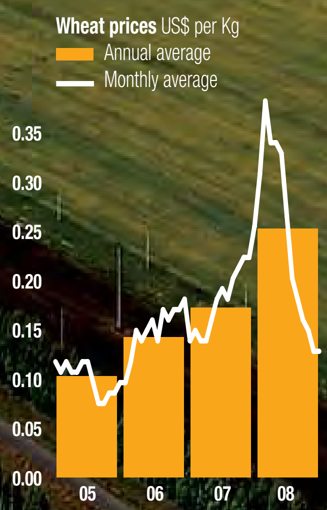
Our advantage is...

CHERKIZOVO GROUP QUALITY FROM FARM TO FORK

Annual report 2008

...owning the land that will secure the feed supply...

Since 2007, Cherkizovo has been building up a substantial landbank to provide future protection against fluctuations in the cost and availability of feed, such as those we witnessed in 2008. This is directly in line with the Group's vertical integration strategy, and we will continue to invest in land where cost-effective opportunities present themselves. In addition, we have made substantial investments in our ability to produce fodder, a clear source of advantage over many of our competitors.



Competitive advantage

Overview

Performance

Governance

Financial statements

Shareholder information

Competitive advantage
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...for our pork and poultry...

We are one of Russia's most efficient quality pork producers

Pork

We completed an intensive five-year cycle of investment that has significantly increased the capacity and efficiency of our Pork business to ensure a highly profitable year. Today, Cherkizovo is Russia's largest greenfield pork producer, gaining from the efficiencies that also make it the one of the country's lowest-cost producers. This is a business that will only grow in profitability as it approaches full capacity.

Poultry

Cherkizovo is Russia's leading producer of both chilled and frozen poultry. During 2008, alongside important investments in capacity, we successfully integrated our major 2007 acquisition, Kurinoe Tsarstvo (Chicken Kingdom), into our existing operations to gain from new synergies in production, distribution and sales. Our vertically integrated organisation helped to protect us from the most damaging impact of rising grain prices, enabling us to post a profitable year on which we are excellently placed to build further.

Cherkizovo's poultry volumes have grown by 267% since 2005

...that complement our leading branded meats...

We are Russia's No1 meat processor

We have led the way in eco and healthy products

During 2008, we focused on implementing the key investments in automation and quality that will enable us to maintain and build on our position as Russia's leading and most innovative meat-processing business. With important achievements in product and process innovation – including a state-of-the-art slicing line at our Cherkizovsky plant and the launch of new product ranges, particularly the healthy meats range – we continued the journey that has already established so many of our brands as Russia's most admired and best loved.

...that are delivered by our network

Our storage facilities and 900-strong fleet of refrigerated vehicles are one of Russia's leading storage and distribution networks. During the year, we invested in advanced logistics software to gain further advantage through streamlined operations.

Our fleet of over 900 delivery vehicles and network of specialist chilled storage units cover 80% of Russia's 142m population

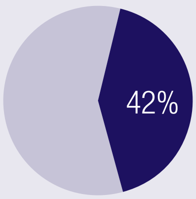
At a glance

Strong growth in challenging conditions

Despite exceptionally challenging operating conditions, we made strong progress in 2008 towards achieving our stated strategic goal of becoming Russia's leading vertically integrated producer of quality meat and meat products. We achieved this through our determined focus on driving new efficiencies and opportunities throughout our entire value chain, from securing feed supplies to streamlining distribution, via a targeted programme of investment, modernisation and rationalisation.

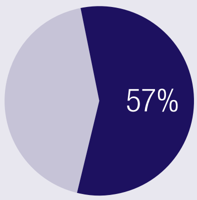
Poultry

Contribution to Group Total Sales



US$505.2m

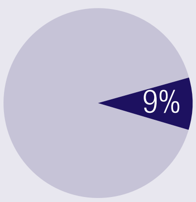
Contribution to adjusted EBITDA*



US$93.2m

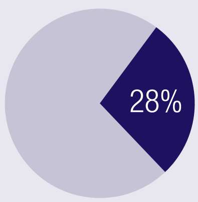
Pork

Contribution to Group Total Sales



US$112.5m

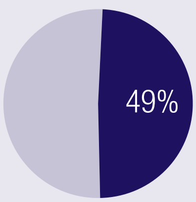
Contribution to adjusted EBITDA*



US$45.1m

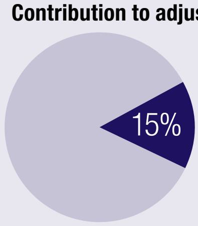
Meat Processing

Contribution to Group Total Sales



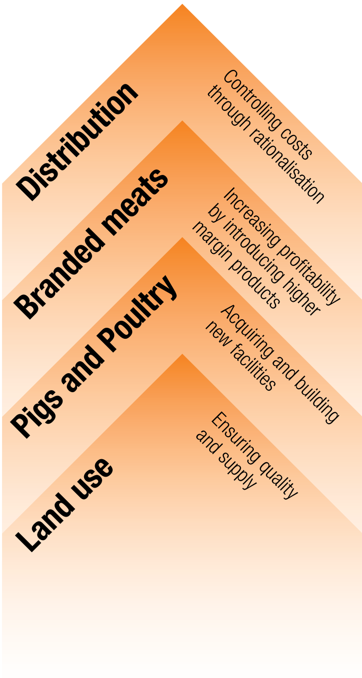
US$577.9m

Contribution to adjusted EBITDA*



US$25.6m

Vertical integration



Financial highlights

***Adjusted Earnings before Interest, Income Tax, Depreciation and Amortisation ("Adjusted EBITDA").** Adjusted EBITDA represents income before interest, income tax and minority interest, adjusted for certain other items. Adjusted EBITDA margin is defined as Adjusted EBITDA as a percentage of our net revenues.

Key products
- Chilled poultry, whole and in portions
- Frozen poultry, whole and in portions

Strategy
- Continue long-term organic expansion
- Integrate merged operations to take advantage of scale opportunities
- Drive efficiency gains through targeted investment

Key facts
- Federal number 1 brands in chilled and frozen poultry
- 7,245 employees
- Four production clusters

Key products
- Live pigs
- Pork carcasses

Strategy
- Maximise efficiencies enabled by greenfield operations
- Develop market position in processed pork products
- Differentiate through quality and marketing

Key facts
- Largest greenfield producer
- 1,277 employees
- Five production complexes

Key products
- Raw-smoked, semi-smoked and cooked-smoked salamis and sausages
- Chilled meat for retail sale
- Ready-to-cook dishes
- Special range for health-conscious consumers
- Sliced, ready-to-eat delicatessen products

Strategy
- Innovate through brand development and marketing
- Improve efficiency through modernisation
- Compete on quality, taste and value
- Increase market share

Key facts
- Number 1 in Russian Federation
- 5,299 employees
- Six meat processing plants

Chairman's statement

The Company's investment for steady growth and development continues to deliver progress against our strategic objectives

In 2008 a 42% rise in revenues took us past the US$1 billion milestone for the first time, and represented delivery against our primary goal to become the No1 company in Russia's agricultural sector. The importance of Cherkizovo to the country's economy was demonstrated by the company's inclusion in the official list of 300 Russian enterprises that form the basis of the Russian Federation's GDP.

Last year's financial and economic crisis gave a powerful impetus to the development of the agricultural sector in Russia. The extent to which the country is dependant on food imports, meat in particular, became evident, as Russia was again the largest meat importer in the world, despite the substantial resource potential and competitive production advantages available to the country. Accordingly, the issue of import substitution became one of the highest priorities for the Government, which announced a programme of food supply security, setting a goal to achieve self-sufficiency in pork and poultry meat by 2012.

In the face of the challenging conditions of 2008 the Russian Government announced practical support to agricultural producers, and Cherkizovo Group, one of the most prominent enterprises in the production sector of the economy, was able to fully benefit from the one-off direct subsidies.

The revival of Russian agriculture is directly linked to the producers' ability to secure Government subsidized loans for major investment projects. In 2004, when I spoke at the session of the State Council of Russia, I raised the need for Russia to address this issue – the development of the Russian agricultural production – and the pursuit of this aim has led to a fresh start for agro producers as they started to receive subsidised lending. At this time Cherkizovo began to implement its large-scale investment projects in poultry and pork, and over the next three years we have significantly increased our debt levels, which was necessary to ensure the construction and development of our production.

At the time of taking on debt to increase production some investors questioned when this would translate in to increased volumes. However, it is essential to understand that in the agricultural sector results are seldom visible across a short-term horizon. Despite this, in 2008 we have already started to see returns on our capital investments as production volumes in pork and poultry increased substantially, and pleasingly – this growth has

The financial crisis has brought new opportunities for Cherkizovo Group, Russia's leading agri business

translated into our strong financial results that show further strengthening in our market positions.

Pork and poultry businesses in Russia have enormous opportunities for growth and development and accordingly, we have a pool of new projects in those segments to further enhance our capacities and scale of operations. At the same time we are progressing our existing projects without material delay or disruption, enabling the company to benefit from more subsidised lending in the future.

2008 was a successful year across all segments of the Group, which delivered a strong set of financial results due to our commitment to relentless execution and increased operational efficiencies, while benefitting from essential Government support.

Our business and outlook

Cherkizovo is the largest producer of poultry and pork meat in Russia and our fully integrated structure runs across the entire agricultural production cycle. We are currently developing our own land bank, and considering crop production, as well as a silo storage base with the aim of fully satisfying our fodder needs and providing our livestock with the highest quality fodder available.

On a separate note, I should say that in all the regions where we operate we are grateful for the continued support of the local administrations. We share trust and confidence and are mutually committed to a single goal which is to revive and further develop Russian agriculture, and the broader economy of the country.

Our people

The commitment and skills of our professional team remain key to the overall success of the Company and its ability to deliver against its strategic objectives. I would like to thank them all for all their hard work and trust, which has contributed enormously to our performance.

Dividend policy

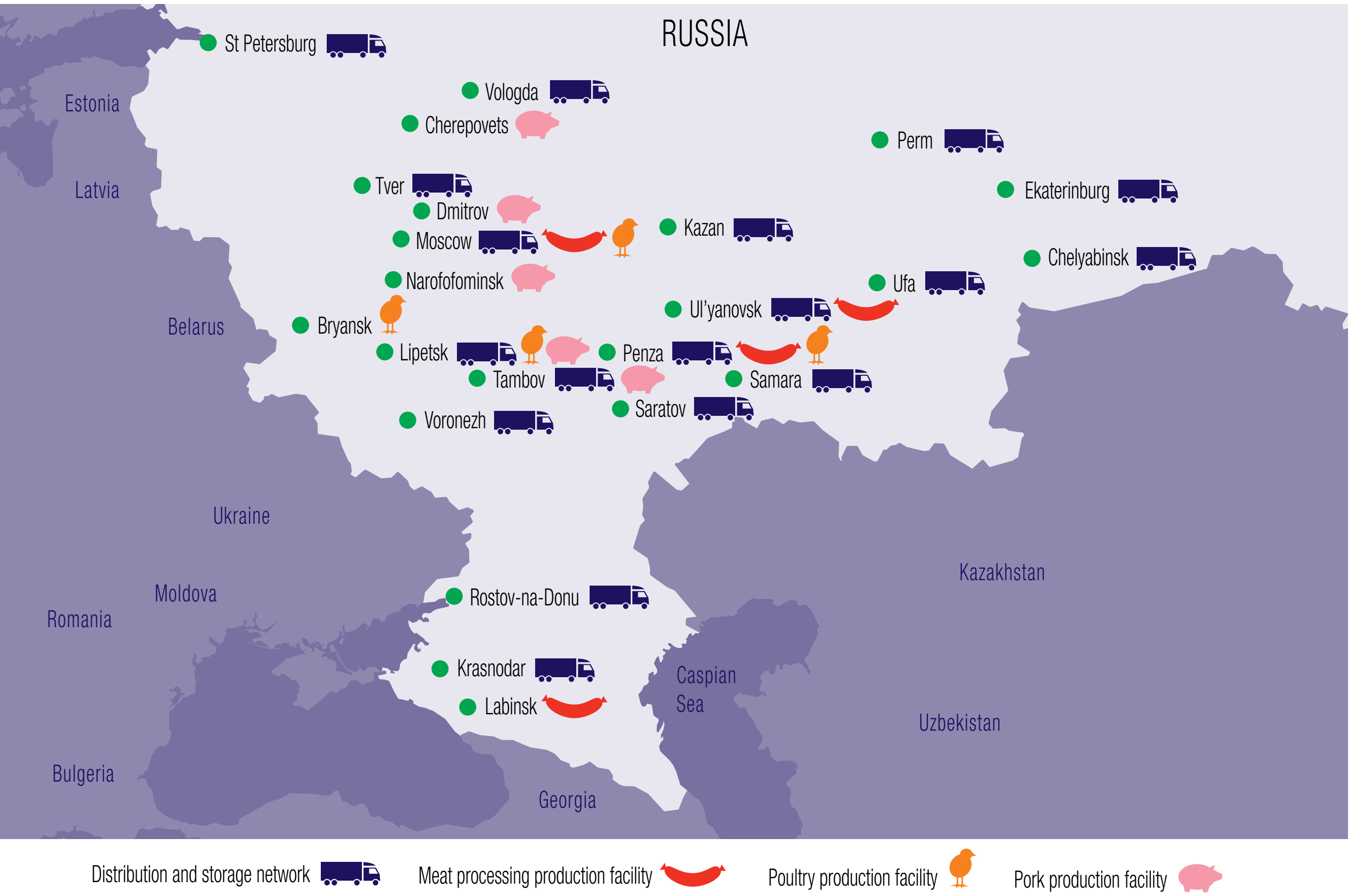
We remain focused on the steady development of the Company and accordingly, we continue to reinvest net profits in the business. On an ongoing basis we review this policy to ensure the best strategy for the Company and all shareholders is being pursued.

Today Cherkizovo is the leader of the Russian agriculture sector; our business is in the real production sector of the Russian economy and the nature of our business provides us with a defensive strategy in the most challenging of market conditions.

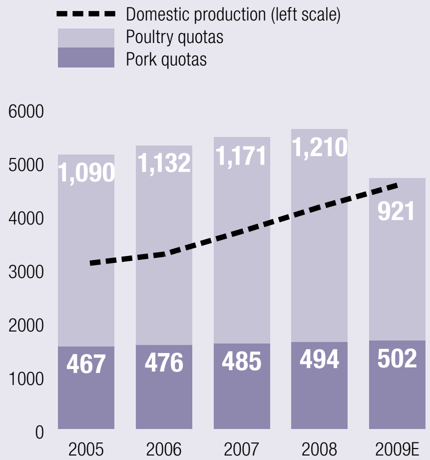
While current stock market valuations remain depressed, we believe Cherkizovo continues to offer investors good value in a defensive sector that is of strategic importance to the Russian government. In 2008 Cherkizovo continued all of its investment projects and increased production efficiencies and volumes. Accordingly, the board remains confident of the Group's future prospects, underpinned by our diversification and the advantages of a vertically integrated group.

