive income</b>								<b>140 055</b>	<b>4 015</b>	<b>144 070</b>
Contribution from shareholder (Note 13)	-	-	-	-	3 803	-	-	3 803	-	3 803
Purchase of non-controlling interests (Note 23)	-	-	-	-	2 569	-	-	2 569	(3 126)	(557)
Effect of acquisitions under common control (Notes 23)	-	-	-	-	(14 851)	-	-	(14 851)	-	(14 851)
<b>Balances at 31 December 2010 (as adjusted)*</b>	<b>15</b>	<b>43 069 355</b>	<b>(496)</b>	<b>(41 333)</b>	<b>272 682</b>	<b>442 408</b>	<b>(76 062)</b>	<b>638 547</b>	<b>31 565</b>	<b>670 112</b>
<b>Balances at 1 January 2011</b>	<b>15</b>	<b>43 069 355</b>	<b>(496)</b>	<b>(41 333)</b>	<b>272 682</b>	<b>442 408</b>	<b>(76 062)</b>	<b>638 547</b>	<b>31 565</b>	<b>670 112</b>
Net income	-	-	-	-	-	147 826	-	147 826	2 984	150 810
Other comprehensive loss from translation adjustment	-	-	-	-	-	-	(45 995)	(45 995)	(1 582)	(47 577)
<b>Total comprehensive income</b>								<b>101 831</b>	<b>1 402</b>	<b>103 233</b>
Issuance of additional shares (Notes 13, 23)	-	894 418	-	-	19 478	-	-	19 478	-	19 478
Share-based compensations (Note 13)	-	-	-	-	430	-	-	430	-	430
Purchase of treasury shares	-	-	(15 699)	(755 116)	-	-	-	(15 699)	-	(15 699)
Purchase of non-controlling interests	-	-	-	-	(43)	-	-	(43)	(19)	(62)
Addition of non controlling interests due to acquisition of subsidiaries (Note 23)	-	-	-	-	-	-	-	-	(2 371)	(2 371)
Effect of acquisitions under common control (Note 23)	-	-	-	-	(14 655)	-	-	(14 655)	-	(14 655)
<b>Balances at 31 December 2011</b>	<b>15</b>	<b>43 963 773</b>	<b>(16 195)</b>	<b>(796 449)</b>	<b>277 892</b>	<b>590 234</b>	<b>(122 057)</b>	<b>729 889</b>	<b>30 577</b>	<b>760 466</b>

\* As required by US GAAP comparative information for the year ended 31 December 2010 has been retrospectively adjusted for the finalisation of the allocation of purchase price of Otechestvenny Product and Zarechnaya (Note 23).

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

# Notes to the consolidated financial statements

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 1 Business and environment

### Incorporation and history

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

### The business of the Group

The Group's operations are spread over the full production cycle from grain and feed production and breeding to meat processing and distribution. The operational facilities of the Group include seven meat processing plants, ten pig production complexes, seven poultry production complexes, three combined fodder production plants and two grain farming complexes. The Group also operates three trading houses with subsidiaries in several major Russian cities.

The Group's geographical reach covers Moscow, the Moscow region, the regions of Saint Petersburg, Kaliningrad, Penza, Lipetsk, Vologda, Ulyanovsk, Chelyabinsk, Tambov, Krasnodar, Ekaterinburg, Rostov-na-Donu, Briansk, Voronezh, Belgorod, Kursk, Orel 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 2011 and 2010 the number of staff employed by the Group approximated 20 200 and 15 100, respectively.

During 2010, as a result of a summer drought in the Russian Federation grain and feed prices significantly increased. This adversely impacted the Group's financial performance during the last quarter of 2010 and continued to impact the Group's financial performance in the beginning of 2011. In 2011, following an easing of macroeconomic pressures, the Group continued to have access to third party financing and low-cost, government subsidised financing; this trend is expected to continue in 2012.

Due to changes in product mix to higher margin products as well as the continued implementation of cost cutting measures the meat processing segment returned to profitability in 2010 and continued to produce profits in 2011.

The Group expects to fund its forecasted 2012 investing cash outflow through operating cash inflows, as well as through refinancing of its short-term debt as it becomes due. Based on current economic conditions management is confident that it will be able to refinance its borrowings and fund its ongoing operations.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 2 Summary of significant accounting policies

### Accounting principles

The Group's subsidiaries 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. Subsidiaries 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.

Transactions under common control are accounted for in a manner similar to a pooling of interests (see Business combinations accounting policy).

### Foreign currency translation

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

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

The following table summarizes the exchange rates of the Russian rouble to 1 US dollar at 31 December 2011 and 2010.

	Exchange rate
31 December 2011	32.1961
Average exchange rate for the year ended 31 December 2011	29.3874
31 December 2010	30.4769
Average exchange rate for the year ended 31 December 2010	30.3692

### 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 on-going 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, recognition of subsidies receivable from regional and federal authorities and valuation of assets and liabilities of 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.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 2 Summary of significant accounting policies continued

### Trade receivables, advances paid and allowance for doubtful accounts

Accounts receivable, including trade receivables and advances paid, are stated at their originally recorded value less allowance for doubtful debts, which approximates their fair value. Advances paid represent prepayments to suppliers for goods and services which are expected to be realized within twelve months. 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

Inventory, including work in-process, is 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

Fixed assets 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:

Land	Indefinite life
Buildings and infrastructure	10-40 years
Machinery and equipment	3-22 years
Vehicles	3-10 years
Cattle	7 years
Sows	2 years
Other	3-10 years

### Capitalised interest expense

Interest is capitalised on expenditures made in connection with capital projects in the amount of interest expense 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.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 2 Summary of significant accounting policies continued

### Business combinations

The acquisition of businesses from third parties is accounted for using the purchase method of accounting. On acquisition, identifiable assets and liabilities of an entity are measured at their fair values as at the date of acquisition. The interest of non-controlling shareholders is stated at fair value at the date of acquisition.

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 at the beginning of the earliest period presented. Consideration paid is reflected as a decrease in additional paid in capital.

### Goodwill and other intangible assets

Goodwill arising on acquisitions is recognized as an asset and initially measured at cost, being the excess of the consideration paid over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities 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. All 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 reviewed for impairment at least annually or earlier if indications of impairment exist. In the Group's assessment of goodwill, management makes assumptions regarding estimates of future cash flows and other factors to determine the fair value of the reporting unit. For purposes of testing goodwill for impairment, 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. 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. In estimating the fair value, the Group is required to make a number of estimates and assumptions including assumptions related to projected future cash flows, estimated growth and discount rates. A change in these underlying assumptions could cause a change in the results of the tests and, as such, could result in impairment in future periods.

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.

### 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.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 2 Summary of significant accounting policies continued

### 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 held to maturity.

### 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 has 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. 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 25% for the meat processing segment and 22.7% 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, are included in the consolidated income statements as a deduction 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 in the year to which sales relate.

### Marketing expenses

Marketing costs are expensed as incurred. Marketing expenses are reflected in selling, general and administrative 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 on qualifying loans. 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.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 2 Summary of significant accounting policies continued

### 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 precluded from filing a consolidated tax return and offsetting 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. The effect on deferred tax assets and liabilities of changes in tax rates is recognized in the statement of operations in the period in which the enactment date changes. Deferred tax assets are reduced through the establishment of a valuation allowance at such time as, based on available evidence, it is more likely than not that the deferred tax assets will not be realized. The Group adjusts valuation allowances to measure deferred tax assets at the amount considered realizable in future periods if the Group's facts and assumptions change. In making such determination, the Group considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations.