Igor Babaev
Chairman

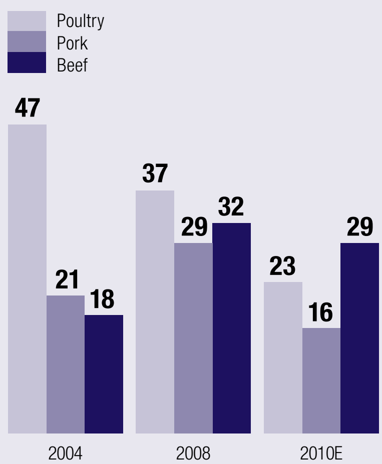
Our markets



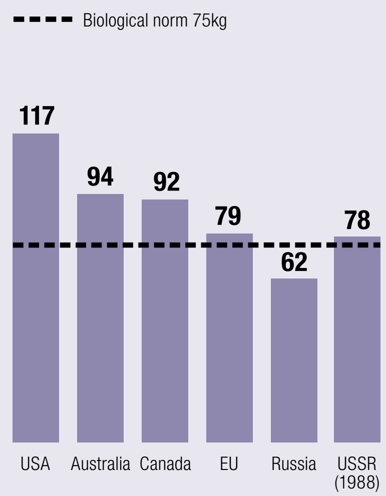
Domestic production and quotas 2005-2009E (000 tonnes)



Imported meat consumption, % 2004-2010E



Annual per capita meat consumption, kg

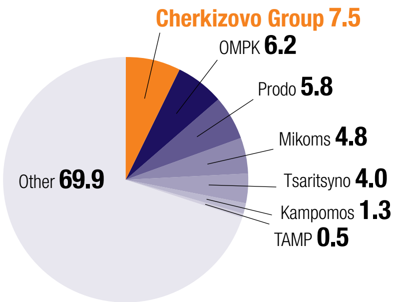


Source: Meat Union of Russia, official statistics

Overview

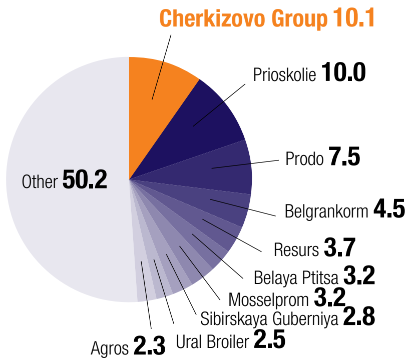
We are uniquely placed to benefit from Russia's growing US$36bn meat market

Processed meat, value %
2008



Source: Meat Union of Russia

Poultry, slaughter weight, volume %
2008

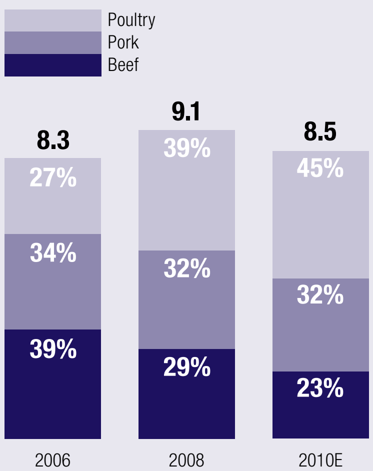


Source: Company estimates

Pork, live weight, volume %
2008

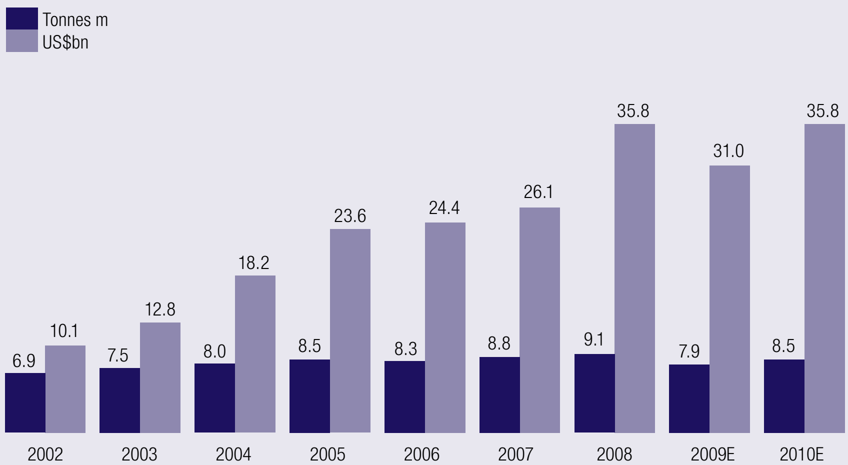
Source: Institute of Agricultural Marketing

Russian meat market dynamics, tonnes m
2006-2010



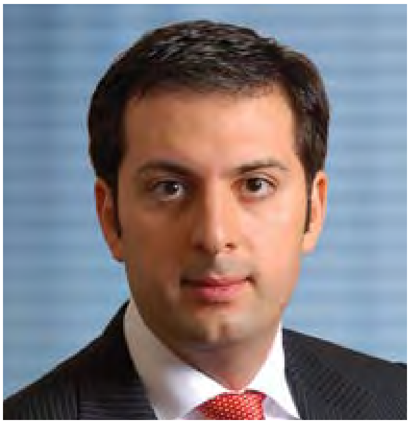
Source: Meat Union of Russia, official statistics

Russian meat market, growth
2002-2010E



Source: Meat Union of Russia, official statistics

Chief Executive's statement



We expect domestic meat production to increasingly grow at the expense of costly imports, highlighting the status of Cherkizovo as a prominent defensive stock

2008 was the year when the strength of our consolidation and diversification strategy was proven in the most unpredictable and difficult of market conditions. During the year our balanced portfolio of business segments and commitment to targeted investment started to provide the stable development and margin growth we are looking for. Even in an environment where it has been difficult to make forecasts, this ongoing focus on our strategy has helped keep us on track to deliver against it.

The results of our strategy

During the year, our Pork division emerged as a highly profitable business, driving higher margins based on our investments in state-of-the-art greenfield facilities. This combined strongly with the steady forward momentum of our Poultry operation to highlight the value of the protection against risk enabled by diversification.

We also saw strong evidence of the increasing opportunities for margin improvement, both within and between our divisions, that will be enabled by further growth and vertical integration. Our ability to spread overheads more efficiently across maturing operations, combined with our growing potential for self-sufficiency at every point of the value chain, are successfully driving down our operating costs. This trend is set to accelerate further as more of our recently completed facilities and new investments achieve full capacity over the next one to three years.

Investing in our business

An important driver of success, which is set to deliver greater returns in the near and long-term future, was our commitment to continued investment during the global financial crisis that gathered pace in the second half of 2008.

There were three primary reasons for this. First, we believe strongly in the market opportunity that the efficient production of scarce but essential resources such as pork and poultry represents in Russia. Second, in addition to the subsidised long-term loan finance that is substantially cutting the cost of investment and facilitating repayment, we are reducing the value of our debt by keeping it in Roubles. And third, we are approaching the end of a major investment cycle in our pork business that is already driving new sources of profitability ahead of full capacity being achieved.

During 2008 our continued commitment to our strategy ensured that Cherkizovo Group delivered against its modernisation, development and vertical integration plans, despite extremely challenging economic and market conditions

Responding to world market conditions
2008 was also a year in which new opportunities arose as a direct result of the crisis. Costs in areas such as construction and land values have fallen, enabling us to moderate our projected capital expenditure. It means we can also consider additional investments in our land bank, enabling us to explore further the potential this will provide for reducing the risk of feed-price fluctuations.

At the same time, the Rouble's performance against the US Dollar and the Euro have driven up the price of imported meats, beef in particular, to enhance the competitiveness of home-produced pork and poultry. Russia remains the world's largest net importer of meat, and the global crisis and challenging financial situation will lead to an import substitution policy that favours Russian producers by replacing imports with domestically produced goods. Due to the importance of our sector to the national economy, the government has also allocated specific funds within the 2009 Budget to agricultural producers. As one of Russia's largest integrated producers, Cherkizovo is excellently positioned to benefit from this commitment.

We believe that the medium and long-term indications for our business are positive. Levels of meat consumption in Russia have historically been low and are not expected to significantly decline in the future. In addition, we expect domestic meat production to increasingly grow at the expense of costly imports, highlighting the status of Cherkizovo as a prominent defensive stock.

Satisfying our domestic market
Turning briefly to the performance of our three business segments during 2008, our vertically integrated structure helped our Poultry division to overcome major challenges created by a drastic increase in the price of feedstock to deliver a profitable year. The support of the Russian government also made an important contribution – recognising the sector's importance, the government introduced as a one-off measure a direct subsidy of 5 Roubles-per-kilo for the first half of the year.

Other major achievements included the successful continuation of work to integrate our 2007 acquisition, Kurinoe Tsarstvo (Chicken Kingdom), into our established operations, achieving synergies in production, distribution and sales. We also completed the reconstruction and commissioning of the first zone within the Vertunovka parent stock facility, which will become one of the largest hatching sites in Europe with an annual capacity of up to 60 million eggs.

We significantly increased the volumes of our Pork business, which is set to achieve full capacity at end of 2010 and successfully gained from major upward price movements. Critically, by completing construction and commissioning at the final four of our six new greenfield pig farms, we brought to an end the large-scale construction programme that started in 2005. The business is already highly profitable, gaining from a substantial decrease in per-kilo production costs enabled by the efficiency of our new farms.

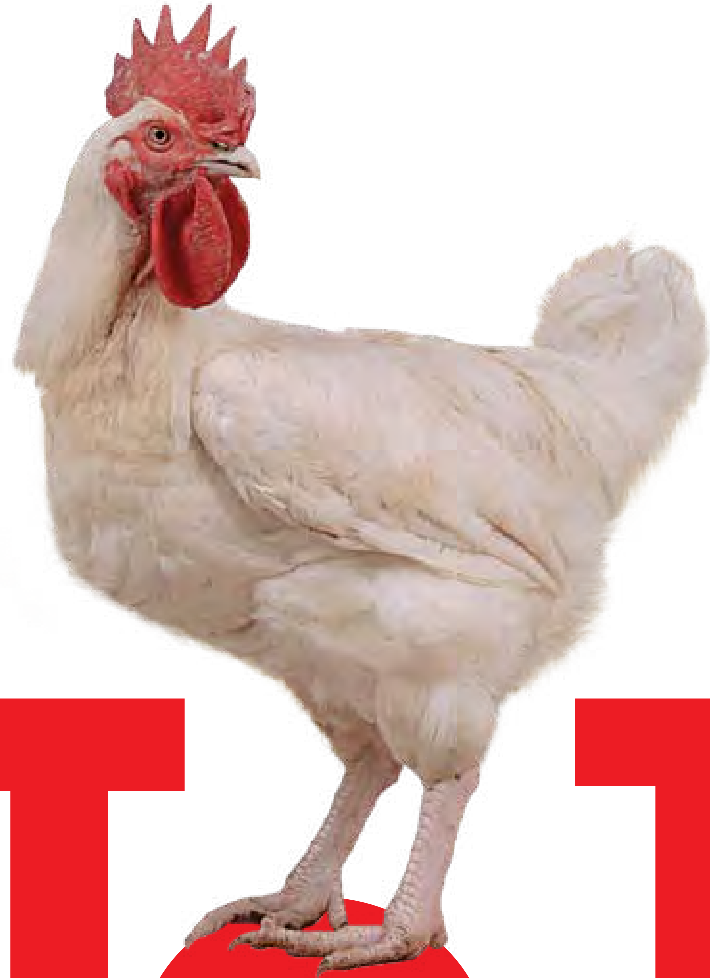
2008 presented a particularly tough operating environment for our Meat Processing division, where the purely domestic focus of the business and high fragmentation of the market carried the risk of weakened future growth in premium products as the economic situation reduced household spending. We responded by improving automation of our production processes for enhanced efficiency, while our continued concentration on product innovation and quality resulted in several top awards for our market-leading brands at the 2008 Meat Industry International Forum. We believe these activities have strengthened our ability to build on economic recovery and position us well for the potential consolidation of the market.

Looking ahead
We believe the future for Cherkizovo is encouraging. We foresee no significant reduction in demand or consumption in the near future, and are confident that recovery will bring even greater opportunities for market growth.

Above all, we are certain that we have the right strategy to deliver long-term success for our business, our staff, our customers and our shareholders.

Sergei Mikhailov
Chief Executive Officer

Poultry



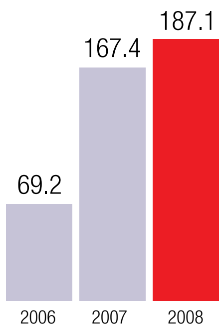
No1 in the Russian poultry market

We made substantial progress in 2008 on realising the synergies delivered by fully integrating the operations of Kurinoe Tsarstvo (Chicken Kingdom), Russia's fourth-largest poultry producer which we acquired in 2007. Alongside further investments in capacity and efficiency, this enabled us to keep our promise of ensuring the stable development of our Poultry business.

Our Petelinka chilled poultry brand and Kurinoe Tsarstvo frozen poultry brands are the absolute No1 brands in their categories*. Petelinka is the No1 selling brand in Moscow and Moscow region in volume and value terms, being priced at a premium to the market.

* Source: TNS Gallup Media, 2009 research.

Sales by volume, 000 tonnes



Poultry continued

No1
in both chilled and frozen poultry brands

The new Vertunovka facility has a capacity of 60m eggs per year and is part of the Vasilyevskaya facility in the Penza region

Despite the high cost of feed making 2008 a testing year for our Poultry division, it realised highly profitable growth and achieved the key strategic goals that will support its future development.

Integration for improved efficiency
We successfully realised synergies across the division in completing the integration of our major 2007 acquisition Kurinoe Tsarstvo with our established operations, improving efficiency and developing new market opportunities.

This included streamlining the route to market by the incorporation of products into our existing sales channels. Additionally we started to sell chilled Kurinoe Tsarstvo products under our premium Petelinka brand, enabling a better margin for higher profits. Our vertical integration enabled us to commence supplying the Lipetsk facilities of Kurinoe Tsarstvo with eggs from our Penza cluster. This allowed us to remove the need to buy from third parties, mitigating price and quality risks. We also expect further synergies from integrating Kurinoe Tsarstvo will improve our ability to meet divisional targets.

Maximising capacity
At other clusters, we focused on developing facilities to ensure a fully integrated, state-of-the-art division.

In our Penza cluster, this saw us complete work at the Vertunovka site, one of Europe's largest parent stock facilities – the most time and cost-intensive element of the poultry industry's investment cycle. Our focus is now on creating hatching facilities that meet the demand created by the 60 million eggs this will produce each year. We also commenced reconstruction of a slaughtering facility, with an hourly capacity of up to 8,000 heads.

At our Moscow cluster, we significantly improved the hatching facilities efficiency, closing one and upgrading the other to meet the cluster's annual demand for 36 million eggs.

In our Lipetsk cluster, our primary focus was the maintenance of existing sites and equipment, while at Bryansk we began work on a large-scale programme of construction of broiler houses and processing facilities.

Competitive advantage
Vertical integration enables us to control product quality throughout the production chain. This starts with our own feed production capacity ensuring quality feed and supply stability; thus we ensure the health and well-being of our chickens to yield maximum returns.

This also enabled us to realise the full value of the government's 5 Roubles-a-kilo subsidy in 2008, to offset any damage caused by fluctuations in the grain price.

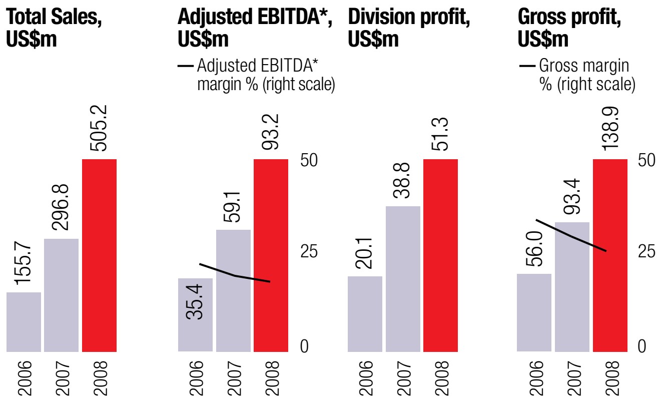
In 2008 our Poultry division made significant progress towards achieving the integration and efficiency gains that are the primary goals of our strategy. This will allow us to strengthen our influential role in the consolidation of the fragmented Russian poultry industry.

Operational KPI's

	including Kurinoe Tsarstvo 2008	including Kurinoe Tsarstvo* 2007	change %
Average liveweight, g	**2013**	2019	-0.3
Annual flock turnover, times	**7.3**	7.10	2.8
Hatch, %	**78.1**	77.0	1.4
Liveability	**93.3**	92.5	0.9
Average growing period, days	**38.7**	39.7	-2.5
Meat yield, %	**73.4**	–	–
Adjusted fodder conversion rate (2,000 g liveweight)	**1.87**	2.02	-7.0
Average daily gain, g	**51.1**	50.0	2.2

*proforma as if Kurinoe Tsarstvo is included for the full year 2007

Poultry performance



Gaining from our strategy
In realising valuable synergies through integration with Kurinoe Tsarstvo, we have successfully started to gain from new efficiencies in production, distribution and sales.

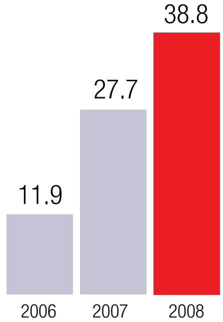
Leading capacity
The reconstructed parent stock facility at Vasylyevskaya will be one of Europe's largest egg-production sites, with an annual capacity of up to 60 million.

Competitive advantage
Vertical integration enables us to control product quality throughout the production chain.

Pork

Cherkizovo produced 38,

Sales by volume, 000 tonnes



With substantial increases in capacity and efficiency during 2008, enabled by the completion of our long-term investment programme, our Pork business recorded a highly profitable year. This profitability is set to grow substantially in the years to come, as our state-of-the-art new facilities reach full capacity and production costs are further reduced by the increasingly efficient sharing of overheads.

847

tonnes of pork in 2008, representing a 246% increase in volumes since 2005

Pork continued

Pork production will reach 90,000 tonnes per annum at full capacity

EBITDA margin 40%

In a landmark achievement during 2008, we successfully completed the construction and commissioning of the final four of Cherkizovo's six new pig farms, making the Company Russia's largest greenfield pork producer. These were the third and fourth modules at our Lipetskmyasoprom breeding facility in the Lipetsk region, and the two modules that make up our new farm in the Tambov region.

The much improved efficiency of these state-of-the-art facilities provides us with a defensive strategy that enables us to sustain high margins even in difficult years. This was proven amid 2008's dramatic increases in grain prices, showing that the significantly reduced cost of production will support our competitiveness and profitability in turbulent conditions.

A completed investment programme

These activities brought to a successful conclusion a capital-intensive five-year investment programme, meaning that our exposure to investment risk is now significantly reduced. These farms are already delivering the volume growth and efficiency gains we targeted, enabling us to improve our KPI's in the division. As they move towards operating at full capacity we expect even greater cost benefits to progressively emerge.

Vertical integration is a key element of our strategy, and we are seeking ever-improving ways of using our own resources to make further efficiency gains. To this end, we installed new equipment and capacity at our feed mills to enable the production and storage of high-quality pellets.

Optimising growth rates and yields

We have completed the second experimental cycle which uses manure from our pigs to complete the circle. The results have been remarkably positive, and represent an important element of our commitment to optimising growth rates and yields.

We also created a stand-alone Trading House, which allows us to increase efficiency in selling live pigs by providing a single efficient channel to market. In anticipation of the development of our chilled and processed pork business, we also began project-scoping the future build of our own slaughterhouse.

Ensuring best practice

As each site reaches full capacity, its costs continue to fall as the expense of staff recruitment and training reduces. To build on this and to ensure best practice, we started work on our Standard Operations Manual as the first step of our journey towards certification.

Operational KPI's

	2008	2007	change %
Average marketable pig weight, kg	**111.5**	110.0	1.4
Average fattening period, days	**183**	185	-1
Number of farrows per year	**2.27**	2.27	0
Number of pigs per farrow	**11.7**	11.4	2.6
Liveability, %	**79.1**	80.3	-1.5
Annual pork (live weight) yield per sow, kg	**2338**	2273	2.9
Average fodder conversion rate, kg per kg of weight gain	**3.27**	3.28	-0.3

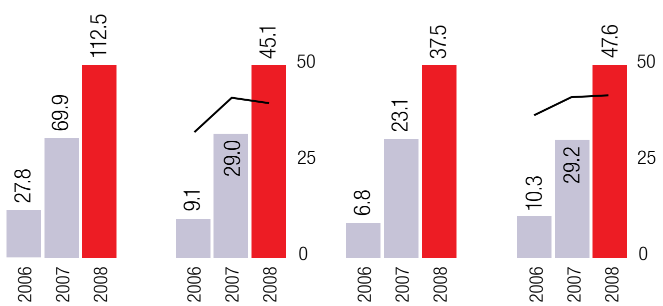
Pork performance

Total Sales, US$m

Adjusted EBITDA*, US$m
— Adjusted EBITDA* margin % (right scale)

Division profit, US$m

Gross profit, US$m
— Gross margin % (right scale)



Reducing the risk of investment
The successful completion of our five-year investment cycle has substantially reduced the risk we face across our entire Pork business.

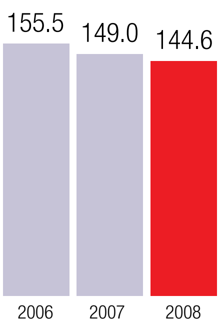
Achieving productivity growth
With full commissioning achieved at our final four new pig farms, we significantly grew productivity across the business, with full capacity targeted for the end of 2010.

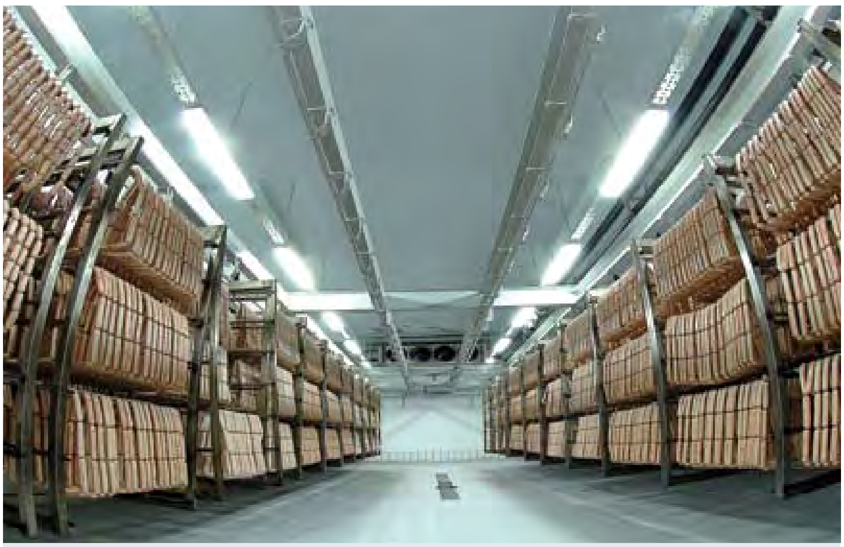
Efficiency drives enhanced profitability
As capacity approaches its full potential, profitability will continue to rise through the increasingly efficient spread of our overheads.

Meat processing

In 2008 we invested US$12

Sales by volume,
000 tonnes





Investments in automation and productivity
Investments in new and enhanced production facilities in 2008 included the commissioning of a new slicing section at our Cherkizovsky plant, as well as the reconstruction of our main production facility there – this drove an immediate 21% increase in productivity for our hot dog-style sausages.

These investments are already paying significant dividends in quality, with our new slicing and packaging resources, for example, enabling major gains in the storage times, freshness and taste qualities of our products.

Innovation was the central theme in 2008 for our Meat Processing business – both in our most important production facilities and in the creation of new brands to meet emerging consumer demands. By investing in automation, we improved the quality, productivity and efficiency of several production lines. And with the launch of our new Akti Meat range for the health-conscious consumer, we extended our market reach to satisfy the requirements of a fast-emerging segment of the Russian population.

million

in Meat Processing, increasing automation, improving efficiency and raising quality

Chilled retail-packed meat
Our retail products are sourced from the highest quality meats, and are packaged in a protective atmosphere to preserve natural freshness. In 2008 we started using our own pork from the Lipetsk farms. Our chilled meats once again achieved ecological certification in 2008.

Salami-type sausages
Our dry salami-type sausages continue to win numerous awards – and more importantly – the appreciation of our consumers.

In 2008 we expanded the range of our offering.

Sliced cooked products
We completed the modernization of our slicing facility at Cherkizovsky Plant in 2008.

We have also launched a new line of sliced hams and cooked sausages that are made to traditional Russian recipes.

Meat processing continued

We received 13 major awards at the prestigious Meat Industry International Forum, including several Grands Prix

Cherkizovo produces 350 products under its market-leading meat brands

Product and process innovation were the major features of a year when we concentrated on the vital management priorities necessary to maintain and enhance our leading position in the Russian processed meats market.

Investments in automation are an important element of our strategy. These totalled some US$12 million during 2008, generating significant improvements in the efficiency and productivity of our major production facilities, as well as our ability to create high-quality premium products with the absolute minimum of human contact.

Driving productivity through innovation

One example among many includes the new slicing section at our Cherkizovsky plant. This advanced production line is now enabling a monthly capacity of up to 400 tonnes of products, including our famous salami-type and dried sausages – all professionally sliced and secured under sterile conditions, in ecologically sound packaging for prolonged freshness and guaranteed ecological security. We also standardise the size of all packaging for added retailer and consumer convenience.

This is just one way in which we are developing a new production culture that matches one of Russia's most advanced meat processing facilities. Others include our efforts to guarantee the integrity of our products through investments in advanced sanitation techniques and technologies, including zoning, air-filtering and anti-bacterial lamps.

The skills of our people are also fundamental to success, and the year's investments in continuous staff training included visits from our Italian and Austrian partners to help us gain the most from our new production technologies.

Targeting the health-conscious consumer

The year also saw the launch of a range of health-oriented products under the new Akti Meat brand, including premium semi-smoked and smoked products, as well as more traditional ready-to-eat sausages, Akti Meat is now meeting a growing demand for high-protein, low-fat products among consumers switching to healthier, more active life-styles.

Continuous improvements in quality

Our overriding commitment to product quality was recognised in 2008 by our best-ever performance at the Meat Industry International Forum (MIIF), Russia's premier award scheme for our sector, with three Grand Prix and 10 Gold and Silver Awards.

Achieving the highest meat industry standards

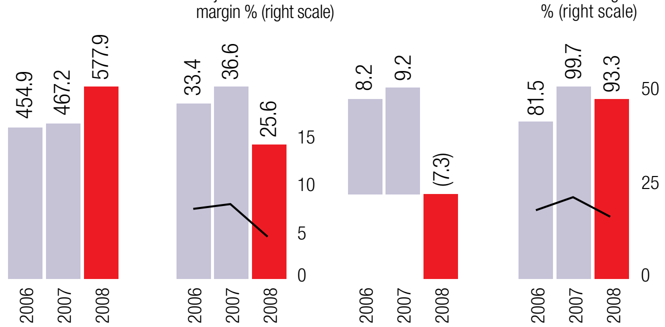
Cherkizovo Group has one of the best complete sets of national and international certification for quality and product safety in the Russian meat industry.

This includes quality management certification at our meat-processing plants, under ISO 9001-2001 (ISO 9001 – 2000).

All our chilled meats are covered by ecological safety certification, which contributed to our successful recertification under McDonald's standards certification.

Our products are certified as free of genetically modified additives.

Meat Processing Performance



High quality products recognised at meat industry forum

Cherkizovo received a number of awards at the Meat Industry International Forum (MIIF), recognising the high quality products offered within the Group's meat processing division.

The Group was presented with several Grand Prix awards, the highest accolade awarded by the MIIF, for its 'Kazachia' brand of semi-smoked salami, its 'Palmira' brand of pork roll and its 'Doktorskaya' brand of cooked salami.

Launching the Akti range of healthy meat products

Following a highly successful trial, we launched Akti Meat in 2008 – a delicatessen-style product range that meets the growing demands of Russian consumers for health-orientated meat products.

This is a powerful example of our investment in product innovation, helping to develop a new sector that we expect to grow as more Russians switch to healthier, more active lifestyles.

Distribution

As a leading Russian agriculture and food processing company, we strive to ensure that our consumers have access to our entire product range, and that our products are of the highest possible quality at point of sale. For this reason, the large-scale distribution network that we have created covers most Russian regions, including over 80% of the country's population (approximately 115 million people).

In 2008 we fully integrated sales of Kurinoe Tsarstvo (Chicken Kingdom), which we acquired in 2007, into our structure. As a result, our distribution network for chilled and frozen poultry meat has considerably increased. Our distribution reach has also broadened in the Tambov, Voronezh, Yaroslavl, Orel, Vladimir, Kaluga, Bryansk, Tver, Lipetsk, Smolensk and Tula regions. We have increased the sales volume of the Petelinka brand, and have continued to grow the volume of product sold under the Kurinoe Tsarstvo brand. This performance allows us to maintain our leading position in the regions.

Ensuring product freshness

Cherkizovo Group owns a dedicated fleet of transport vehicles, including over 900 refrigerated trucks. By using only specialised transport to reach our consumers, we are able to ensure that the freshness and quality of our products are not compromised in transit.

Our transport management is successfully optimised via an automated routing and management system based on GPS navigation. The system allows us to minimise delays from traffic congestion, communicate with our drivers en route, reduce delivery costs and improve client service. To increase efficiency further, in addition to using our own fleet we source transport services from specialist logistics companies.

115m

people are covered by our distribution network

Leading through technology

We are an industry leader in our use of innovative technologies in our storage and transport logistics. In 2008 we installed a WMS 'Logistics' system to provide a centrally-supported, integrated product catalogue for all our divisions. This allows us to increase the speed and quality of labeling and storage operations, as well as reducing product loss. We supply products to all leading retailers, and the new system is ensuring that we can respond promptly to their requests.

We also have our own trading houses network and distribution centres. We maintain strong relationships with the independent distributors who sell our products to smaller retailers in the more remote areas of the country.

Product quality comes first
Cherkizovo's fleet of 900 specialist vehicles ensures the freshness and quality of our products between the group's facilities and into our customers' premises.

Large-scale operations
Our strategically sited distribution centres enable us to forge close relationships with the wholesalers who sell on our behalf to retailers throughout Russia.

Rapid response to retailers' needs
The advanced WMS logistics system, installed in 2008, enables us quickly and easily to respond to the requirements of our retail customers.

Financial review

During 2008, Cherkizovo group continued to make solid progress against its strategic objectives, despite a challenging market environment. The Company's sales increased by 42%, adjusted EBITDA* by 31% and net income by 27%, and we continued to deliver real value for all our shareholders. However, the dramatic rise in grain prices in the first six months of the year exerted some pressure on margins for the whole year, despite substantial government support and operational efficiencies.

Cherkizovo is one of the leading integrated diversified meat producers in the Russian Federation. According to 2008 statistics from Russia's Meat Union, we have the largest market share of processed meat products in Russia; and according to TNS Gallup Media research and our own estimates, we have the largest sales of poultry in Moscow and the Moscow region and are the leader nationally. We are also one of the leaders in the highly-fragmented Russian pork industry. In 2008, we sold approximately 144,500 tonnes of meat products, 187,000 slaughter-weight tonnes of poultry products and 39,000 live-weight tonnes of pork.

Our principal operations consist of the production and sale of processed meat products, primarily in the European part of Russia; the breeding and rearing of chickens, and the processing and sale of chilled and frozen poultry products produced at facilities in the Moscow, Lipetsk, Bryansk and Penza regions; and the breeding and rearing of pigs, at facilities in the Moscow, Lipetsk, Vologda and Tambov regions, and the sale of live pigs. We also carry out trading and distribution operations and produce feed consumed in our Poultry and Pork operations. In February 2006 we began operations at a purpose-built pig breeding and rearing complex in Lipetsk, and during 2008 completed construction and commissioning of all greenfield farms in Lipetsk and Tambov. All six new state-of-the-art pork farms are operational.