Positions taken in the tax returns of the subsidiaries forming part of the Group may be subject to challenge by the taxing authorities upon examination. The Group recognises the benefit of uncertain tax positions in the consolidated financial statements for positions which are considered more likely than not of being sustained based on the technical merits of the position on audit by the tax authorities. The measurement of the tax benefit recognized in the consolidated financial statements is based upon the largest amount of tax benefit that, in management's judgment, is greater than 50% likely of being realized based on a cumulative probability assessment of the possible outcomes. The Group classifies uncertain tax positions as well as penalties and fines as tax related liabilities. The Company recognizes interest and penalties accrued related to unrecognized tax positions as part of the provision for income taxes.

### Concentration of credit risk

Financial instruments that potentially expose the Group to concentration of credit risk consist primarily of cash and cash equivalents, short-term deposits, accounts receivable from customers and advances paid to vendors. As of 31 December 2011 68% of total cash and cash equivalents were held in a state owned bank. As of 31 December 2010 81% of total cash and cash equivalents were held in a state owned bank.

As of 31 December 2011, approximately 11% of the Group's net accounts receivable were due from one customer.

As of 31 December 2011, approximately 32% of advances paid were outstanding with two third-party vendors for planned future purchases of raw materials.

The maximum amount of loss due to credit risk, based on the carrying value of trade receivables, other receivables and advances paid that the Group would incur if related parties failed to perform according to the terms of contracts, was 16 558 as of 31 December 2011.

### Non-controlling interest

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

### Leases

Leases are classified as capital 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 capital 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 capital 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.



# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 2 Summary of significant accounting policies continued

### Pension costs

The Group makes payments for employees into the Pension fund of the Russian Federation. Effective 1 January 2010, all contributions to the Pension fund were calculated by application of a fixed rate of 20% and taxable annual gross remuneration of each employee was limited to 415 000 roubles (14 thousand USD). From 1 January 2011, the rate was increased to 26% with a limit of 463 000 roubles (16 thousand USD). The Group does not have any additional pension obligations other than said contributions.

### Fair value of financial instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Group uses various valuation approaches. A hierarchy has been established for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market rates obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's estimates about the assumptions market participants would use in the pricing of the asset or liability based on the best information available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level One: Quoted prices for identical instruments in active markets that are observable.
- Level Two: Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.
- Level Three: Unobservable inputs for the asset or liability.

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

The carrying amounts of cash and cash equivalents, trade and other current receivables, trade and other payables and accruals 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 20). Other similar debt was determined based on rates available for similar facilities in the Russian Federation at 31 December 2011. 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 held to maturity. 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 20).

On 12 May 2011 the Group acquired 100% of the share capital of ZAO Mosselprom and recognized an option to settle a portion of the consideration payable in Group shares as a derivative instrument at its fair value on the acquisition date (Note 23). In arriving at fair value, the Group used the Black-Scholes-Merton Model, which is based on an income approach using Type 2 inputs. The option was exercised on 29 November 2011.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 2 Summary of significant accounting policies continued

### Effect of accounting pronouncements adopted

In September 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-09, "Disclosures about an Employer's Participation in a Multiemployer Plan," which amends Topic 715-80 of the Codification. This ASU creates greater transparency in financial reporting by requiring additional disclosures about an employer's participation in a multiemployer pension plan. The additional disclosures required under this ASU will increase awareness about the commitments that an employer has made to a multiemployer pension plan and the potential future cash flow implications of an employer's participation in the plan. ASU No. 2011-09 is effective for annual periods ending after December 15, 2011, with early adoption permitted. The Group adopted the requirements of ASU No. 2011-09 from January 1, 2011. The adoption of the standard did not have an impact on the consolidated financial statements.

In December 2010, the FASB issued Accounting Standards Update ("ASU") No. 2010-29, "Disclosure of Supplementary Pro Forma Information for Business Combinations." This ASU requires that the pro forma information be presented as if the business combination occurred at the beginning of the prior annual reporting period for purposes of calculating both the current reporting period and the prior reporting period pro forma financial information. The ASU also requires that this disclosure be accompanied by a narrative description of the amount and nature of material nonrecurring pro forma adjustments. ASU No. 2010-29 is effective prospectively for business combinations occurring on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Group adopted the requirements of ASU No. 2010-29 for business combinations occurring on or after January 1, 2011. In the consolidated financial statements the Group presented new pro forma information for business combinations occurring during the year ended 31 December 2011 (see Note 23).

In December 2010, the FASB issued ASU No. 2010-28, "When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts." This ASU modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. As a result, ASU No. 2010-28 is eliminating an entity's ability to assert that a reporting unit is not required to perform Step 2 because the carrying amount of the reporting unit is zero or negative despite the existence of qualitative factors that indicate the goodwill is more likely than not impaired. Therefore, goodwill impairments may be reported sooner than under current practice. ASU No. 2010-28 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Group adopted the requirements of ASU No. 2010-28 from January 1, 2011. The adoption of the standard did not have an impact on the consolidated financial statements.

In July 2010, the FASB issued ASU No. 2010-20, "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses," which amends Accounting Standards Codification ("ASC" or, the "Codification") No. 310, "Receivables." This ASU provides financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables and requires entities to provide disclosures that facilitate financial statement users' evaluation of the following: 1) the nature of credit risk inherent in the entity's portfolio of financing receivables; 2) how that risk is analyzed and assessed in arriving at the allowance for credit losses; and 3) the changes and reasons for those changes in the allowance for credit losses. ASU No. 2010-20 also introduces new terminology, in particular, the term financial receivables. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The Group adopted ASU No. 2010-20 in relation to disclosures about activity that occurs during a reporting period from January 1, 2011. The adoption of this new guidance did not have an impact on the consolidated financial statements.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 2 Summary of significant accounting policies continued

### New accounting pronouncements

In December 2011, the FASB issued ASU No. 2011-11, "Disclosures about Offsetting Assets and Liabilities," which amends Topic 210 of the Codification. This ASU enhances disclosures by requiring improved information about financial instruments and derivative instruments that are either (1) offset by a debtor having a valid right of setoff or allowed to do so under other defined circumstances or (2) subject to an enforceable master netting arrangement or similar agreement. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this ASU. ASU No. 2011-11 is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013 and should be applied retrospectively. The Group is evaluating the effect of the adoption of ASU No. 2011-11 and expects the adoption to require additional disclosures in the consolidated financial statements.

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

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

In May 2011, the FASB issued ASU No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRSs," which amends Topic 820 of the Codification. This ASU provides guidance for fair value measurements and disclosure requirements and clarifies the FASB's intent about the application of existing fair value measurement requirements. The new standard does not extend the use of fair value but, rather, provides guidance about how fair value should be applied where it already is required or permitted under US GAAP. ASU No. 2011-04 is effective for public entities for interim and annual periods beginning after December 15, 2011 and should be applied prospectively. The Group is evaluating the effect of the adoption of ASU No. 2011-04 and does not expect any material impact on its results of operations, financial position or cash flows.

In April 2011, the FASB issued ASU No. 2011-02, "A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring", which amends Topic 310 of the Codification. This ASU provides additional guidance in considering whether restructuring constitutes a troubled debt restructuring and helps creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties. ASU No. 2011-02 is effective starting from the first interim or annual period beginning on or after June 15, 2011. The Group is evaluating the effect of the adoption of ASU No. 2011-02 and does not expect any material impact on its results of operations, financial position or cash flows.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 3 Cash and cash equivalents

Cash as of 31 December 2011 and 2010 comprised:

	2011 US\$000	2010 US\$000
Cash in hand	335	327
Bank accounts	27 912	67 837
<b>Total cash and cash equivalents</b>	<b>28 247</b>	<b>68 164</b>

Cash in bank accounts includes short-term, redeemable on-demand deposits of 8 773 and 43 990 as of 31 December 2011 and 2010, respectively.

## 4 Allowance for doubtful trade receivables

The following table summarizes the changes in the allowance for doubtful trade receivables for the years ended 31 December 2011 and 2010:

	2011 US\$000	2010 US\$000
<b>Balance at beginning of the year</b>	<b>4 808</b>	<b>5 091</b>
Additional allowance, recognized during the year	2 289	1 276
Trade receivables written off during the year	(1 633)	(1 521)
Translation difference	(314)	(38)
<b>Balance at end of the year</b>	<b>5 150</b>	<b>4 808</b>

## 5 Inventory

Inventory as of 31 December 2011 and 2010 comprised:

	2011 US\$000	2010 US\$000
Raw materials	85 136	83 756
Livestock	101 354	71 844
Work in-process	13 322	7 715
Finished goods	19 900	19 855
<b>Total inventory</b>	<b>219 712</b>	<b>183 170</b>

In prior reporting periods "Goods for resale" were presented combined with raw materials under the description "Raw materials and goods for resale". Beginning in 2011, "Goods for resale" were reclassified and presented as part of "Finished goods". Comparative information as of 31 December 2010 has been reclassified to achieve consistency with the method of presentation adopted in the year ended 31 December 2011.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 6 Other receivables, net

Other receivables, net, as of 31 December 2011 and 2010 comprised:

	2011 US\$000	2010 US\$000
Subsidies receivable for interest expense reimbursement	9 513	4 830
Subsidies receivable for purchase of fodder	1 232	358
Subsidies receivable for meat produced	355	845
Other receivables	12 633	8 496
Allowance for doubtful other receivables	(2 769)	(1 935)
<b>Total other receivables, net</b>	<b>20 964</b>	<b>12 594</b>

## 7 Other current assets

Other current assets as of 31 December 2011 and 2010 comprised:

	2011 US\$000	2010 US\$000
VAT and other taxes receivable	28 560	28 464
Spare parts	8 545	5 215
Loans receivable	2 052	4 618
Prepaid expenses	3 788	3 214
Notes receivable	2 734	-
Other assets	807	46
<b>Total other current assets</b>	<b>46 486</b>	<b>41 557</b>

## 8 Property, plant and equipment, net

The carrying amounts of property, plant and equipment as of 31 December 2011 and 2010 comprised:

	2011 US\$000	2010 US\$000
Land	13 982	7 960
Buildings, infrastructure and leasehold improvements	670 567	526 412
Machinery and equipment	240 173	177 809
Vehicles	39 366	27 761
Sows	16 692	15 093
Cattle	292	-
Other	1 752	1 787
Construction in-progress and equipment for installation	124 069	138 764
Advances paid for property, plant and equipment	35 542	42 004
<b>Total property, plant and equipment, net</b>	<b>1 142 435</b>	<b>937 590</b>

Accumulated depreciation amounted to 270 608 and 229 837 as of 31 December 2011 and 2010, respectively. Depreciation expense amounted to 64 148 and 50 022 for the years ended 31 December 2011 and 2010, respectively, which includes depreciation of leased equipment.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 8 Property, plant and equipment, net continued

Net book values of vehicles and machinery and equipment include 4 037 and 6 141 of leased equipment as of 31 December 2011 and 2010, respectively. Net book values of buildings, infrastructure and leasehold improvements include 8 206 and 10 179 of leased buildings and infrastructure as of 31 December 2011 and 2010, respectively. Accumulated depreciation on leased property and equipment amounted to 8 012 and 7 504 as of 31 December 2011 and 2010, respectively.

Loss on disposal of property, plant and equipment of 670 and 1 139 was recognized in other operating expense, net in the consolidated income statement for the years ended 31 December 2011 and 2010, respectively.

## 9 Goodwill and other intangible assets, net

Goodwill and other intangible assets as of 31 December 2011 and 2010 comprised:

	2011 US\$000	2010 US\$000
Goodwill	66 089	11 879
Other intangible assets	39 823	41 821
<b>Total goodwill and other intangible assets, net</b>	<b>105 912</b>	<b>53 700</b>

### Goodwill

The changes in the carrying amount of goodwill for 2011 and 2010 were as follows:

<b>Balance at 31 December 2009 US\$000</b>	<b>8 677</b>
Additions	3 268
Translation loss	(66)
<b>Balance at 31 December 2010 US\$000</b>	<b>11 879</b>
Additions	63 773
Translation loss	(9 563)
<b>Balance at 31 December 2011 US\$000</b>	<b>66 089</b>

As of 31 December 2009, the Group had recorded goodwill of 8 548 and 313, net of accumulated translation loss of 184 from the purchase of its controlling stake in JSC BMPP (which is included in the meat processing reporting unit) and Penzensky Kombinat Hleboproductov (which is included in the poultry reporting unit), respectively.

In September 2010 the Group acquired LLC PKO Otechestvenny Product (Otechestvenny Product) and LLC Zarechnaya Poultry Factory (Zarechnaya) (see Note 23) and recorded goodwill in the amount of 78 (which is included in the meat processing reporting unit) and 3 190 (which is included in the poultry reporting unit), respectively. The goodwill which arose on acquisition includes potential synergy effect.

On 12 May 2011, the Group completed an acquisition of 100% of the share capital of ZAO Mosselprom (see Note 23). Goodwill in the amount of 63 773 arose on this purchase. For this acquisition, the purchase price allocation is preliminary and consequently, the value of goodwill will be revised when the fair value of acquired assets and liabilities are finally determined.

As of 31 December 2011, management performed an annual impairment test for the meat processing reporting unit and determined that goodwill was not impaired.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 9 Goodwill and other intangible assets, net continued

### Other intangible assets

Other intangible assets as of 31 December 2011 and 2010 comprised:

	2011 US\$000			2010 US\$000		
	Gross carrying amount	Accumulated amortisation	Net carrying amount	Gross carrying amount	Accumulated amortisation	Net carrying amount
Computer software	4 744	(729)	4 015	4 484	(490)	3 994
Indefinite life trademarks	35 808	-	35 808	37 827	-	37 827
<b>Other intangible assets, net</b>	<b>40 552</b>	<b>(729)</b>	<b>39 823</b>	<b>42 311</b>	<b>(490)</b>	<b>41 821</b>

### Computer software

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

### Indefinite life trademarks

#### Kurinoe Tsarstvo («Куриное Царство») trademark

The carrying value of the Kurinoe Tsarstvo trademark was 22 274 and 23 530 as of 31 December 2011 and 2010, respectively.

As of 31 December 2011 and 2010, management tested the Kurinoe Tsarstvo trademark for impairment and determined that the trademark is not impaired.

#### Cherkizovsky («Черкизовский») trademark

The carrying value of the Cherkizovsky trademark was 13 534 and 14 297 as of 31 December 2011 and 2010, respectively.

As of 31 December 2011 and 2010, management tested the Cherkizovsky trademark for impairment and determined that the trademark was not impaired.

## 10 Non-current notes receivable, net

As of 31 December 2011, the balance comprised:

	Book Value US\$000	Discount US\$000	Face Value US\$000	Effective %
Gazprombank notes receivable with maturity in June 2014	1 497	(325)	1 823	8.36%

As of 31 December 2010, the balance comprised:

	Book Value US\$000	Discount US\$000	Face Value US\$000	Effective %
Gazprombank notes receivable with maturity in June 2014	1 427	(463)	1 890	8.36%

# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 11 Borrowings

Borrowings of the Group as of 31 December 2011 and 2010 comprised:

	Interest rates	WAIR*	EIR**	2011 US\$000		2010 US\$000	
				Current	Non-current	Current	Non-current
Capital leases	8.30%-17.52%	15.17%	15.17%	401	6 176	717	4 610
Bonds	8.25%	8.25%	8.25%	-	46 591	10 479	49 218
Bank loans	8.00%-12.00%	9.16%	0.71%	6 913	9 368	328	984
Lines of credit	7.20%-17.00%	11.04%	1.37%	206 384	470 883	168 267	409 746
Loans from government	0.00%	0.00%	0.00%	19	204	1 815	-
Other borrowings	0.00%-1.00%	0.80%	0.80%	385	81	861	1 331
				<b>214 102</b>	<b>533 303</b>	<b>182 467</b>	<b>465 889</b>
<b>Total borrowings</b>					<b>747 405</b>		<b>648 356</b>

\* 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 18 for further disclosure of government subsidies related to interest on borrowings.