Our operations are structured into three operating divisions: Meat Processing, Poultry and Pork. We operate six meat processing plants where we process raw meat into fresh and ready-to-cook products, and process it further into processed meat, sausages, hams and other products. The division also carries out associated sales and trading operations. Our Poultry division consists of four production clusters, two processing facilities, a feed production plant and associated sales and trading operations. Our Pork operations consist of five pig breeding and rearing complexes and feed production facilities.

All three operating divisions are also involved in other non-core activities, including dairy, crop cultivation and associated services. Expenses for our corporate headquarters are recorded under "corporate expenditures".

In 2008, our Meat Processing segment was responsible for 49% (57% in 2007), Poultry for 42% (35% in 2007) and Pork for 9% (8% in 2007) of the Group's sales. Virtually all our sales are in the Russian Federation with a large proportion being in Moscow and the Moscow region.

Looking ahead, 2009 is likely to be a challenging year in terms of the operating environment. The various uncertainties that could have an impact on our performance include grain prices, domestic consumption, government activity, devaluation of the Rouble against other currencies and other external factors. However we believe that we will benefit from increased production scale in our pork and poultry segments, and improved operating efficiency.

Our results for the first quarter of 2009 were broadly in line with our expectations, and so despite the challenging economic conditions, we remain cautiously optimistic about consumption patterns and pricing trends for our products.

Sales up 42% despite a challenging market environment

Performance

Consolidated Selected Financial Data Year ended December 31, 2008	Meat Processing	Poultry	Pork	Corporate assets/ expenditures	Intersegment	**Combined**
Total Sales	577,919	505,204	112,507	1,028		**1,196,658**
including other sales	4,581	39,773	6,148	-		**50,502**
including sales volume discount	(26,363)	(15,380)	-	-		**(41,743)**
Intersegment Sales	(271)	(19,859)	(9,223)	(1,024)		**(30,377)**
Sales to external customers	577,648	485,345	103,284	4	-	**1,166,281**
Cost of Sales	(484,571)	(366,330)	(64,939)	(40)	29,041	**(886,839)**
Gross profit	93,348	138,874	47,568	988	(1,336)	**279,442**
Gross margin	16%	27%	42%			**23%**
Operating expenses	(85,935)	(70,498)	(8,292)	(12,125)	1,336	**(175,514)**
Operating income	7,413	68,376	39,276	(11,137)		**103,928**
Operating margin	1%	14%	35%			**9%**
Other income and expenses, net	71	(2,477)	(102)	26,536	(22,833)	**1,195**
Interest expenses	(14,763)	(14,611)	(1,724)	(14,460)	22,833	**(22,725)**
Segment profit	(7,279)	51,288	37,450	939		**82,398**
Income Tax expense	1,398	(264)	(59)	334	-	**1,409**
Depreciation and amortisation expense	17,217	22,248	6,271	12	-	**45,748**
Loss on disposal of property, plant & equipment	509	779	(437)			**851**

Adjusted EBITDA* reconciliation

Segment profit	(7,279)	51,288	37,450	939		**82,398**
Add:						
Interest expense	14,763	14,611	1,724	14,460	(22,833)	**22,725**
Interest income	(1,494)	(144)	(0)	(23,178)	22,833	**1,983**
Gain from expiration of payables	(871)	(140)	-	-	-	**1,011**
Foreign exchange loss (gain)	2,298	2,761	102	(3,565)	-	**1,596**
Other financial income & expenses	(3)	0	-	206	-	**203**
Depreciation and amortisation expense	17,217	22,248	6,271	12	-	**45,748**
Loss on disposal of property, plant & equipment	509	779	(437)			**851**
Impairment of non-current assets	481	1,777	-	-		**2,258**
Adjusted EBITDA*	25,621	93,180	45,110	(11,126)	-	**152,785**
Adjusted EBITDA* Margin	4%	18%	40%			**13%**

The reconciliation between net segment profit and net income per the consolidated income statements

Total net segment profit	82,398
Minority interest	(3,994)
Income taxes	(1,409)
Loss from discontinued operations	(3,489)
Net gain on disposal of discontinued operations	4,599
Consolidated net income	**78,105**

Financial review continued

State support for agricultural production in Russian Enterprises

Favourable profit tax

Enterprises engaged in agricultural production in Russia, including our poultry and pork production facilities, benefit from a favourable profit tax rate. In 2008 the zero percent corporate tax rate, which had originally been applicable only for 2008, was extended to the end of 2012. This rate is scheduled to increase to 18% for 2013-2015, and to 20% thereafter. Our non-production agricultural operations, such as processing of chilled and frozen poultry, trading operations and feed production, do not benefit from this reduced tax rate.

Largely as a result of these reduced tax rates, our overall effective tax rate in 2008 was 1.7% (2007: 9.8%), as compared to the general corporate profit tax rate in Russia of 24%.

Reimbursement of interest payments

Agricultural enterprises are also eligible for reimbursements of up to two-thirds of the official Central Bank of Russia ("CBR") refinancing rate from the Russian federal authorities for interest payable on loans, and of up to one-third of the official CBR refinancing rate from regional authorities. The CBR's refinancing rate increased during 2008 from 10.25% in February up to 13% in December.

We account for interest on these loans on a net basis, after taking the subsidies into account. As of 31 December 2008, approximately 74% of the aggregate principal amount of our loans was eligible for, and received, the subsidies, which reduced interest for the year by US$18.4 million (2007: US$9.7 million). As of 31 December 2008 our effective interest rate applicable to the loans on which the interest subsidies applied ranged from 4.4% to 4.7%, compared with the weighted average interest rate on outstanding amounts under the loans, which ranged from 11.7% to 13.1%. As of December 2008 our effective interest rate was 4% (2007: 3%). Such subsidies were netted against interest expense. The favourable interest rate subsidies are not available to non-production agriculture-related operations, such as our trading, mergers and acquisitions and Meat Processing operations.

Direct Subsidies

In accordance with Russian legislation, enterprises engaged in agricultural activities receive targeted subsidies based on the amount of meat produced. Such subsidies were netted against cost of sales.

In the first six months of 2008, the Federal Budget of the Russian Federation was amended to increase the total assignment of funds for subsidies to agricultural producers, by introducing subsidies designed to compensate producers for the high cost of mixed fodder used in the production of poultry and pork.

In September 2008, the government of the Russian Federation issued a decree providing formulas for calculating subsidies to agricultural producers. The decree was based on the change to the law on the Federal Budget of the Russian Federation that was approved by the Duma of the Russian Federation on 30 June 2008.

Based on the decree, subsidies were provided of 5 Roubles and 10 Roubles respectively per kilogram of live weight poultry and pork produced for slaughter. The reported numbers include US$31.0 million of direct Federal Budget subsidies provided for the first half of the year. These subsidies reduced cost of sales in our Poultry and Pork segments. Of the total amount of subsidies, US$23.2 million and US$7.8 million relate to our Poultry and Pork segments respectively.

In addition to federal subsidies, based on agreements with regional governments, our pork facilities (OJSC Lipetskmyasoprom in Lipetsk and CJSC Botovo in Vologda) and our poultry facilities (CJSC Petelinskaya in Moscow and JSC Vasiljevskaya in Penza) received direct subsidies from the regional administrations, based on the amount of pork or poultry they sold and to purchase veterinary products and fuel. In 2008 the Group received regional administration subsidies amounting to US$3.4 million. These subsidies were also netted against the cost of sales in our Pork and Poultry divisions.

Seasonality

Each year the volume of sales and average selling prices in each of our divisions are generally most favourable in the second quarter, at the start of the summer season, and in the fourth quarter, at the beginning of the pre-New Year holiday sales. Post-holiday economising, combined with the period of Lent before Russian Orthodox Easter, makes the year's first quarter generally the least favourable.

Seasonality also affects average selling prices as retail consumers generally buy more (and more expensive) high-quality products in the fourth quarter. In addition, because feed costs are lower when crops are harvested, the second half of the year is notably more profitable for pork and poultry production.

Changes to the 2007 financial statements

The Group made certain adjustments to the previous year's financial statements to reflect the effects of discontinued operations. In November 2008, management of the Group made a decision to dispose of a subsidiary in the Meat Processing division, JSC Belmyaso, to optimise the divisional cost structure. The sale was completed in December 2008, with the Group selling 75% of JSC Belmyaso shares for US$68,000. We have therefore separately disclosed the financial position and results of JSC Belmyaso's operations as of and for the year ended 31 December 2007 (see Note 23 to the Financial Statements for more details).

Impairment of non-current assets

In accordance with applicable standards, the Group conducted an analysis of impairment of non-current assets at 31 December 2008, including property, plant and equipment, goodwill and trademarks. Evidence of impairment was found only for trademarks, mainly due to an increase in the Group's weighted average cost of capital. The amount of impairment was determined to be US$2.3 million which was included in operating expenses.

Interest rates and currency exchange

Our reporting currency is the US Dollar; our subsidiaries' functional currency is the Rouble. The Rouble is not fully convertible outside the Russian Federation.

Within the Russian Federation, official exchange rates are determined daily by the CBR. Market rates and official rates may differ, although this is generally within narrow parameters monitored by the CBR.

Our products are typically priced in Roubles, and our direct costs, including raw materials (other than imported meat products and some fodder components), labour and transportation, are also largely incurred in Roubles. Other costs, such as interest, are incurred in Roubles, US Dollars and Euros. According to the CBR, the Rouble appreciated in real terms against the US Dollar by 13.3% in 2008 (2007: 12.8%), and the average exchange rate of the Rouble against the US Dollar appreciated by 3.1% (2007: 6.3%) in nominal terms.

Approximately 2.8% of the aggregate principal amount of our long-term debt outstanding at 31 December 2008 consisted of foreign-currency denominated loans (4.7% in 2007), of which approximately 95% was US Dollar-denominated and 5% Euro-denominated). Our short-term debt balance (excluding the current portion of long-term loans) at 31 December 2007 contained 39% of foreign-currency denominated loans (all US Dollar-denominated). In 2008 our short-term debt is entirely Rouble-denominated. Of our outstanding debt, as of 31 December 2008, 97% bore interest at fixed rates, and 3% bore interest at floating rates linked to MosPrime and LIBOR. We have not entered into transactions to hedge against interest rate risk.

Results of operations

Group Results

The Group performed strongly in 2008.

Overall sales increased by 42% to US$1.2 billion during the year (2007: US$820.8 million). Meat Processing accounted for 49% (57% in 2007), Poultry for 42% (35% in 2007) and Pork for 9% (8% in 2007) of the Group's sales. Our Pork and Poultry divisions showed the strongest growth in the year, with the Pork division growing by 61% and the Poultry division by 70%.

Gross profit increased by 26% to US$279.4 million (2007: US$222.3 million), while gross margins decreased to 24% (2007: 27%). The Group managed to increase profits in spite of the challenging inflationary pressures on grain, primarily as a result of our efficient purchasing strategy, increased operational efficiency at our new pork facilities and product mix improvements in our Poultry and Meat Processing businesses.

Net income increased by 27% to US$78.1 million (2007: US$61.6 million). Net income margin slightly decreased to 7% (2007: 8%).

Adjusted EBITDA* increased by 31% year-on-year to US$152.8 million (2007: US$116.4 million) and adjusted EBITDA* margin decreased slightly to 13% (2007: 14%).

Consolidated Selected Financial Data	**Year ended December 31 2008**	Year ended December 31 2007
Sales	**1,166,281**	820,763
Cost of sales	**(886,839)**	(598,490)
Gross profit	**279,442**	222,273
Gross margin	**24%**	27%
Operating expenses	**(175,514)**	(137,387)
Operating Income	**103,928**	84,886
Operating margin	**9%**	10%
Income from continuing operations before income tax and minority interest	**82,398**	73,941
Net Income	**78,105**	61,582
Weighted average number of shares outstanding	**41,725,834**	39,564,300
Earnings per share (basic and deluted):		
Income from continuing operations	**1.84**	1.62
Loss from discontinued operations	**-0.08**	-0.06
Gain on disposal of discontinued operations	**0.11**	0.00
Extraordinary gain	**0.00**	0.00
Net Income	**1.87**	1.56
Consolidated adjusted EBITDA* reconciliation		
Income from continuing operations before income tax and minority interest	**82,398**	73,941
Add:		
Interest expense	**22,725**	18,396
Interest income	**(1,983)**	(3,899)
Gain from expiration of payables	**(1,011)**	(467)
Foreign exchange loss (gain)	**1,596**	(3,205)
Other financial income & expenses	**203**	120
Depreciation and amortisation expense	**45,748**	31,466
Loss on disposal of property, plant & equipment	**851**	40
Impairment of non-current assets	**2,258**	-
Combined and consolidated adjusted EBITDA*	**152,785**	116,392
Adjusted EBITDA* Margin	**13%**	14%

Financial review continued

We will benefit from increased production scale in our pork and poultry segments

Poultry Division

In 2008, total volume in our Poultry division increased by 12% to approximately 187,100 tonnes, compared to 167,400 tonnes in 2007. Prices for Cherkizovo poultry sales increased by 11% from 57.71 Roubles per kg in 2007 to 63.87 Roubles per kg in 2008 (excluding VAT). In Dollar terms, prices increased by 14% from US$2.26 per kg in 2007 to US$2.57 per kg in 2008 (excluding VAT).

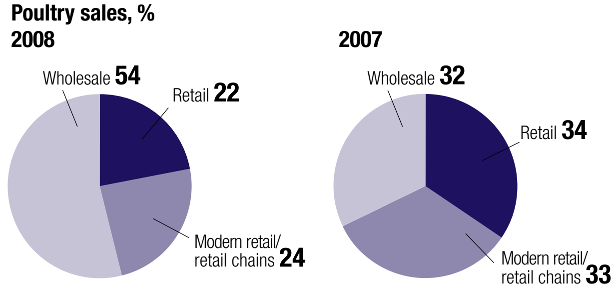
As a result, total sales in the Poultry division increased by 70% from US$296.8 million to US$505.2 million.

The Poultry division's gross profit increased by 49% to US$138.9 million (2007: US$93.4 million). Gross margin decreased to 27% (2007: 31%), mostly due to high grain prices in the first half of the year. However, federal subsidies of US$23.2 million and regional subsidies of US$1.3 million offset some of the increase in grain prices.

Divisional operating expenses decreased as a percentage of sales year-on-year, from 16% to 14%. This improvement was mostly due to the synergies achieved by selling products from the newly acquired Kurinoe Tsarstvo (Chicken Kingdom) through the Poultry division's existing distribution network. As a result, operating income in the division increased by 45% to US$68.4 million (2007: US$47.2 million), while the divisional operating margin decreased from 16% to 14% in the corresponding period. Divisional interest expenses increased to US$14.6 million (2007: US$10.7 million). As a result of these factors, divisional profit increased 32% to US$51.3 million (2007: US$38.8 million).

Overall, Cherkizovo's adjusted EBITDA* in the Poultry division increased by 58% to US$93.2 million (2007: US$59.1 million), delivering a strong adjusted EBITDA* margin of 18% (2007: 20%) despite a challenging environment for grain and poultry prices.