The contractual maturity of long-term borrowings (excluding capital leases) for the six years ending 31 December 2017 and thereafter is as follows:

Maturity of non-current borrowings	2012 US\$000	2013 US\$000	2014 US\$000	2015 US\$000	2016 US\$000	2017 US\$000	>2017 US\$000	Total US\$000
Total borrowings	108 009	128 584	159 410	102 625	86 708	40 064	9 736	<b>635 136</b>

As of 31 December 2011, the Group's borrowings were denominated in the following currencies: 735 085 in Russian roubles, 7 700 in Euro and 4 620 in USD. As of 31 December 2010, the Group's borrowings were denominated in the following currencies: 642 982 in Russian roubles, 615 in Euro and 4 759 in USD.

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



# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 11 Borrowings continued

### Capital leases

As of 31 December 2011 and 2010, the Group used certain fixed assets under leasing contracts that qualified for treatment as capital leases. The lower of the incremental borrowing rate and the rate implicit in the lease agreement was used in capitalizing the leases.

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

Payments falling due	2011 US\$000		2010 US\$000	
	Total minimum lease payments US\$000	Portion related to interest US\$000	Total minimum lease payments US\$000	Portion related to interest US\$000
Within one year	1 320	919	1 427	710
In year two	1 215	867	884	654
In year three	1 205	815	827	624
In year four	2 900	1 194	827	593
In year five	783	527	827	557
After year five	5 673	2 197	5 994	2 321
	<b>13 096</b>	<b>6 519</b>	<b>10 786</b>	<b>5 459</b>

### Bonds

#### Bonds due in June 2011

As of 31 December 2010, the Group had outstanding 320 000 bonds (10 479) with a maturity date in June 2011. The Group accounted for these instruments at amortized cost. The bonds were redeemed at par value in June 2011.

#### Bonds due in November 2013

In November 2010, the Group placed 3 000 000 bonds (99 000) at par value (1 000 roubles or 33 USD at the issuance date) with a maturity date in November 2013. The Group accounted for these instruments at amortized cost. 1 500 000 (49 500) of these bonds were purchased by a Group company upon issuance, for the purpose of selling on the market when funds are required. The remaining 1 500 000 bonds (46 591 using the 31 December 2011 exchange rate) held by third parties are presented as non-current debt as of 31 December 2011 (31 December 2010: 49 218). The coupon rate on the bonds, payable semi-annually, was set at 8.25% per annum.

### Bank Loans

#### Gazprombank

Borrowings from Gazprombank consist of one long-term rouble denominated loan with interest rate 12% per annum. Notes receivable with a carrying value of 1 497 were pledged as collateral under this loan. Principal payment is due on maturity in 2014. Amount outstanding was 932 and 984 as of 31 December 2011 and 31 December 2010, respectively.

#### Savings Bank of Russia

Borrowings from Savings Bank of Russia consist of one long-term rouble denominated loan with interest rate 9.5% per annum. Amount outstanding was 9 256 and 328 as of 31 December 2011 and 31 December 2010, respectively.

#### CreditEuropeBank

Borrowings from CreditEuropeBank consist of one short-term rouble denominated loan with a fixed interest rate of 8.25% per annum. Amount outstanding was 5 280 and nil as of 31 December 2011 and 31 December 2010, respectively.

#### Rosselhozbank

Borrowings from Rosselhozbank consist of two long-term euro denominated loans with a fixed interest rate of 8.0% per annum. Amount outstanding was 813 and nil as of 31 December 2011 and 31 December 2010, respectively.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 11 Borrowings continued

### Lines of credit

#### Savings Bank of Russia

Borrowings from the Savings Bank of Russia consist of twenty eight rouble denominated lines of credit with interest ranging from 7.20% to 13.50% per annum. Several of these instruments are guaranteed by related parties. Some of these facilities are guaranteed by municipal authorities. Principal payments are due from 2012 to 2019. Amount outstanding was 380 111 and 306 070 as of 31 December 2011 and 31 December 2010, respectively.

#### Gazprombank

Borrowings from Gazprombank consist of seven rouble denominated lines of credit with interest ranging from 8% to 13.0% per annum. Some of these facilities are guaranteed by related parties. Principal payments are due from 2012 to 2016. Amount outstanding was 109 742 and 126 093 as of 31 December 2011 and 31 December 2010, respectively.

#### Bank Zenith

Borrowings from Bank Zenith consist of four rouble denominated lines of credit with an interest rate of 13% per annum. Some of these facilities are guaranteed by related parties. Principal payment is due on maturity from 2013 to 2016. Amount outstanding was 66 335 and 77 108 as of 31 December 2011 and 31 December 2010, respectively.

#### Raiffeisenbank

Borrowings from Raiffeisenbank consist of three rouble denominated loan facilities with interest ranging from 7.20% to 7.40% per annum. Amount outstanding was 4 481 and 17 037 as of 31 December 2011 and 31 December 2010, respectively.

#### Rosselhozbank

Borrowings from Rosselhozbank consist of twenty five rouble and five euro denominated lines of credit with fixed interest rates ranging from 8% to 17% per annum. Some of these facilities are guaranteed by related parties. Principal payments are due from 2012 to 2017. Amount outstanding was 109 711 and 43 503 for rouble denominated and 6 888 and nil for euro denominated lines of credit as of 31 December 2011 and 31 December 2010, respectively.

The total amount of unused credit on lines of credit as of 31 December 2011 is 94 415. The unused credit can be utilized from 2012 to 2015 with expiration of available amounts varying as follows: 54 471 expire by 31 December 2012 and 39 944 by 2015.

### Other borrowings

Other borrowings primarily represent unsecured loans from shareholders and contractors with interest rates ranging from nil% to 1.00% per annum. Principal payments are due from 2012 to 2014.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 11 Borrowings continued

### Collateral under borrowings

Shares of and participating interests in the following Group companies are pledged as collateral under certain borrowings as of 31 December 2011:

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

Inventory with a carrying value of 19 756 and 52 113 was pledged as security under certain borrowings as of 31 December 2011 and 31 December 2010, respectively.

Property, plant and equipment with a carrying value of 437 424 and 331 849 was pledged as security under loan agreements as of 31 December 2011 and 31 December 2010, respectively.

Certain significant loan agreements contain covenants requiring the maintenance of minimum revenue turnover through accounts at the respective banks. Certain significant loan agreements with Gazprombank and Savings Bank of Russia contain financial covenants requiring maintenance of specific debt to EBITDA ratios. The Group is in compliance with these covenants as of 31 December 2011.

## 12 Tax related liabilities

Short-term tax related liabilities as of 31 December 2011 and 2010 comprised:

	2011 US\$000	2010 US\$000
Value added tax	3 684	3 670
Property tax payable	2 501	2 309
Payroll related taxes	2 679	1 687
Personal income tax withheld	1 692	1 374
Corporate income tax	854	812
Transportation tax	94	83
Other taxes	172	197
<b>Total short-term tax related liabilities</b>	<b>11 676</b>	<b>10 132</b>

Long-term tax related liabilities as of 31 December 2011 and 2010 comprised:

	2011 US\$000	2010 US\$000
Corporate income tax	2 550	2 692
Payroll related taxes	17	23
Value added tax	9	11
<b>Total long-term tax related liabilities</b>	<b>2 576</b>	<b>2 726</b>

# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 13 Shareholders' equity

### Share capital

As of 31 December 2011, issued shares of the Company had a par value of 0.01 roubles. The total number of authorized shares was 54 702 600 and the number of issued shares was 43 963 773 (15 at 31 December 2011 and 2010). The number of outstanding shares as of 31 December 2011 was 43 167 324.