Poultry sales, %



Poultry processing segment income statement data	Year ended December 31 2008	Year ended December 31 2007
Total Sales	**505,204**	296,803
Intersegment Sales	**(19,859)**	(5,165)
Sales to external customers	**485,345**	291,638
Cost of sales	**(366,330)**	(203,381)
Gross profit	**138,874**	93,422
Gross margin	**27%**	31%
Operating expenses	**(70,498)**	(46,256)
Operating Income	**68,376**	47,166
Operating margin	**14%**	16%
Other income and expenses, net	**(2,477)**	2,248
Interest expenses	**(14,611)**	(10,659)
Segment profit	**51,288**	38,755
	10%	13%
Poultry segment adjusted EBITDA* reconciliation		
Segment profit	**51,288**	38,755
Add:		
Interest expense	**14,611**	10,659
Interest income	**(144)**	(9)
Gain from expiration of payables	**(140)**	(131)
Foreign exchange loss (gain)	**2,761**	(2,107)
Other financial income & expenses		
Depreciation and amortisation expense	**22,248**	11,267
Loss on disposal of property, plant & equipment	**779**	627
Impairment of non-current assets	**1,777**	-
Poultry segment adjusted EBITDA*	**93,180**	59,061
Adjusted EBITDA* Margin	**18%**	20%
Volumes, 000 (slaughter weight)	**187,100**	167,400
Price / kg	**US$2.26**	US$2.57

Pork Division

2008 was a landmark year in the development of the Pork segment, as Cherkizovo completed construction and commenced production at our new greenfield farms in Lipetsk and Tambov. Sales volumes in the Pork division were up 40% to approximately 39,000 tonnes, compared to approximately 28,000 tonnes in 2007.

Prices in Rouble terms increased by 11% in 2008 from 61.58 Roubles per kg in 2007 to 68.36 Roubles per kg in 2008 (excluding VAT). In Dollar terms, prices increased by 14% in 2008 from US$2.41 per kg of live weight in 2007 to US$2.75 per kg of live weight in 2008 (excluding VAT).

As result total sales increased by 61% to US$112.5 million (2007: US$69.9 million).

The new pork facilities at Lipetsk further improved our performance in 2008. This had an effect on our cost of sales and, as a result, despite high wheat and barley prices in 2008, our gross profit increased by 63% to US$47.6 million (2007: US$29.2 million). Gross margin for this division remained strong at 42%, largely due to the increase in selling price, increased operational efficiencies from the new pork farms, and as a result of the federal subsidies of US$7.8 million and regional subsidies of US$2.1 million that offset increases in grain prices. The division's operating expenses as a percentage of sales remained flat at 7%.

The division's operating income increased by 60% to US$39.3 million (2007: US$24.5 million). Operating margin remained constant at 35%.

Divisional interest expenses increased slightly to US$1.7 million (2007: US$1.4 million). The division's profit increased by 62% to US$37.5 million (2007: US$23.1 million). The division generated adjusted EBITDA* of US$45.1 million, an increase of 56% on the previous period (2007: US$29.0 million) and an adjusted EBITDA* margin of 40% for the year (2007: 42%).

We believe that the developments at Lipetsk and Tambov will further improve the division's performance and help to sustain strong margins.

Pork processing segment income statement data	Year ended December 31 2008	Year ended December 31 2007
Total Sales	**112,507**	69,869
Intersegment Sales	**(9,223)**	(5,186)
Sales to external customers	**103,284**	64,683
Cost of sales	**(64,939)**	(40,684)
Gross profit	**47,568**	29,185
Gross margin	**42%**	42%
Operating expenses	**(8,292)**	(4,680)
Operating Income	**39,276**	24,505
Operating margin	**35%**	35%
Other income and expenses, net	**(102)**	(64)
Interest expenses	**(1,724)**	(1,390)
Segment profit	**37,450**	23,051
	33%	33%
Pork segment adjusted EBITDA* reconciliation		
Segment profit	**37,450**	23,051
Add:		
Interest expense	**1,724**	1,390
Interest income	**()**	()
Gain from expiration of payables	**-**	(54)
Foreign exchange loss (gain)	**102**	(2)
Other financial income & expenses	**()**	121
Depreciation and amortisation expense	**6,271**	4,502
Loss on disposal of property, plant & equipment	**(437)**	1
Pork segment adjusted EBITDA*	**45,110**	29,009
Adjusted EBITDA* Margin	**40%**	42%
Sales Volumes, 000 (live weight)	**38,800**	27,700
Price / kg	**US$2.75**	US$2.41

Meat Processing Division

Sales volumes in the Meat Processing segment remained largely flat, but were slightly lower year-on-year, down by 3% to approximately 145,000 tonnes.

As a result of growth in the price of raw meat, average prices increased by 19% from 87.51 Roubles in 2007 to 103.86 Roubles in 2008 (excluding VAT). Segment prices in Dollar terms increased by 22% from US$3.42 per kg in 2007 to US$4.18 per kg in 2008 (excluding VAT).

We were delighted to receive several awards for the quality of our meat products during the period, reflecting our focus on improving the Group's value-added product offering.

Total sales in our Meat Processing division increased by 24% to US$577.9 million (2007: US$467.2 million), principally as a result of significantly higher selling prices.

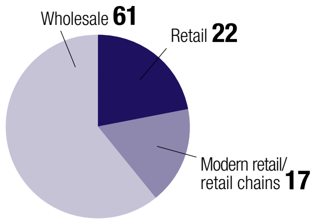
Financial review continued

Divisional gross profit decreased by 6% to US$93.3 million (2007: US$99.7 million), mostly due to raw meat price growth and significantly increased pressure from retail chains. Gross margin in the Meat Processing division decreased from 21% to 16%, mostly due to raw meat price increases. Operating expenses, as a percentage of sales, decreased to 15% from 17% in 2007 mostly due to decreased marketing and advertising expenses. As a result of the above factors, the operating income in 2008 was US$7.4 million. Divisional interest expenses increased by 6% to US$14.8 million (2007: US$13.9 million).

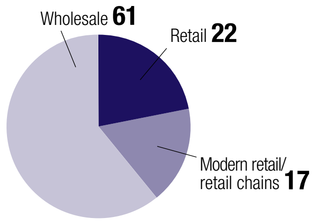
The division lost US$7.3 million in 2008. Adjusted EBITDA* decreased to US$25.6 million (2007: US$36.6 million), while the adjusted EBITDA* margin decreased to 4% from 8%.

Meat Processing sales, %

2008



2007



Our targeted capital expenditure program has enhanced operational efficiency across our segments

Meat processing segment income statement data	Year ended December 31 2008	Year ended December 31 2007
Total Sales	**577,919**	467,216
Intersegment Sales	**(271)**	(2,776)
Sales to external customers	**577,648**	464,440
Cost of sales	**(484,571)**	(367,539)
Gross profit	**93,348**	99,677
Gross margin	**16%**	21%
Operating expenses	**(85,935)**	(78,149)
Operating Income	**7,413**	21,528
Operating margin	**1%**	5%
Other income and expenses, net	**71**	1,583
Interest expenses	**(14,763)**	(13,890)
Segment (Loss)/Profit	**(7,279)**	9,221
	-1%	2%
Meat processing segment Adjusted EBITDA* reconciliation		
Segment profit	**(7,279)**	9,221
Add:		
Interest expense	**14,763**	13,890
Interest income	**(1,494)**	(1,318)
Gain from expiration of payables	**(871)**	(282)
Foreign exchange loss (gain)	**2,298**	17
Other financial income & expenses	**(3)**	-
Depreciation and amortisation expense	**17,217**	15,695
Loss on disposal of property, plant & equipment	**509**	(588)
Impairment of non-current assets	**481**	-
Meat processing segment adjusted EBITDA*	**25,621**	36,635
Adjusted EBITDA* Margin	**4%**	8%
Sales Volumes, 000	**144,600**	149,100
Price / kg	**US$4.18**	US$3.42

Liquidity and capital resources

Capital requirements

In addition to our working capital requirements, we need capital to finance the following:

- capital expenditure, particularly in connection with further development of our Pork and Poultry segments
- potential acquisitions
- repayment of debt.

We anticipate that capital expenditure, potential acquisitions and repayment of long-term debt will represent the most significant use of funds for the next several years.

We generally rely on operating cash flows and bank loans to finance capital expenditure. In 2008, the major sources of our funds were our operating cash flows, proceeds from a secondary public offering and short and long-term borrowings. We financed our capital expenditure primarily with short and long-term borrowings.

Capital expenditure

Our total capital expenditure in 2008, excluding acquisitions, amounted to US$158 million. This included cash and other payments for property, plant and equipment acquired under leases, as well as property acquired but not yet paid for.

In 2008, capital expenditure in our Poultry segment totalled US$75 million and related mainly to the expansion of our facilities and operational efficiency in Moscow and Penza regions.

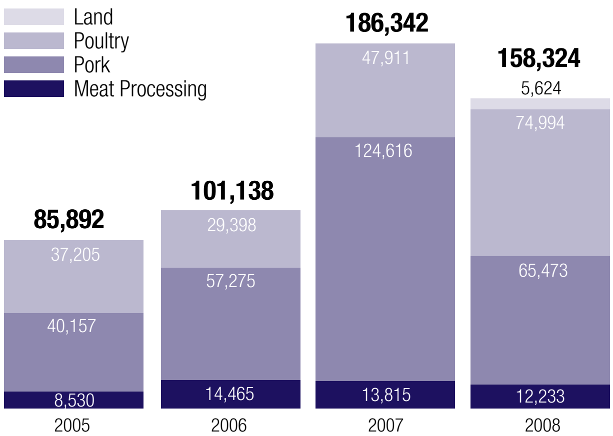
In 2008, capital expenditure in our Pork segment amounted to US$65 million, covering the completion of construction of our new pork facilities in Lipetsk (modules 3 and 4) and Tambov (modules 1 and 2).

In 2008, capital expenditures in our Meat Processing segment totalled US$12 million and covered improvements at our existing meat processing facilities as well as automation and cost optimisation in our three biggest production facilities – at our Cherkizovsky, Ulyanovsky and Penzensky meat processing plants.

In 2008, we also purchased approximately 15,000 ha of agricultural land in the Saratov region, which is currently undergoing registration into our ownership.

The following bar chart sets out our capital expenditure by segment, excluding acquisition of Kurinoe Tsarstvo in 2007 (US$143 million), for the four years ended 31 December 2008.

Capital expenditure, US$000*



***note:** includes capital expenditure accounted for under corporate assets and expenditures which represented less than 1% of the capital expenditures each year.

Cash flow

The table below represents movements in our cash flows from various activities during the two years ended 31 December 2008 and 2007:

For the year ended 31 December	**2008 US$000**	2007 US$000
Net cash from operating activities	**128,221**	19,925
Net cash used in investing activities	**(172,375)**	(309,555)
Net cash from financing activities	**89,409**	195,743
Net increase (decrease) in cash and cash equivalents[1]	**32,728**	(90,049)

[1] Includes cash flow movements associated with discontinued operations.

Net cash from operating activities in 2008 increased to US$128.2 million (2007: US$19.9 million).

This significant increase in net cash from operating activities in 2008 compared to 2007 (up by US$108.3 million) is mostly related to factors including: a slight decrease in inventories in 2008, compared to the large increase in 2007; a decrease in advances paid; accrued subsidies; and a decrease in receivable VAT for property, plant and equipment, mostly related to the refund of VAT by the Government.

A slight decrease in inventories of US$3.0 million is made up of a decrease in raw materials, which is offset by an increase in livestock. The decrease in raw materials mostly relates to the fact that due to the falling prices for grain at the end of 2008, it was appropriate to wait for lower prices in 2009. This is the reverse of the situation in 2007, when the prices at the end of the year were rising and it was more prudent to buy larger quantities at lower prices.

The increase in livestock mostly relates to the growing operations at our new pork facilities in Lipetsk and Tambov, and also to the commissioning of our new poultry site at Vertunovka (part of JSC Vasiljevskaya) in Penza. The large increase in inventories during 2007 is primarily the result of the commencement of operations at our state-of-the-art pork facility in Lipetsk.

Financial review continued

The increase in trade receivables that we experience mainly resulted from an increase in general sales and in those of mixed fodder to related parties.

In 2008 there was a slight decrease (of US$1.3 million) in advances paid, mostly due to the decreasing price of oils for mixed fodder production, which we pay for in advance. A significant increase in advances in 2007 was due to the change in terms of purchase contracts in our Meat Processing segment.

The increase in other current assets mostly relates to an increase in accrued subsidies for both interest reimbursement and mixed fodder costs, and this increase was partially offset by the reduction in current VAT receivable. In 2008 several Group companies received payments for VAT receivable, which led to a decrease in the amount of VAT receivable totalling US$7.2 million.

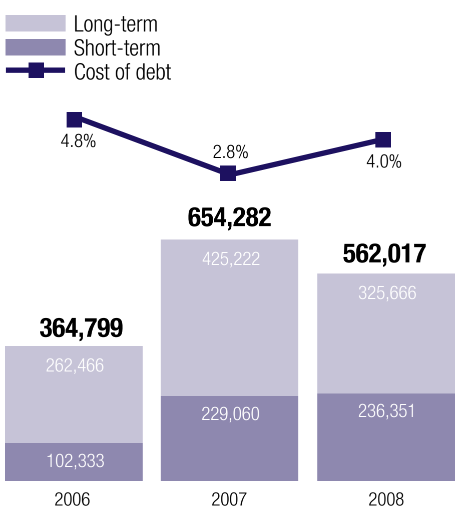
In 2007, VAT receivable increased mainly due to major construction projects in our Pork and Poultry segments.

Our investment activities in 2008 showed a significant decrease in the use of cash, which totalled US$172.3 million (2007: US$309.6 million).

Net cash used in investment activities in 2007 included US$139.8 million, which was mostly attributable to the acquisition of Kurinoe Tsarstvo. In addition, in 2008 the Company decreased capital expenditure within the Pork segment, as most investments into our new pork farms were completed in previous years. We increased capital expenditure in our Poultry segment, mostly in the Penza region, which led to total capital expenditure in US Dollars staying relatively constant. The company also increased the amount of short-term loans given to related parties.

Our net cash flow from financing activities decreased to US$89.4 million in 2008 (2007: US$195.7 million). A decrease in net cash flow from financing activities in 2008 resulted primarily from the increased use of cash for repaying both long- and short-term loans. This was partially offset by the proceeds of the secondary public offering of US$82.3 million that was used to refinance short-term debt, and additional financing raised for capital expenditure purposes in the Pork and Poultry segments.

Debt, $000



Liquidity

As of 31 December 2008, we had total cash and cash equivalents of US$49.7 million, of which around 69% were denominated in US Dollars, with the remainder in Roubles. We also had working capital of US$23.4 million (2007: US$17.1 million). Following this date, we continued to meet our obligations to trade creditors from operating cash flow and debt financing. Our trade working capital, which we define as current assets less current liabilities excluding short-term loans and the current portion of long-term loans, was US$259.8 million (2007: US$246.1 million) as of 31 December 2008. Our future plans for improving liquidity and our working capital position include refinancing short-term debt on a long-term basis.

One factor which brought about changes in the components of our working capital was the depreciation of the Russian Rouble, the end-of-year exchange rate being 20% higher than at the beginning of the year. This led to a reduction in Dollar amounts that was much greater than the corresponding amounts in Roubles.

As we maintained the share of sales made to modern retail chains, our trade receivables from third parties (net of allowances for doubtful accounts) increased by 19% in Roubles. This was partly compensated for by the depreciation of the Rouble against the US Dollar. Trade receivables from related parties at 31 December 2008 increased to US$15.3 million (2007: US$10.0 million). Trade receivables' turnover averaged 28 days as of 31 December 2008 (2007: 40 days). The allowance for doubtful accounts, which we create on a case-by-case basis, was US$3.1 million (2007: US$2.6 million).

Trade accounts payable to third parties increased in Roubles but decreased in US Dollars, due to the depreciation of the Rouble, to US$66.3 million at 31 December 2008 (2007: US$74.7 million). This was mostly due to rising meat prices. Trade payables to related parties decreased slightly to US$2.4 million as of 31 December 2008 (2007: US$3.0 million). As of 31 December 2008, trade payables' turnover averaged 27 days (2007: 46 days).

We also make advances on a case-by-case basis to our raw meat and grain suppliers, in accordance with the terms of the supply agreements we have with them. As of 31 December 2008, advances paid amounted to US$29.7 million, net of allowances for doubtful accounts (2007: US$37.6 million). The decrease was mainly due to depreciation of the Rouble. In Roubles this decrease is only 4% from the 2007 figure. Of our total net advances, US$7.3 million (2007: US$7.8 million) was to related parties. The allowance for doubtful accounts at 31 December 2008 was US$1.3 million (2007: US$834,000).

Inventory consists primarily of raw materials and goods for resale, work-in-progress, livestock and finished goods. As of 31 December 2008, our inventories were US$133.6 million (2007: US$154.5 million). This decrease was mostly due to depreciation of the Rouble – there was an increase of 3.5% in Rouble terms. This comprises the decrease in raw materials offset by the increase in livestock.

Decreases in raw materials are mostly because of the falling prices for grain at the end of 2008, which made it more feasible not to buy large amounts of grain but to wait for lower prices in 2009. This is the reverse of the situation in 2007 when the prices at the end of the year were rising and it was more prudent to buy larger quantities at lower prices.

The value of our livestock at 31 December 2008 was US$55.3 million (2007: US$52.9 million). A 25% increase in Rouble terms is due to the increased operations at our new pork facilities in Lipetsk and Tambov, and to the commissioning of our new poultry site at Vertunovka (part of JSC Vasiljevskaya) in Penza.

Other receivables mainly comprise subsidies due from the government, which increased to US$20.5 million in 2008 (2007: US$12.0 million).

Other current assets include other taxes receivable, prepaid expenses, spare parts and notes receivable. The decrease here is mainly because of the depreciation of the Rouble and the decrease in VAT receivable, due to the repayment of input VAT by the government.

Ludmila I Mikhailova
Chief Financial Officer

*Non-GAAP financial measures. This financial review includes financial information prepared in accordance with accounting principles generally accepted in the United States of America, or US GAAP, as well as other financial measures referred to as non-GAAP. The non-GAAP financial measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with US GAAP.

Adjusted EBITDA. We define EBITDA as net income before interest expense, income taxes, depreciation and amortisation. Adjusted EBITDA is defined as EBITDA adjusted for other operating expenses, other income (expense) on a net basis, minority interest, loss from discontinued operations (net of income tax), loss on disposal of discontinued operations (net of income tax) and extraordinary gain on purchase of interests in consolidating entities (net of income tax). We believe that EBITDA and adjusted EBITDA are measures commonly used by investors. Our calculation of EBITDA and adjusted EBITDA may be different from the calculation used by other companies and therefore comparability may be limited.

Some of the information in this financial review may contain projections or other forward-looking statements regarding future events or the future financial performance of the Group. Forward looking statements can be identified by terms such as “expect”, “believe”, “anticipate”, “estimate”, “intend”, “will”, “could”, “may”, or “might”, the negative of such terms or other similar expressions. We wish to caution that these statements are only predictions and that actual events or results may differ materially.

We do not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, general economic conditions, our competitive environment, risks associated with operating in Russia, rapid market change in our industry, as well as many other risks specifically related to the Group and its operations.

Board of Directors and Executive management

Igor Babaev Chairman, 59

Mr Babaev has served as Chief Executive Officer of most Group companies since 1998. He joined Cherkizovsky MPP in 1988 as chief engineer, becoming President and a member of the Board of Directors in 1993. Before joining Cherkizovsky MPP, he was an engineer and senior engineer at Essentuki Canning Plant. He was also head of the Production Division of Nalchik Meat Processing Plant, engineer-in-chief of Stavropol Meat Canning Plant, chief engineer-technologist of Simferopol Poultry Processing Plant and engineer-in-chief of NPO Komplex of the Gosagroprom of the USSR. He graduated from Krasnodar Polytechnic Institute in 1971 and received a PhD from the Moscow Technological Institute of Meat and Milk Processing Industry in 1981. He holds an honorary distinction of the "Honoured Worker of the Food Industry of the Russian Federation" and has been an acting member of the Russian Engineering Academy since 1994.

Sergei Mikhailov Chief Executive Officer, 30

Mr Mikhailov is also President and a member of the Board of Directors of AIC Cherkizovsky. He was Deputy President and Chief Operating Officer of Cherkizovsky MPP from 2000 and joined AIC Cherkizovsky as Deputy President of the Marketing and Sales Department in 2004. In the same year, he was appointed General Director of Cherkizovsky Trade House. From 1998 to 2001, he served as a director and founder of the telecommunications company aTelo, Inc. in the United States. In 1997, he worked as an intern at Goldman Sachs and in 1999 was a financial analyst at Morgan Stanley. He received a BSc in Finance from Georgetown University (Washington DC) in 2000.

Evgeny Mikhailov Executive Director, 27

Mr Mikhailov also serves as Vice-President and a member of the Board of Directors of AIC Cherkizovsky. He has also been a member of the Board of Directors of AIC Mikhailovsky since 2004. He joined AIC Mikhailovsky as Deputy General Director in 2004. In 2002, he worked as a financial analyst at Morgan Stanley and in 2001 was an assistant to the Vice-President at aTelo, Inc. in Washington DC. He received a BSc in Economics from the University of California at Los Angeles in 2004.

Yury Dyachuk Head of Legal Department, 41

Mr Dyachuk has been head of our Legal Department since 2006. A practicing lawyer for 14 years, he was head of the Legal sub-divisions in the Group for 12 years. In 2005, he was our senior counsel and led the restructuring of the Cherkizovo Group, having previously been head of the Legal Department of AIC Cherkizovsky since 2001. He was head of the Legal Department of Cherkizovsky MPP from 1996 to 2000 and a member of the legal department at Cherkizovsky MPP from 1995 to 1996. He graduated from the Moscow State Law Academy with a degree in Civil Law in 1995.

Samuel Lipman Non-executive Director, 64

Mr Lipman joined the Board of Directors in April 2006. He also currently serves as President of The Lipman Company, which he founded in 1997, which provides consulting services in relation to the management of the broiler industry. He was Chief Executive Officer of Limited Liability Company Broiler Buduschego, a Russian subsidiary of US enterprise Stromyn Breeders, Ltd, from 2004 to 2006. From 2003 to 2006 he was President of Stromyn Breeders, LLC. Mr Lipman founded and was President and Chief Executive Officer of Golden Rooster in Lipetsk, Russia, from 1996 to 2000. He graduated from Colby College, Maine, USA, with a BA in English in 1972.

Musheg Mamikonian Non-executive Director, 49

Mr Mamikonian has also served as Chief Executive Officer of OJSC Lianozovsky Sausage Plant, Chairman of the Board of Directors of OJSC Dmitrovsky Meat Plant and Chief Executive Officer of CJSC Myasnoy Alliance since 2003, and has been President of the Russian Meat Union since 1998. From 2001 to 2003, he was Chairman of the Board of Directors of OJSC Lianozovsky Sausage Plant. In 1998, he was Chief Executive Officer of CJSC Eko-Torg and between 1997 and 1998 was Deputy President at CMPP. He graduated from Yerevan K. Marx Polytechnic Institute with a degree in Engineering in 1981 and received a PhD from Moscow Technological Institute of Meat and Milk Industry in 1986. He holds over 100 patents for technical and technological inventions, and in 1999 received a Russian Federation State award for achievements in Science and Technology.

The Board's broad range of sector, Russian and international experience, best positions Cherkizovo to deliver against its stated strategy

Ludmila Mikhailova Chief Financial Officer, 33

Ms Mikhailova was Deputy Chief Executive Officer of the Company from September 2005 to February 2006. From January 2005 to March 2005 she was First Deputy President of AIC Cherkizovsky, and Deputy Chief Executive Officer of LLC Group Cherkizovo from March 2005 to September 2005. From July to December 2004 she was Deputy President of Cherkizovsky MPP. From 2002 to 2004, she was a financial analyst at General Mills Corporation Canada (Toronto). In 2002, she worked at ING Barings in London, and from 2000 to 2001 she worked for McFarlane Gordon Inc. (Toronto). She was previously a financial analyst at Cherkizovsky MPP (1996 to 1998). She graduated from the Financial Academy of the Government of the Russian Federation in 1998. In 1999, she completed a Canadian Securities Course at the Canadian Securities Institute, and in 2003 she received an MBA from Schulich School of Business, York University (Canada).

Artur Minosyants Chief Operating Officer, 44

Mr Minsoyants was previously First Deputy President for Finance and Economics of Cherkizovsky MPP, and from 1996 to 2000 was Finance and Economics Director of Birulevsky MPP. Before joining, he was Head of Finance of Armavir City Administration. Mr Minosyants is a graduate of the Moscow Plekhanov Institute for the National Economy and holds a PhD in Economics.

Esben Juhl was a Non-executive Director and resigned from the Board in June 2008

Paul James Ostling was a Non-executive Director from June 2008 and resigned from the Board in early 2009

Corporate social responsibility

We consider Cherkizovo to be a good corporate citizen. We aim both to reduce the impact we make on the environment and to make positive connections with the communities in which we operate. We also make considerable efforts to communicate with our shareholders, suppliers and employees.

Health, safety and the environment
We comply with applicable environmental legislation and observe biological and veterinary safety requirements in our poultry and pig-farming operations. This involves:

Comfort We stimulate healthy growth and development of our poultry and pigs by controlling air temperature and circulation, lighting and humidity.

Traceability To ensure the high quality of our products, we control all stages of production, from feed production to breeding, processing and distribution.

Balanced feed We produce our own feed to special formulas that ensure it contains the optimum balance of energy and protein, micro-elements, vitamins and amino acids.

Specialisation and separation of sites We carry out all stages of production at discrete sites, divided by minimum sanitation zones of at least five kilometers. This prevents the transfer of diseases between generations of animals and between breeding and production stock. We also take prevailing winds into consideration when choosing locations.

All full/all empty Individual sites only contain animals of the same generation. Sites are cleaned and disinfected between production periods.

Preventative measures We seek to operate our agricultural facilities to international best practice standards. We undertake a large number of preventative measures to ensure that our sites are safe, both to limit stock's susceptibility to disease and to prevent the spread of any diseases which may occur. These measures include:

- strictly controlling access to sites
- limiting the number of visitors, including foreign delegations
- prohibiting the movement of staff between sites
- ensuring the effective operation of veterinary and sanitary stations
- providing staff with work shoes and clothing
- using disposable packaging for deliveries
- prohibiting staff from visiting countries which suffer from pig and poultry diseases
- regularly eliminating potential carriers of disease, such as rodents and insects
- regularly testing blood samples from our pigs and chickens
- clinically examining and taking veterinary care of stock
- vaccinating to required procedures

Environmental measures We have systems at all sites that control waste water, air pollution and energy consumption.

Employment policies
Our employees are our most valuable asset, and we pursue a policy of objective and systematic assessment of their skills. Our personnel policy ensures we recruit and retain high-quality people at all levels of the business.

Training When new people join the Group, we provide introductory training on the Company and its history, as well as on production, distribution, sales and our quality policy. Professional development is an ongoing priority for our employees.

We consider the shortage of suitably trained people to be one of the major risks to our business. As a result, we work closely with final-year students in educational establishments in a drive to attract the best people. We have also instituted programmes to give existing senior members of staff international training.

Equal opportunities We do not consider age, colour, ethnic origin, gender, political or other opinions, religion or sexual orientation to be a barrier to employment or advancement.

Benefits Employees work a 40-hour week, including a daily one-hour lunch break. Each of our facilities has a staff canteen at which food is available at low cost and for free for some categories of staff. In addition, each employee is given a food hamper every month, as well as at New Year and on national Women's and Men's Days.

We reward employees for particular achievements. These include particularly good work, reaching or exceeding output targets, long service (we have some employees who have worked for CMPP since it was founded in 1974) and a generally outstanding contribution. Women are entitled to 120 days' paid maternity leave, receive a cash gift on the birth of a child, and their jobs are kept open for three years. We also give financial assistance on marriage and in cases of invalidity or bereavement.

The Company organises and partly funds summer camps for employees' children, and many of our operations have a gym or facilities for football and tennis.

Health Our employees are given medical examinations three times a year. Those who work with raw meat receive additional examinations and inoculations. All employees are given flu injections every autumn. We have medical centres at which employees can receive help, although Russian citizens have government medical insurance which entitles them to free treatment.

Corporate governance

Cherkizovo's shares are listed on the Russian Trading System (RTS), and the London Stock Exchange (LSE). They are also traded off the list on the Moscow Stock Exchange (MSE) and Moscow Interbank Currency Exchange (MICEX). In connection with our listing on the RTS, we are required to comply with the corporate governance standards of our home country. These include:

- the obligation to have at least one non-executive director: Cherkizovo's Board of Directors includes three independent directors, as defined in the Corporate Governance Code approved by the FSFM. These criteria differ from those set out in the UK's Combined Code on Corporate Governance. Despite his business relations with the Group, we believe that Mr Samuel B Lipman can be regarded as 'an independent director' in accordance with the Combined Code;
- the formation of an Audit Committee: the Audit Committee is formed every year from independent Board members;
- the adoption of the bylaws on insider trading; and
- the implementation of internal control procedures.

The role of the Board

The Board is responsible for the general management of the Company and has the power to form the:

- determination of our business priorities;
- convening annual and extraordinary general shareholders' meetings, including setting a date and time, approving the agenda and determining the date of record for the shareholders entitled to participate (except in certain circumstances specified under Federal Law on Joint-Stock Companies);
- placement of our bonds and other securities, in certain cases provided for by Federal Law on Joint-Stock Companies;
- determination of the price of our property and our securities to be placed or repurchased, as provided for by Federal Law on Joint-Stock Companies;
- repurchase of our shares, bonds and other securities, in certain cases provided for by Federal Law on Joint-Stock Companies;
- election and early termination of the powers of our sole executive body (general director);
- recommendations on the amount of dividends and the payment procedure;
- use of our reserve fund and other funds;
- creation of branches and representative offices;
- approval of our internal documents, except for those documents for which approval falls within the competence of the Company's general shareholders' meeting or general director;
- approval of major and interested party transactions, in certain cases as provided for by Federal Law on Joint-Stock Companies;
- increase of our share capital by the issuance of additional shares within the limits of our authorised share capital, except in circumstances specified under Federal Law on Joint-Stock Companies and our charter;
- approval of decisions regarding securities issuances and prospectuses relating to such securities, as well as of reports on the results of such share issuances, except in certain circumstances specified under Federal Law on Joint-Stock Companies;
- approval of our share registrar; and
- other issues, as provided for by the Federal Law on Joint-Stock Companies and our charter.

Federal Law prohibits the Board of Directors from acting on issues that fall within the exclusive competence of an AGM.

Our charter generally requires a majority of the directors present at a Board meeting to vote for an action for it to be approved. The exceptions are major or interested-party transactions, for which Russian legislation requires a qualified or unanimous vote. A Board meeting is considered to be duly assembled and legally competent to act when a majority of the Board members are present.

The Board met 12 times during the year.

Chief Executive Officer

The Company's Chief Executive Officer is responsible for day-to-day operations. He is elected by the Board for up to a five-year period. With the exception of matters exclusively assigned to the competence of an AGM or to the Board of Directors, he has executive authority over all our activities.

Internal control/risk management

The Board of Directors has overall responsibility for ensuring that the Company maintains an adequate system of internal control and risk management, and for reviewing its effectiveness. It has established a continuous process for identifying, evaluating and managing risk.

Internal control is carried out by the Revision Commission, the activities of which are governed by our charter and revision commission regulations. The commission oversees and co-ordinates audits of our financial and economic activities. Its principal duties are to ensure that our activities comply with applicable Russian legislation, and do not infringe shareholders' rights, and that our accounting and reporting do not contain material misstatements. The members of the commission are elected for one year at the AGM and may not include the Chief Executive Officer or other members of the Board.