All issued and outstanding shares have equal voting rights. As of 31 December 2011, MB Capital Partners Ltd. (formerly part of the Control Group) owned 48.54% of the outstanding share capital of the Company. The Company is authorized to issue preferred shares not exceeding 25% of its ordinary share capital. No such shares are currently issued.

In accordance with Russian legislation, earnings available for dividends are limited to retained earnings of the Company, calculated in accordance with statutory rules in local currency. No dividends were declared or paid for the years ended 31 December 2011 and 2010.

### Shares granted to employees prior to 2011

In previous years the controlling shareholder of the Group entered into two share compensation agreements directly with members of management relating to shares that it owned and controlled. The total amount of shares covered by the option agreements was 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; and,
- 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 Company 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 portion of the awards containing a cash payment option at the choice of the shareholder was exercised by granting of shares subsequent to 31 December 2010. The 200 000 shares containing market conditions fully vested during 2010 due to having met the requisite conditions. This resulted in all share based options granted to employees in previous years being vested as of 31 December 2010. Management remuneration expense of 3 803 was accordingly recognized during the period.

The additional management remuneration recognized as a result of share options granted had no impact on total income tax provisions for the Group as such remuneration is not tax deductible in the Russian Federation.

There were no other share based compensation agreements outstanding as of 31 December 2010.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 13 Shareholders' equity continued

### Shares granted to employees in 2011

The controlling shareholder of the Group and one of the Group's subsidiaries have entered into two share compensation agreements directly with management on outstanding/treasury shares, respectively. The total amount of shares covered by the agreements is 38,000 (57,000 GDR's) with multiple service periods ranging through June 2014 as follows:

- 10 000 shares (15 000 GDR's) with a service period through December 2011, including 3 000 shares from the controlling shareholder and 7 000 from treasury.
- 10 000 shares (15 000 GDR's) with a service period through December 2012, including 3 000 shares from the controlling shareholder and 7 000 from treasury.
- 18 000 shares (27 000 GDR's) with a service period through June 2014, including 9 000 shares from the controlling shareholder and 9 000 from treasury.

Under the share compensation agreements management has the right to purchase shares at par value (0.01 roubles) after the end of each respective service period. Management estimated the fair value of the share option at the grant date as the fair value of the Group's shares. Fair value of options as of the grant date equaled 950. During the year ended 31 December 2011 the Group recognized additional management remuneration amounting 430. Total compensation cost related to nonvested awards not yet recognized at 31 December 2011 equals to 520. During the year ended 31 December 2011 there were no exercised, forfeited or cancelled share options.

The additional management remuneration recognized as a result of share options granted had no impact on total income tax provisions for the Group as such remuneration is not tax deductible in the Russian Federation.

There were no other share based compensation agreements outstanding as of 31 December 2011.

### Earnings per share

Earnings per share for the years ended 31 December 2011 and 2010 have been determined using the weighted average number of Group shares outstanding over the period.

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

	2011	2010
Weighted average number of shares outstanding - basic	42 953 544	43 028 022
Add back treasury shares held in respect of share options	4 500	-*
<b>Weighted average number of shares outstanding - diluted</b>	<b>42 958 044</b>	<b>43 028 022</b>

\*The Group had no securities which should be considered for dilution in 2010. The previous shares granted to employees did not have any dilutive impact as outstanding shares on these awards were held by the majority shareholder.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 14 Sales

Sales for the years ended 31 December 2011 and 2010 comprised:

	2011 US\$000	2010 US\$000
Produced goods and goods for resale	1 531 513	1 233 602
Other sales	11 032	8 125
Sales volume discounts	(54 710)	(41 212)
Sales returns	(14 944)	(12 302)
<b>Total sales</b>	<b>1 472 891</b>	<b>1 188 213</b>

## 15 Cost of sales

Cost of sales for the years ended 31 December 2011 and 2010 comprised:

	2011 US\$000	2010 US\$000
Raw materials and goods for resale	834 238	667 335
Personnel (excluding pension costs)	110 826	78 387
Depreciation	59 779	46 542
Utilities	59 026	42 718
Pension costs	18 822	11 827
Other	20 885	17 636
<b>Total cost of sales</b>	<b>1 103 576</b>	<b>864 445</b>

Raw materials and goods for resale are offset by subsidies received from local governments in the amount of 19 783 and 1 098 for the years ended 31 December 2011 and 2010, respectively. These targeted subsidies are received based on the amount of meat produced. Most of the subsidies received in the year ended 31 December 2011 relate to the government compensation to the agricultural producers which suffered from the summer drought of 2010 (Note 1).

# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 16 Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended 31 December 2011 and 2010 comprised:

	2011 US\$000	2010 US\$000
Personnel (excluding pension costs)	74 720	61 830
Transportation	25 388	17 932
Taxes (other than income tax)	12 172	12 387
Materials and supplies	11 582	10 418
Security services	11 006	8 088
Pension costs	12 097	7 420
Audit, consulting and legal fees	6 096	4 926
Depreciation and amortization	5 502	4 104
Bad debt expense	3 182	2 834
Utilities	3 986	2 523
Repairs and maintenance	1 827	2 122
Veterinary services	2 501	2 009
Bank charges	2 055	1 672
Information technology and communication services	1 809	1 264
Advertising and marketing	1 646	1 226
Insurance	989	965
Other	18 323	14 000
<b>Total selling, general and administrative expenses</b>	<b>194 881</b>	<b>155 720</b>

## 17 Other expense (income), net

Other expense (income), net for the years ended 31 December 2011 and 2010 comprised:

	2011 US\$000	2010 US\$000
Interest income	(1 935)	(1 220)
Foreign exchange loss	3 601	353
Gain on settlement of acquisition of Mosselprom by shares	(2,028)	-
Other expense (income), net	392	(944)
<b>Total other expense (income), net</b>	<b>30</b>	<b>(1 811)</b>

# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 18 Financial expense, net

Financial expense, net for the years ended 31 December 2011 and 2010 comprised:

	2011 US\$000	2010 US\$000
Interest expense, net of subsidies	13 799	15 004
Capital lease expenses	970	928
Amortization of discount	3	4
<b>Total financial expenses, net</b>	<b>14 772</b>	<b>15 936</b>

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 associated loans by 54 819 and 42 653 for the years ended 31 December 2011 and 2010, respectively.

Interest expense capitalized in the years ended 31 December 2011 and 2010 was 4 241 and 2 586 (net of subsidies of 11 415 and 10 516), respectively.

## 19 Income tax

The income tax expense for the years ended 31 December 2011 and 2010 comprised:

	2011 US\$000	2010 US\$000
Current provision	6 452	6 105
Deferred tax benefit	(1 695)	(1 980)
<b>Income tax expense</b>	<b>4 757</b>	<b>4 125</b>

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

Under Russian legislation, the statutory income tax rate for entities designated as agricultural entities is 0%. The statutory tax rate for non-agricultural entities is 20%.



# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 19 Income tax continued

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%

The income tax charge can be reconciled to the theoretical tax provision at the statutory rate for the years ended 31 December 2011 and 2010 as follows:

	2011 US\$000	2010 US\$000
Income before income tax	155 567	152 784
Income before income tax of entities taxed at agricultural rates	140 032	139 690
Income before income tax of generally taxed entities	15 535	13 094
Statutory tax rate (Agricultural)	0%	0%
Statutory tax rate (General)	20%	20%
Theoretical income tax expense at the statutory tax rate (General) for generally taxed entities	3 107	2 619
Impact from agricultural temporary differences calculated at enacted future tax rates	(658)	(208)
Expenses not deductible for Russian statutory taxation purposes, net	899	2 962
Impact from recognition of previously unrecognized tax benefits, net of penalties accrued	(363)	(1 492)
Other permanent differences	434	(215)
Change in valuation allowance	1 338	459
<b>Actual income tax provision</b>	<b>4 757</b>	<b>4 125</b>

Deferred tax assets/(liabilities) arising from tax effect of temporary differences:	2011 US\$000	2010 US\$000
Property, plant and equipment	(22 371)	(23 408)
Construction in-process	1 521	778
Intangibles	(2 887)	(2 884)
Long-term loans	345	286
Other non-current liability	460	838
Trade receivables	869	1 971
Advances	126	164
Inventory	1 014	1 030
Payroll accruals	771	771
Other current liabilities	32	88
Other current assets	1 255	980
Loss carry forward	6 094	4 143
Valuation allowance	(3 828)	(2 754)
<b>Net deferred tax liability</b>	<b>(16 599)</b>	<b>(17 997)</b>

# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 19 Income tax continued

At 31 December 2011 and 2010, 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 tax 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 recognized tax loss carryforwards expire as follows:

	2013 US\$000	2014 US\$000	2015 US\$000	2016 US\$000	2017 US\$000	2018 US\$000	2019 US\$000	2020 US\$000	2021 US\$000	Total US\$000
<b>Tax loss carry forwards</b>	72	350	905	1 443	1 414	3 154	3 253	8 193	11 685	<b>30 468</b>

Total amount of tax loss carryforwards, against which valuation allowance was created, equalled 19 140 as of 31 December 2011.

	2011 US\$000	2010 US\$000
Deferred tax asset – long-term portion	4 785	3 246
Deferred tax liability – long-term portion	(25 478)	(26 246)
<b>Long-term deferred tax liability, net</b>	<b>(20 693)</b>	<b>(23 000)</b>
Deferred tax asset – current	4 186	5 003
Deferred tax liability – current	(92)	-
<b>Current deferred tax asset, net</b>	<b>4 094</b>	<b>5 003</b>
<b>Total deferred tax liability, net</b>	<b>(16 599)</b>	<b>(17 997)</b>

The movements in the net deferred tax liability for the years ended 31 December 2011 and 2010 comprised:

	2011 US\$000	2010 US\$000
<b>Net deferred tax liability, beginning of the year</b>	<b>(17 997)</b>	<b>(19 403)</b>
Impact of translation loss on beginning balance	918	(18)
Deferred tax benefit	1 695	1 980
Deferred tax liability acquired on acquisition of new consolidated entities (Note 23)	(1 215)	(556)
<b>Net deferred tax liability, end of the year</b>	<b>(16 599)</b>	<b>(17 997)</b>

# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 19 Income tax continued

### Unrecognized income tax benefits

As of 31 December 2011, the Group included accruals for unrecognized income tax benefits of approximately 1 938 as a component of long-term tax related payables (of which approximately 276 and 277 were penalties and fines, respectively).

As of 31 December 2010, the Group included accruals for unrecognized income tax benefits of approximately 2 397 as a component of long-term tax related payables (of which approximately 246 and 322 were penalties and fines, respectively).

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

	2011 US\$000	2010 US\$000
Balance at 1 January	1 829	2 890
Translation loss	(65)	(18)
Additions based on tax positions related to the current year	61	673
Reductions of tax positions from prior years	(441)	(1 716)
Balance at 31 December	1 384	1 829

As of 31 December 2011, it is estimated that the entire amount of unrecognized tax benefits will affect future effective tax rates.

The Group considers it reasonably possible that approximately 1 015 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. During the years ended 31 December 2011 and 2010, the Group recognized approximately 184 and 146 in penalties, respectively.

As of 31 December 2011, the tax years ended 31 December 2009, 2010 and 2011 remained subject to examination by the Russian tax authorities.

## 20 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 capital leases, as of 31 December 2011 and 2010 are as follows:

	2011 US\$000		2010 US\$000	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Loans receivable*	2 338	2 409	5 003	4 532
Notes receivable, net (Note 10)	1 497	1 090	1 427	902
Borrowings other than capital leases ** (Note 11)	740 828	727 182	643 029	624 937

\* Loans receivable include both the long-term loans to affiliates and short-term loans receivable

\*\* Cost of debt of 11.93% was applied, which did not include the effect of subsidies for interest expense

# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 21 Related parties

Related parties include shareholders, entities under common ownership and control with the Group, members of key management personnel and affiliated companies. The Group and its subsidiaries enter into various transactions with related parties such as the sale and purchase of inventory. In addition, the Group enters into financing transactions with related parties.

### Trading transactions

Trading transactions with related parties comprise mostly of sales of mixed fodder to CJSC Penzamyasoprom and Voronezhmyasoprom, sales of pigs to Voronezhmyasoprom, rendering of fattening services to CJSC Penzamyasoprom and purchases of pedigree pigs and regular pigs from Voronezhmyasoprom and CJSC Penzamyasoprom as well as purchase of finished goods for resale through the Group's trading house from CJSC Penzamyasoprom. The Group also purchases grain crops from TZK NAPKO and Agrarnaya Gruppa. All those related parties are entities under common ownership and control with the Group.

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

### Financing transactions

As of 31 December 2011, shareholders have guaranteed certain bank loans and lines of credit for an amount totalling 208 016.

As of 31 December 2011 and 2010, and for the years then ended, balances and transactions with related parties are summarized as follows:

	2011 US\$000	2010 US\$000
<b>Balances</b>		
Trade receivables	5 649	13 540
Advances paid	4 313	6 170
Other receivables	1 267	3 188
Short-term loan receivable	1 923	3 909
Long-term loans receivable	97	129
Other non-current receivables	3 309	2 593
Trade accounts payable	3 707	4 447
Short-term loans payable	4	521
Current portion of long-term loans payable	10	39
Other payables	69	421
Long-term loans payable	4	1 232
Long-term payables to shareholders related to lease agreements	463	563
<b>Transactions</b>		
Sales	9 992	8 430
Rent income	406	439
Purchases of goods and services	38 429	29 948
Purchases of property, plant and equipment	933	868
Purchases of security services	400	27
Purchases of IT services	-	14

# Notes to the consolidated financial statements continued

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## 22 Segment reporting

The Group's operations are divided into four segments by types of products produced: meat processing, poultry, pork and grain. Substantially all of the Group's operations are located within the Russian Federation. All segments have different segment managers responsible for the segments' operations. The chief operating decision maker (the Chief Executive Officer) is the individual responsible for allocating resources to and assessing the performance of each segment of the business.

The meat processing segment is involved in the production of a wide range of meat products, including sausages, ham and raw meat. Pork and poultry segments produce and offer distinctive products, such as semi-finished poultry products, raw meat, eggs and other poultry meat products in the poultry segment and raw pork meat in the pork segment. The grain segment was acquired by the Group in May 2011 together with Mosselprom and is involved in the farming of wheat and other crops. All four segments are involved in other business activities, including production of dairy and other services, which are non-core business activities.

The Group evaluates segment performance based on income before income tax. The Group accounts for inter-segment sales and transfers as if the sales or transfers were to third parties.