Directors' report

The directors present their annual report and audited financial statements for the year ended 31 December 2008.

Principal activities and review of the business
Cherkizovo is one of the leading integrated diversified meat producers in the Russian Federation. Operations are structured into three divisions: Meat Processing division, Poultry division and Pork division. Each division incorporates its own distribution unit, sales unit, network of trading centers, storage facilities, marketing department; each is also involved in non-core activities, such as dairy, farming and accompanying services.

Meat Processing division This comprises six plants at which raw meat is processed into fresh and ready-to-cook products, and a wide range of other processed products, including salamis, sausages and hams.

Poultry division Four poultry clusters, a feed mill and four processing plants make up the Poultry division.

Pork division This comprises five pig farms and a feed plant.

More information about the business is set out in the Chairman's Statement, on pages 10 and 11, the Chief Executive Officer's Statement, on pages 14 and 15.

Future developments
The Group's stated objective is to become the undisputed leading integrated diversified producer of meat and meat products in the Russian Federation. To achieve this aim, it will continue to modernise existing meat processing facilities, invest in its poultry facilities – and look for possible acquisitions – build new sales and distribution centers where these will increase its geographic spread, and invest in its pork business.

The management believes that there are opportunities for continuing expansion, in what is a fragmented market, through acquisition as well as organic growth.

Going concern
After reviewing the 2009 budget and longer-term plans of the Group, the directors are satisfied that, at the time of the approval of the financial statements, it is appropriate to adopt the going concern basis in preparing the financial statements of the Group.

Dividends
We do not expect to pay dividends for the foreseeable future, but plan to invest all net profits into the business development. We have no doubt that this will be to the long-term benefit of the Company and its shareholders.

Directors in the year
The following served as directors of the Company during the year ended 31 December 2008:

Igor E Babaev, Chairman
Sergei Mikhailov, Chief Executive Officer
Yury Dyachuk, Head of Legal Department
Evgeny Mikhailov, Executive Director
Samuel B Lipman, Independent Non-executive Director
Musheg L Mamikonian, Non-executive Director
Paul James Ostling

Election and re-election of directors
Our charter provides that our entire Board of directors may be re-elected at each Annual General Meeting. The Board is elected through cumulative voting, under which each shareholder may cast an aggregate number of votes equal to the number of voting shares he or she holds, multiplied by the number of people to be elected to the Board. Each shareholder is entitled to cast all his votes for one candidate or to spread them out between a number of candidates. The directors may be removed as a group at any time before the end of their terms of office, without cause, by a majority vote at a shareholder meeting.

Disclosure of information to auditors
So far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware. Each director has taken all steps that he ought to have taken in his duty as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Financial accounts contents

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

For the years ended 31 December 2008 and 2007

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

Management is responsible for the preparation of the consolidated financial statements that present fairly, in all material respects, the consolidated financial position of the Group at 31 December 2008 and 2007 and the consolidated results of its operations, cash flows and changes in shareholders' equity and comprehensive income for the years then ended, in conformity with accounting principles generally accepted in the United States of America ("US GAAP").

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

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

Management is also responsible for:

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

The consolidated financial statements for the years ended 31 December 2008 and 2007 were approved on 3 April 2009 by:

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

Independent auditors' report

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

We have audited the accompanying consolidated balance sheets of OJSC Cherkizovo Group and its subsidiaries (together the "Group") as of 31 December 2008 and 2007 and the related consolidated statements of income, cash flows and changes in shareholders' equity and comprehensive income for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In our opinion, except for the effects of including property, plant and equipment based on fair values as described in the preceding paragraph, such financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2008 and 2007 and the consolidated results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche CIS

3 April 2009

Consolidated balance sheets

As of 31 December 2008 and 2007

	Notes	2008 US$000	2007 US$000
Assets			
Current assets:			
Cash and cash equivalents	3	49,664	16,841
Trade receivables, net of allowance for doubtful accounts of 3,135 and of 2,633 as of 31 December 2008 and 2007, respectively		88,375	88,845
Advances paid, net of allowance for doubtful accounts of 1,324 and of 834 as of 31 December 2008 and 2007, respectively		29,672	37,609
Inventory	4	133,627	154,481
Deferred tax assets	18	4,621	7,304
Other receivables, net of allowance for doubtful accounts of 562 and of 404 as of 31 December 2008 and 2007, respectively	5	28,488	20,849
Other current assets	6	34,659	43,301
Total current assets of continuing operations		**369,106**	**369,230**
Current assets of discontinued operations	23	334	6,626
Total current assets		**369,440**	**375,856**
Non-current assets:			
Property, plant and equipment, net	7	683,946	705,849
Goodwill	8	8,548	10,959
Other intangible assets, net	8	43,210	55,007
Loans receivable		7,917	8,836
Deferred tax assets	18	470	2,030
Notes receivable, net	9	7,903	8,357
VAT receivable		11,462	21,034
Total non-current assets of continuing operations		**763,456**	**812,072**
Non-current assets of discontinued operations	23	1,368	8,297
Total non-current assets		**764,824**	**820,369**
Total assets		**1,134,264**	**1,196,225**

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

	Notes	2008 US$000	2007 US$000
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable		66,283	74,716
Short-term debt and current portion of finance leases	10	236,351	229,060
Tax related payables	11	7,549	6,811
Deferred tax liabilities	18	54	177
Payroll related liability		12,233	14,334
Advances received		3,808	2,722
Payables for non-current assets		11,285	16,055
Interest payable		2,713	2,673
Other payables		4,049	3,044
Total current liabilities of continuing operations		**344,325**	**349,592**
Current liabilities of discontinued operations	23	1,705	9,210
Total current liabilities		**346,030**	**358,802**
Non-current liabilities:			
Long-term debt and finance leases	10	325,666	425,222
Deferred tax liabilities	18	28,594	42,982
Tax related payables	11	6,935	10,003
Payables to shareholders	21	929	1,167
Other liabilities		144	212
Total non-current liabilities of continuing operations		**362,268**	**479,586**
Total non-current liabilities of discontinued operations	23	819	7,087
Total non-current liabilities		**363,087**	**486,673**
Commitments and contingencies	24		
Minority interest		24,169	21,226
Shareholders' equity:			
Share capital (par value – 0.01 Russian Roubles; 31 December 2008: total authorized shares – 54,702,600; issued shares – 43,069,355, outstanding shares – 43,028,022; 31 December 2007: total authorized shares – 54,702,600, issued and outstanding shares – 39,564,300)	12	15	14
Additional paid-in capital		289,146	209,861
Treasury shares, at cost (41,333 shares as of 31 December 2008)		(496)	–
Other accumulated comprehensive (loss) income		(64,551)	20,890
Retained earnings		176,864	98,759
Total shareholders' equity		**400,978**	**329,524**
Total liabilities and shareholders' equity		**1,134,264**	**1,196,225**

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

Consolidated income statements

For the years ended 31 December 2008 and 2007

	Notes	2008 US$000	2007 US$000
Sales	13	1,166,281	820,763
Cost of sales	14	(886,839)	(598,490)
Gross profit		**279,442**	**222,273**
Selling, general and administrative expenses	15	(172,405)	(137,347)
Impairment of non-current assets	8	(2,258)	–
Other operating expense	7	(851)	(40)
Operating Income		**103,928**	**84,886**
Other income, net	16	1,195	7,451
Interest expense, net	17	(22,725)	(18,396)
Income from continuing operations before income tax and minority interest		**82,398**	**73,941**
Income tax	18	(1,409)	(7,259)
Income from continuing operations before minority interest		**80,989**	**66,682**
Minority interest		(3,994)	(2,848)
Income from continuing operations		**76,995**	**63,834**
Loss from discontinued operations, net of income tax (expense) benefit of (546) and 395 in 2008 and 2007, respectively	23	(3,489)	(2,252)
Gain on disposal of discontinued operations, net of income tax benefit of 30	23	4,599	–
Net Income		**78,105**	**61,582**
Weighted average number of shares outstanding		41,725,834	39,564,300

	US$	US$
Earnings per share (basic and diluted):		
Income from continuing operations	1.84	1.62
Loss from discontinued operations, net of income tax	(0.08)	(0.06)
Gain on disposal of discontinued operations, net of income tax	0.11	–
Net income per share	**1.87**	**1.56**

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

Consolidated cash flow statements

For the years ended 31 December 2008 and 2007

	Notes	2008 US$000	2007 US$000
Cash flows from operating activities:			
Income from continuing operations		76,995	63,834
Adjustments to reconcile income from continuing operations to net cash from operating activities:			
Depreciation and amortisation		45,748	31,466
Bad debt expense	15	3,685	2,135
Loss on disposal of property, plant and equipment	7	851	40
Minority interest		3,994	2,848
Foreign exchange loss (gain)	16	1,596	(3,205)
Deferred tax (benefit) expense	18	(5,557)	259
Expense (income) related to expiration of statute of limitations on tax risks accrued under FIN 48, net of penalties accrued on FIN 48 tax liabilities and new accruals	18	867	(2,528)
Impairment of non-current assets	8	2,258	–
Other adjustments		(1,693)	(953)
Changes in operating assets and liabilities			
Decrease (increase) in inventories		2,962	(38,914)
Increase in trade receivables		(17,844)	(20,640)
Decrease (increase) in advances paid		1,326	(15,535)
Decrease (increase) in value added tax receivable		7,226	(6,440)
Increase in other current assets		(4,503)	(14,431)
Increase in trade accounts payable		5,133	23,209
Increase (decrease) in taxes payable		2,287	(2,221)
Increase in other current payables		4,122	702
Net cash from operating activities of continuing operations		**129,453**	**19,626**
Cash flows of discontinued operating activities:			
Loss from discontinued operations	23	(3,489)	(2,252)
Adjustments to reconcile loss from discontinued operations to net cash (used in) from operating activities of discontinued operations:			
Bad debt expense		54	485
Minority interest in loss from discontinued operations		(1,035)	(743)
Deferred tax expense (benefit)		546	(395)
Depreciation		428	744
Foreign exchange loss (gain)		34	(12)
(Gain) loss on disposal of property, plant and equipment		(30)	116
Net change in operating assets and liabilities		2,260	2,356
Net cash (used in) from operating activities of discontinued operations		**(1,232)**	**299**
Total net cash from operating activities		**128,221**	**19,925**

Financial accounts

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

Consolidated cash flow statements continued

For the years ended 31 December 2008 and 2007

	2008 US$000	2007 US$000
Cash flows from investing activities:		
Purchases of long-lived assets	(165,231)	(172,989)
Proceeds from sale of property, plant and equipment	973	3,629
Sale of consolidated entities, net of cash surrendered	58	–
Acquisition of subsidiaries, net of cash acquired	–	(139,775)
Purchases of notes receivable	(402)	–
Issuance of long-term loans	(1,968)	(1,281)
Repayment on long-term loans issued	1,342	1,560
Issuance of short-term loans	(7,098)	(435)
Repayment on short-term loans issued	56	433
Net cash used in investing activities of continuing operations	**(172,270)**	**(308,858)**
Cash flows used in investing activities of discontinued operations:		
Purchases of property, plant and equipment	(160)	(816)
Proceeds from sale of property, plant and equipment	55	119
Net cash used in investing activities of discontinued operations	**(105)**	**(697)**
Total net cash used in investing activities	**(172,375)**	**(309,555)**
Cash flows from financing activities:		
Proceeds from long-term loans	114,103	121,825
Repayment of long-term loans	(47,248)	(23,562)
Repayment of notes payable	–	(195)
Purchase of treasury stock	(496)	–
Proceeds from short-term loans	273,950	312,323
Repayment of short-term loans	(330,665)	(215,060)
Proceeds from shares issued	82,340	–
Payments for services related to share issuance	(2,903)	–
Cash distributed to shareholders	(48)	(44)
Net cash from financing activities of continuing operations	**89,033**	**195,287**
Cash flows from financing activities of discontinued operations:		
Repayment of long-term loans	–	(14)
Proceeds from short-term loans	2,629	2,190
Repayment of short-term loans	(2,253)	(1,720)
Net cash from financing activities of discontinued operations	**376**	**456**
Total net cash from financing activities	**89,409**	**195,743**
Total cash from (used in) operating, investing and financing activities	**45,255**	**(93,887)**
Impact of exchange rate difference on cash and cash equivalents	(12,527)	3,838
Net increase (decrease) in cash and cash equivalents	**32,728**	**(90,049)**
Cash and cash equivalents of continuing operations, at the beginning of the period	**16,841**	**106,952**
Cash and cash equivalents of discontinued operations, at the beginning of the period	**98**	**36**
Cash and cash equivalents of continuing operations, at the end of the period	**49,664**	**16,841**
Cash and cash equivalents of discontinued operations, at the end of the period	**3**	**98**
Supplemental Information:		
Income taxes paid	8,521	11,404
Interest paid	71,697	47,802
Property, plant and equipment acquired under finance leases	6,494	8,376

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

Consolidated statements of changes in shareholders' equity and comprehensive income

For the years ended 31 December 2008 and 2007

	Share capital US$000	Additional paid-in capital US$000	Retained earnings US$000	Treasury shares US$000	Other accumulated comprehensive income (loss) US$000	Total shareholders' equity US$000	Total comprehensive inome (loss) US$000
Balances at 1 January 2007	**14**	**209,861**	**39,841**	**–**	**(1,049)**	**248,667**	
Net income for the year			61,582			61,582	61,582
Cumulative effect of adjustment upon adoption of FIN 48			(2,664)			(2,664)	
Translation gain					21,939	21,939	21,939
Balances at 31 December 2007	**14**	**209,861**	**98,759**	**–**	**20,890**	**329,524**	
For the year ended 31 December 2007							**83,521**
Balances at 1 January 2008	**14**	**209,861**	**98,759**		**20,890**	**329,524**	
New share issuance, net of issuance costs	1	79,285				79,286	
Purchase of treasury shares				(496)		(496)	
Net income for the year			78,105			78,105	78,105
Translation loss					(85,441)	(85,441)	(85,441)
Balances at 31 December 2008	**15**	**289,146**	**176,864**	**(496)**	**(64,551)**	**400,978**	
For the year ended 31 December 2008							**(7,336)**

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

Notes to the consolidated financial statements

For the years ended 31 December 2008 and 2007

1 Business and environment

Incorporation and history

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

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

The business of the Group

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

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

The 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 2008 and 2007 the number of staff employed by the Group was 13,943 and 15,295, respectively.

During 2008 the Group was impacted by significant volatility in grain and feed prices and its financing costs were impacted by the worldwide financial crisis. During the first half of 2008, the cost of grain and feed were unusually high. To help companies offset the increased costs, the Russian government provided agricultural producers a one-time additional subsidy. This additional subsidy, which offset the majority of these increased costs, allowed the Group to maintain relatively consistent margins.

During the second half of 2008, while the prices of grain and feed normalized, the Russian economy was impacted by the global financial crisis and saw the rouble devalue by approximately 25%. In connection with this crisis, a number of major global financial institutions have been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding.

The Group's operations have not been directly impacted by the global economic downturn due to a lower elasticity of demand on food products. Management is assessing and making appropriate changes in the product mix to ensure that the products offered are those meeting the needs of consumers under current market conditions. In addition, the Group is continuing to pursue its cost optimization plans that it began at the end of 2007 including the disposal of loss making assets (Note 23). While the Group's operations have not been significantly impacted by the global economic slowdown, the Group (along with other companies throughout the world) has experienced a decrease in availability of credit and a significant increase in the costs of borrowing (Note 10). The Group is forecasting a further significant increase in its borrowing costs in 2009 in connection with the refinancing of its short term borrowings. However, the Group has a significant portion of its borrowings denominated in Russian roubles. Accordingly, the Group's ability to service repayment of its outstanding borrowings was not significantly impacted by the devaluation of the rouble in the second half of 2008.