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

Segment information at 31 December 2011 and for the year then ended comprised:

	Meat- Processing US\$000	Poultry US\$000	Pork US\$000	Grain US\$000	Corporate US\$000	Intersegment US\$000	Combined US\$000
Total sales	635 418	691 462	270 450	2 335	3 657	(130 431)	1 472 891
including other sales	5 024	68 225	21 416	-	-	-	94 665
including sales volume discounts	(33 462)	(21 248)	-	-	-	-	(54 710)
Intersegment sales	(1 958)	(50 518)	(74 271)	(51)	(3 633)	130 431	-
Sales to external customers	633 460	640 944	196 179	2 284	24	-	1 472 891
Cost of sales	(530 576)	(531 064)	(162 895)	(3 896)	(13)	124 868	(1 103 576)
<b>Gross profit</b>	<b>104 842</b>	<b>160 398</b>	<b>107 555</b>	<b>(1 561)</b>	<b>3 644</b>	<b>(5 563)</b>	<b>369 315</b>
Operating expense	(78 936)	(85 023)	(20 758)	(758)	(19 034)	5 563	(198 946)
<b>Operating income</b>	<b>25 906</b>	<b>75 375</b>	<b>86 797</b>	<b>(2 319)</b>	<b>(15 390)</b>		<b>170 369</b>
Other income (expense), net	16	4 814	(57)	-	12 972	(17 775)	(30)
Financial expense, net	(10 618)	(7 778)	(4 127)	(46)	(9 978)	17 775	(14 772)
<b>Segment profit</b>	<b>15 304</b>	<b>72 411</b>	<b>82 613</b>	<b>(2 365)</b>	<b>(12 396)</b>		<b>155 567</b>
Supplemental information							
Expenditure for segment property, plant and equipment	10 842	92 551	109 257	97	72	-	212 819
Depreciation and amortisation expense	11 952	31 540	20 791	468	530	-	65 281
Income tax expense (benefit)	6 233	(229)	(166)	38	(1 119)	-	4 757

Operating expenses include selling, general and administrative expense and other operating expense, net.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 22 Segment reporting continued

Segment information at 31 December 2010 and for year then ended comprised:

	Meat- Processing US\$000	Poultry US\$000	Pork US\$000	Corporate US\$000	Intersegment US\$000	Combined US\$000
Total sales	529 354	500 961	222 239	4 856	(69 197)	1 188 213
including other sales	2 670	61 410	14 436	-	-	78 516
including sales volume discounts	(21 308)	(19 904)	-	-	-	(41 212)
Intersegment sales	(616)	(35 962)	(27 773)	(4 846)	69 197	-
Sales to external customers	528 738	464 999	194 466	10	-	1 188 213
Cost of sales	(441 829)	(354 805)	(132 198)	(10)	64 397	(864 445)
<b>Gross profit</b>	<b>87 525</b>	<b>146 156</b>	<b>90 041</b>	<b>4 846</b>	<b>(4 800)</b>	<b>323 768</b>
Operating expense	(61 805)	(64 697)	(15 614)	(19 543)	4 800	(156 859)
<b>Operating income</b>	<b>25 720</b>	<b>81 459</b>	<b>74 427</b>	<b>(14 697)</b>		<b>166 909</b>
Other income (expense), net	1 081	(399)	422	7 669	(6 962)	1 811
Financial expense, net	(8 473)	(6 436)	(5 438)	(2 551)	6 962	(15 936)
<b>Segment profit</b>	<b>18 328</b>	<b>74 624</b>	<b>69 411</b>	<b>(9 579)</b>		<b>152 784</b>
Supplemental information						
Expenditure for segment property, plant and equipment	4 722	85 242	79 751	3 921	-	173 636
Depreciation and amortisation expense	11 099	23 797	15 521	230	-	50 647
Income tax expense (benefit)	6 555	(1 963)	60	(527)	-	4 125

The reconciliation between segment assets and total assets per the consolidated balance sheets as of 31 December 2011 and 2010 is as follows:

	2011 US\$000	2010 US\$000
Meat processing	240 482	256 759
Poultry	739 553	579 007
Pork	630 878	532 579
Grain	16 321	-
<b>Total for reportable segments</b>	<b>1 627 234</b>	<b>1 368 345</b>
Corporate assets	286 803	274 716
Intersegment	(231 366)	(171 102)
<b>Total assets</b>	<b>1 682 671</b>	<b>1 471 959</b>

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

# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 23 Subsidiaries, acquisitions, divestitures

### Subsidiaries

As of 31 December 2011 and 2010, the Company controlled all meat processing and agricultural companies through its 100% ownership in AIC Cherkizovsky Ltd., AIC Mikhailovsky Ltd. and CJSC Mosselprom.

As of 31 December 2011 and 2010, the Group included the following principal companies:

Name of company	Legal form	Nature of business	%	%
			31.12.2011	31.12.2010
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%	89%
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 meat processing	100%	100%
CJSC Petelinskaya	Closed Joint Stock Company	Raising poultry	88%	88%
JSC Vasiljevskaya	Open Joint Stock Company	Raising poultry	100%	100%
LLC Petelino Trade House	Limited Liability Company	Trading company: distribution of poultry	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 poultry	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 Agrofirma	Limited Liability Company	Pig breeding	100%	100%
CJSC Lipetskmyaso	Closed Joint Stock Company	Pig breeding	100%	100%
LLC RAO Penzenskaya Grain Company (PZK)	Limited Liability Company	Pig breeding	100%	100%
LLC TD Myasnoe Tsarstvo	Limited Liability Company	Trading company: distribution of pork	100%	100%
OJSC Kurinoe Tsarstvo	Open Joint Stock Company	Raising poultry	100%	100%
CJSC Kurinoe Tsarstvo Bryansk	Closed Joint Stock Company	Raising poultry	100%	100%
CJSC Mosselprom	Closed Joint Stock Company	Raising poultry	100%	100%
CJSC Oreleprom	Closed Joint Stock Company	Pig breeding	100%	100%

# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 23 Subsidiaries, acquisitions, divestitures continued

### Acquisition of entities under common control

#### Progress

On 19 May 2011, the Group acquired 100% of CJSC Progress ("Progress") from NAFCO, a related party through common ownership, for cash consideration of 4 268. This acquisition has been accounted for as a common control transaction at carrying amount within equity in the current period. The Group has not retrospectively adjusted prior periods for the common control transaction as the impact of the transaction is immaterial to both the current and prior periods. Located in the Penza region of Russia, the acquired pork complex Progress will be remodeled to 27 bird houses, with a combined capacity of 1.18 million broiler places. The site will be integrated into the existing Penza project, created in late 2009, thereby further increasing capacity at the cluster.

#### Bolshevik

On 26 August 2011, the Group acquired 100% of LLC Bolshevik ("Bolshevik") from NAFCO, a related party through common ownership, for cash consideration of 10 387. This acquisition has been accounted for as a common control transaction at carrying amount within equity in the current period. The Group has not retrospectively adjusted prior periods for the common control transaction as the impact of the transaction is immaterial to both the current and prior periods. Located in the Penza region of Russia, the acquired pork farm will be integrated into the existing cluster to increase pork production capacity in the Penza Region.

#### PZK and Lipetskmyaso

In the fourth quarter of 2010, the Group acquired 100% of the share capital of the companies LLC RAO Penzenskaya Grain Company ("PZK") and CJSC Lipetskmyaso ("Lipetskmyaso"), pork farms in the Lipetsk and Penza regions of Russia, from NAPKO, a related party under common control. These acquisitions have been accounted for as common control transactions at carrying amount. All prior periods were previously restated as if the acquisition were completed in the earliest period in which the Group's majority shareholder created these legal entities. Consideration paid of 325 009 roubles (10 686 as of the date of the transaction) has been recorded as a decrease in additional paid-in capital of the Group.

#### Other acquisitions

Additional acquisitions under common control were made during the year ended 31 December 2010 for total cash consideration of 660. Both companies acquired represent greenfield pork farms at an early construction stage.

### Acquisition of entities from third parties

#### Mosselprom

On 12 May 2011, the Group completed an acquisition of 100% of the share capital of ZAO Mosselprom. In accordance with the terms of the share purchase agreement, 44 235 was paid in cash and 27 000 was due within 150 days from the date of acquisition, either payable in cash or a fixed number of Group shares (894 418 shares) at the Group's discretion.

The Group accounted for the financed portion of the acquisition by recognizing the obligation as debt at fair value on the acquisition date and separately recognizing the option to settle in Group shares as a derivative instrument at its fair value on the acquisition date. Subsequently, the debt instrument was accounted for at amortised cost and the derivative instrument was remeasured at fair value at each subsequent balance sheet date until the obligation was settled on 29 November 2011 by issuing 894 418 shares in the Company (with fair value of 19 478 at the issuance date).

Mosselprom is a multi-industrial agro holding company that comprises poultry production and feed production, as well as land cultivation and cropping. The Group purchased Mosselprom in order to expand its poultry and pork production businesses.

Mosselprom includes four poultry factories for broiler breeding, three incubation facilities, three slaughter facilities and a feed production facility, including an elevator. These factories have implemented the HACCP system and comply with European Union quality requirements. Mosselprom's pork division includes a state-of-the-art pork complex in the Orel region (Central Russia). Land and cropping includes an operational land bank of 27,500 hectares and grain storage facilities with an overall storage capacity of more than 45 000 tonnes.

The results of Mosselprom's operations have been included in the consolidated financial statements from the acquisition date. The acquisition is accounted for using historical book values as provisional values based on the assumption that the historical book values are equivalent to fair value at the date of acquisition since there was no other information available at that time.



# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 23 Subsidiaries, acquisitions, divestitures continued

The Group is in the process of obtaining a third party valuation report on the fair value of the assets and liabilities acquired including obtaining third-party valuation of the property, plant and equipment, intangible assets and certain other assets and accordingly, these amounts are preliminary and will change. Due to this fact, the assignment of the resulting goodwill to reporting units has not been completed. It will be allocated to the poultry and pork segment upon finalization of the valuation.

The provisional purchase price allocation was as follows:

<b>Consideration</b>	
Cash	44 235
Fair vale of 27 000 payable either in cash or in Group shares	23 660
<b>Fair value of total consideration transferred</b>	<b>67 895</b>
<b>Recognized amounts of identifiable assets acquired and liabilities assumed</b>	
Cash	1 016
Inventory	31 645
Other current assets	18 694
Property, plant and equipment	158 628
Goodwill and acquired intangible assets	63 773
Other non-current assets	284
Short-term loans and capital leases	(61 982)
Other current liabilities	(20 818)
Long-term loans and capital leases	(124 061)
Other non-current liabilities	(1 655)
Non-controlling interest	2 371
<b>Total assets acquired and liabilities assumed</b>	<b>67 895</b>

The following pro forma financial information presents consolidated income statements as if the acquisition occurred as of the beginning of the prior annual reporting period (1 January 2010). In determining pro forma amounts, all non-recurring costs were determined to be immaterial. Pro forma information is presented for all preceding comparative periods:

<b>Pro forma Information</b>	<b>For the year ended 31 December 2011 US\$000 (UNAUDITED)</b>	<b>For the year ended 31 December 2010 US\$000 (UNAUDITED)</b>
Sales	1 527 916	1 339 824
Operating income	170 366	174 784
<b>Net income</b>	<b>140 933</b>	<b>128 984</b>
Weighted average number of shares outstanding	43 690 663	43 922 440
<b>Earnings per share (USD)</b>	<b>3.23</b>	<b>2.94</b>

# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 23 Subsidiaries, acquisitions, divestitures continued

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

Actual results of Mosselprom from the date of acquisition 12 May 2011 to 31 December 2011	US\$000
Sales	111 222
Operating income	10 329
<b>Net income</b>	<b>4 425</b>

### Otechestvenny Product and Zarechnaya

On 15 September 2010 the Group acquired 100% of the share capital of Otechestvenny Product in exchange for 4 106 in cash. Otechestvenny Product is a meat processing plant, located in the Kaliningrad region. The plant's production will focus on delicacy products, including smoked products, hams and cooked sausages.

On 16 September 2010 the Group acquired 100% of the share capital of Zarechnaya in exchange for 5 211 in cash. Located in the Penza region of Russia, the acquired poultry complex comprises 41 bird houses, with a combined capacity of 1.55 million broiler places. The site will be integrated into the existing Penza project, created in late 2009, thereby further increasing capacity at the cluster.

The results of Otechestvenny product and Zarechnaya operations have been included in the consolidated financial statements from their respective acquisition dates. In the consolidated financial statements for the year ended 31 December 2010 the acquisitions were accounted for using historical book values as provisional fair values based on the assumption that the historical book values were equivalent to fair value at the date of acquisition since there was no other information available at that time.

The valuation reports were obtained subsequently and therefore, comparative information for the year ended 31 December 2010 was retrospectively adjusted to adjust the fair values of the following assets and liabilities at the acquisition dates:

Otechestvenny Product	2010 US\$000 (as previously reported)	2010 US\$000 (as adjusted)
Consideration paid for Otechestvenny Product	4 106	4 106
Other current assets	46	88
Property, plant and equipment	3 176	4 142
Goodwill	884	78
Deferred tax liability	-	(202)

Zarechnaya	2010 US\$000 (as previously reported)	2010 US\$000 (as adjusted)
Consideration paid for Zarechnaya	5 211	5 211
Other current assets	100	100
Property, plant and equipment	539	2 275
Goodwill	4 572	3 190
Deferred tax liability	-	(354)

As a result of the previously noted adjustments, consolidated net income for the year ended 31 December 2010 decreased by 39.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 23 Subsidiaries, acquisitions, divestitures continued

### Other acquisitions and divestitures

During the first quarter of 2010, the Group acquired a further 4.47% interest in CJSC Petelinskaya for cash consideration of 557. 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 CJSC Petelinskaya. 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.

## 24 Commitments and contingencies

### Legal

As of 31 December 2011 and 2010, several Group companies reported negative net assets in their statutory financial statements. In accordance with the Civil Code of the Russian Federation, a liquidation process may be initiated against a company reporting negative net assets. Management believes that it is remote that the liquidation process will be initiated against those companies.

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

### Taxation

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

### 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 2011.

### Capital commitments

At 31 December 2011, the Group had large capital projects in progress at OJSC Kurinoe Tsarstvo, CJSC Kurinoe Tsarstvo – Bryansk, JSC Vasiljevskaya, CJSC Petelinskaya, LLC Resurs (Tambov), LLC Agrolesurs (Voronezh), CJSC Lipetskmyaso and Ozherelyevsky KKZ. As part of these projects, commitments had been made to contractors of approximately 98 707 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 1 414 towards completion of the project.

### Operating lease commitments

Obligations under non-cancellable operating lease agreements for the five years ending December 31, 2016 and thereafter are as follows:

	2012	2013	2014	2015	2016	>2016	Total
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
<b>Total commitments</b>	3 530	3 540	3 509	3 544	3 616	14 520	<b>32 259</b>

# Notes to the consolidated financial statements continued

For the year ended 31 December 2011

(in thousand USD, unless noted otherwise)

## 25 Subsequent events

The Group obtained 32 487 and repaid 38 921 on lines of credit, bank loans and other loans for the period from 1 January through 13 March 2012.

Subsequent to the balance sheet date the Group acquired a further 31.2% interest in OJSC Penzensky Kombinat Hleboproductov for cash consideration of 1 247.

Subsequent to year end, the Group completed the analysis of an uncertainty at one of its non-significant subsidiaries, and determined that a probable impairment existed as of 31 December 2011. The impairment is included within 2011 operating results in the consolidated income statement.

The Group has evaluated subsequent events through 13 March 2012, the date on which the financial statements are available to be issued.