Management expects to fund its forecasted 2009 investing cash outflow both through operating cash inflows, as well as through refinancing a portion of its short term debt as it becomes due. Management is confident that based on current economic conditions that it will be able to refinance its borrowings and has entered into new borrowings of 29 812 through March 2009. Management believes that the plans that it has in place are sufficient to enable the Group to be able to continue to meet its obligations and discharge its responsibilities as they become due in the normal course of business.

2 Summary of significant accounting policies

Accounting principles

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

Basis of consolidation

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

Foreign currency translation

The Group follows a translation policy in accordance with Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation" and has determined the Russian rouble to be the Group's companies' functional currency.

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

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

	Exchange rate
31 December 2008	29.3804
31 December 2007	24.5462

Management estimates

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

The principal management estimates underlying these consolidated financial statements include estimations used in assessing long lived assets for impairment, allowances for bad debts, valuation allowances for deferred tax assets and valuation of assets and liabilities of the acquired entities used in determining purchase price allocation.

Cash and cash equivalents

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

Accounts receivable and allowance for doubtful accounts

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

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

Inventory

Inventories, including work in-process, are valued at the lower of cost or market value. Cost is determined using the average cost method. Cost is the sum of the expenditures and charges, direct and indirect, in bringing goods to their existing condition or location. It includes the applicable allocation of fixed production and variable overhead costs. Write downs are made for unrealizable inventory in full.

Livestock

Animals with short productive lives, such as poultry, are classified as inventory on the balance sheet. Full cost absorption (which includes all direct and indirect costs) is used in determining the asset value of livestock. Newborn cattle and pigs, as well as other immature animals purchased for breeding are initially accounted for as inventory. Immature cattle and pigs are not considered to be in service until they reach maturity, at which time their accumulated cost becomes subject to depreciation. The Group treats breeding animals as fixed assets with costs to be depreciated over their useful lives, as follows:

Notes to the consolidated financial statements continued

for the years ended 31 December 2008 and 2007

2 Summary of significant accounting policies continued

	Age of transfer to property, plant and equipment, years	Depreciation, years
Sows	1	2
Cattle	2	7

Value Added Tax

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

Property, plant and equipment

Due to the state of the records relating to the construction and acquisition of a significant portion of the assets of the Group companies, their carrying amounts as of 31 December 2001 (the date of the first US GAAP balance sheet) were determined through valuation and are stated based on estimated fair value. Certain fixed assets were adjusted for the allocation of the excess of the value of net assets acquired over the purchase price paid in business combinations or adjusted to fair value as of the date of such combinations occurring subsequent to 31 December 2001. Assets acquired subsequent to 31 December 2001 are stated at historical cost.

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

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

Business Combination

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

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

Goodwill and other intangible assets

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

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

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

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

The second step of the process involves the calculation of an implied fair value of goodwill for each reporting unit for which step one indicated impairment. The implied fair value of goodwill is determined similar to how goodwill is calculated in a business combination, by measuring the excess of the estimated fair value of the reporting unit as calculated in step one, over the estimated fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was 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 Receivables

Notes receivable purchased valued at cost upon acquisition with any discounts or premiums arising on purchase reported in the balance sheet as direct deductions/additions to the face value. Amortisation of such discounts/premiums is recorded as additions to/reductions from interest income. Notes receivable for which the Group has an 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 have passed, the price to the buyer is fixed or determinable and recoverability is reasonably assured.

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

Sales are recognised, net of VAT and discounts, when goods are shipped to customers. The Group grants discounts to customers primarily based on the volume of goods purchased. Discounts are based on monthly, quarterly, or annual target sales. Discounts range up to 19.5% for meat processing segment and 12% for the poultry and pork segments. The discounts are graduated to increase when actual sales exceed target sales. Discounts are accrued against sales and accounts receivable in the month earned.

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

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

Marketing expenses

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

Government subsidies

In accordance with Russian legislation, enterprises engaged in agricultural activities receive certain subsidies. The largest of such subsidies received relate to reimbursement of interest expense. The Group records interest subsidies as an offset to interest expense during the period to which they relate.

Taxation

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

Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," ("FIN 48") clarifies the accounting for uncertain tax positions stated in SFAS No. 109, "Accounting for Income Tax." FIN 48 applies to all tax positions that are within the scope of FAS No. 109 and requires a two-step approach for recognizing and measuring tax benefits. FIN 48 establishes a "more-likely-than-not" recognition threshold that must be met before a tax benefit can be recognized in

Notes to the consolidated financial statements continued

for the years ended 31 December 2008 and 2007

2 Summary of significant accounting policies continued

the financial statements. To meet this threshold, the enterprise must determine that upon examination by the taxing authority, the tax position is more likely to be sustained than not, based on the technical merits of the position. Once the recognition threshold has been met, the enterprise is required to recognise the largest amount of tax benefit that is greater than fifty percent likely of being realized upon ultimate settlement with the taxing authority. In both steps, enterprises must presume that the taxing authority has full knowledge of all relevant information.

Concentration of credit risk

Financial instruments that potentially expose the Group to concentration of credit risk consist primarily of cash and cash equivalents, accounts receivable from customers and advances paid to vendors. As of 31 December 2008, 52% and 28% of total cash balances are held on deposit in two Russian financial institutions. As of 31 December 2007, 47%, 22% and 14% of total cash balances are held on deposit in three Russian financial institutions.

As of 31 December 2008, approximately 12% of the Group's net accounts receivable were due from one customer. As of 31 December 2007 the Group's risk associated with customers was diversified due to a large customer base, with no single customer or customer group representing greater than 10% of accounts receivable.

As of 31 December 2008, approximately 24% and 16% of advances paid were outstanding with two vendors, respectively.
As of 31 December 2007, approximately 22% and 14% of advances paid were outstanding with two vendors, respectively.

The maximum amount of loss due to credit risk, based on the fair value of trade receivables and other receivables that the Group would incur if related parties failed to perform according to the terms of contracts, was 35 094 and 33 066 as of 31 December 2008 and 2007 respectively.

Minority interest

Minority interest is accounted for at historical value, which is the minority's share in the book value of a subsidiary's net assets on the date, when the control over a subsidiary was established by the Group.

Leasing

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

Pension costs

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

Effect of accounting pronouncements adopted

As of 1 January 2008, the Group adopted SFAS No. 157, "Fair Value Measurement" ("SFAS 157"). SFAS 157 provides a single definition of fair value, along with a framework for measurement and requires additional disclosure about using fair value to measure assets and liabilities. SFAS 157 emphasises that fair value measurement is market-based, not entity-specific, and establishes a fair value hierarchy in which the highest priority is quoted prices in active markets. Under SFAS 157, fair value measurements are disclosed according to their level within this hierarchy. While the statement does not add any new fair value measurements, it does change practice as follows: requiring entities to include their own credit standing when measuring their liabilities, modifying the transaction price assumption, prohibiting broker-dealers and investment companies from using block discounts when valuing large blocks of securities and requiring entities to adjust the value of restricted securities for the effect of the restriction even when the restriction lapses within one year. The Group adopted SFAS 157 on 1 January 2008 and the adoption only had an impact on the disclosure of the fair value of the Group's financial assets and liabilities. The effective date for SFAS 157 as it relates to fair value measurements for non-financial assets and liabilities that are not measured at fair value on a recurring basis has been deferred to fiscal years beginning after 15 December 2008 in accordance with FASB Staff Position ("FSP"), SFAS 157-2, "Effective Date of FASB Statement No. 157". The Group plans to adopt the deferred portion of SFAS 157 on 1 January 2009 and does not expect a material impact on the financial statements from adopting the statement.

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

New accounting pronouncements

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), "Business Combinations" ("SFAS 141R"). SFAS 141R significantly changes the accounting for business combinations. Under SFAS 141R, an acquiring entity will be required to recognise all the assets acquired and liabilities assumed in a transaction at the acquisition date fair value with limited exceptions. SFAS 141R will change the accounting treatment for certain specific acquisition related items including expensing acquisition related costs as incurred, valuing noncontrolling interests at fair value at the acquisition date and expensing restructuring costs associated with an acquired business. SFAS 141R also includes a substantial number of new disclosure requirements. SFAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after 1 January, 2009. The adoption of SFAS 141R will impact the accounting for business combinations completed by the Group on or after 1 January 2009. Effective January 1, 2008, the Group adopted an accounting policy of expensing acquisition-related costs incurred before the effective date of SFAS 141R for probable acquisitions not yet completed as of 31 December 2008. No such costs were expensed during 2008.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51" ("SFAS 160"). SFAS 160 establishes accounting and reporting standards for the treatment of noncontrolling interests in a subsidiary. Noncontrolling interests in a subsidiary will be reported as a component of equity in the consolidated financial statements and any retained noncontrolling equity investment upon deconsolidation of a subsidiary is initially measured at fair value. The Group will adopt the provisions of SFAS 160 on 1 January 2009. The adoption of SFAS 160 will result in the reclassification of minority interests to equity.

In April 2008, the FASB issued FSP SFAS No. 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP SFAS 142-3"). FSP SFAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognised intangible asset under FASB Statement No. 142, "Goodwill and Other Intangible Assets". FSP SFAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, with early adoption prohibited. The Group does not expect a material impact on the consolidated financial statements from adopting FSP SFAS 142-3.

3 Cash and cash equivalents

Cash as of 31 December 2008 and 2007 comprised:

	2008 US$000	2007 US$000
Cash in hand	144	1,045
Bank accounts	49,520	15,796
Total cash and cash equivalents	**49,664**	**16,841**

4 Inventory

Inventory as of 31 December 2008 and 2007 comprised:

	2008 US$000	2007 US$000
Raw materials and goods for resale	69,930	88,998
Livestock	55,316	52,879
Work in-process	5,280	7,195
Finished goods	3,101	5,409
Total inventory	**133,627**	**154,481**

5 Other receivables, net

Other receivables, net, as of 31 December 2008 and 2007 comprised:

	2008 US$000	2007 US$000
Subsidies receivable for interest expense reimbursement	13,961	6,840
Subsidies receivable for purchase of fodder	5,086	–
Subsidies receivable for meat produced	1,416	5,201
Other receivables	8,025	8,808
Total receivables, net	**28,488**	**20,849**

For the six months ended 30 June 2008, the Federal Budget of the Russian Federation was amended to increase the total assignment of funds for subsidies to agricultural producers by introducing subsidies designed to compensate producers for the high cost of mixed fodder used in production of poultry and pork during the first half of 2008. Of the total amount of 33,077 expected to be received, 4,524 remain receivable as at 31 December 2008. Management expects to receive the remaining portion within the next 12 months.

Notes to the consolidated financial statements continued
for the years ended 31 December 2008 and 2007

6 Other current assets
Other current assets as of 31 December 2008 and 2007 comprised:

	2008 US$000	2007 US$000
VAT and other taxes receivable	16,732	29,141
Notes receivable (effective annual interest rate of 9.41% and 7.52% as of 31 December 2008 and 2007, respectively)	3,160	3,678
Prepaid expenses	2,627	3,348
Loans receivable	8,303	2,807
Other current assets	3,837	4,327
Total other assets	**34,659**	**43,301**

7 Property, plant and equipment, net
The carrying amounts of property, plant and equipment as of 31 December 2008 and 2007 comprised:

	2008 US$000	2007 US$000
Land	2,373	2,711
Buildings, infrastructure and leasehold improvements	366,795	303,725
Machinery and equipment	135,832	142,360
Vehicles	27,168	30,486
Sows	7,838	10,156
Cattle	183	830
Other	1,681	1,914
Advances paid for property, plant and equipment	43,804	52,976
Construction in-progress and equipment for installation	98,272	160,691
Total property, plant and equipment, net	**683,946**	**705,849**

Accumulated depreciation amounted to 145,097 and 131,723 as of 31 December 2008 and 2007, respectively. Depreciation expense amounted to 45,269 and 31,216 for the years ended 31 December 2008 and 2007, respectively, which includes depreciation of leased equipment.

Vehicles and Machinery and equipment include 15,424 and 16,068 of leased equipment as of 31 December 2008 and 2007, respectively. Buildings, infrastructure and leasehold improvements include 13,830 and 18,556 of leased buildings and constructions as of 31 December 2008 and 2007, respectively. Accumulated depreciation on leased property and equipment amounted to 3,775 and 1,495 as of 31 December 2008 and 2007, respectively.

Loss on disposal of property, plant and equipment of 851 and 40 was recognized in the Other operating expenses line item in the consolidated income statement for the year ended 31 December 2008 and 2007, respectively.

8 Goodwill and other intangible assets, net
Goodwill
The changes in the carrying amount of goodwill for 2008 and 2007 were as follows:

	Total US$000
Balance at 31 December 2006	**9,538**
Acquisitions	728
Translation gain	693
Balance at 31 December 2007	**10,959**
Adjustment related to expiration of statute of limitations on tax risks accrued under FIN 48 upon acquisition of Golden Rooster Co. Limited (Note 18)	(608)
Translation loss	(1,803)
Balance at 31 December 2008	**8,548**

As of 31 December 2006, goodwill of 9,538 arose from the purchase by the Group of its controlling stakes in JSC BMPP (which is included in the meat processing segment). During 2007, the Company purchased Golden Rooster Co. Limited (which is included in the poultry segment) and recorded goodwill of 728.

As of 31 December 2008, management performed an annual impairment test and determined that goodwill was not impaired. The following specific assumptions were used in the impairment test;

- Sales volumes increase by 6%, 5% and 4% during 2009, 2010 and 2011, respectively, and remain constant thereafter;
- Prices are forecast to increase by 4% and 15% in 2009 and 2010, respectively, and increase in line with inflation at an average of 10% per annum thereafter;
- Operating costs are forecast to increase by 7% and 21% in 2009 and 2010, respectively, and increase by 10% per annum thereafter;
- Pre-tax discount rate of 24.6%.

Management believes that a 5% increase in future planned operating expenses, which is a key variable in determination of cash flows, would result in the carrying value of the meat processing segment exceeding its fair value, thereby indicating potential impairment.

Other intangible assets

Other intangible assets as of 31 December 2008 and 2007 comprised:

		2008 US$000				2007 US$000
	Gross carrying amount	**Accumulated amortization**	Net carrying amount	Gross carrying amount	Accumulated amortisation	Net carrying amount
Computer software	4,034	(63)	3,971	3,567	(190)	3,377
Trademark subject to amortisation	–	–	–	720	(36)	684
Indefinite life trademarks	39,239	–	39,239	50,946	–	50,946
Other intangible assets, net	**43,273**	**(63)**	**43,210**	**55,233**	**(226)**	**55,007**

Software

Software is amortised over its useful life of two to three years, with the exception of Oracle software, which is amortised over its estimated useful life of ten years. Weighted-average useful life for software as of 31 December 2008 is 5.9 years.

Aggregate amortisation expense for the year ended 31 December 2008 and estimated amortisation expense for the following five subsequent years are as follows:

	2008 US$000	**2009 US$000**	**2010 US$000**	**2011 US$000**	**2012 US$000**	**2013 US$000**
Computer software	372	771	658	742	329	329

Biruliovsky (“Бирюлевский”) trademark

The carrying value of the Biruliovsky trademark was 0 and 684 as of 31 December 2008 and 2007, respectively.

Prior to July 2007, the Biruliovsky trademark had an indefinite useful life. Based on operational plans to reposition the Biruliovsky trademark into a lower-margin market segment during the second half of 2007, management reassessed the classification of this intangible as of 1 July 2007. As a result, management determined that the trademark had a finite life and began amortisation of the asset over its estimated useful life of ten years. Amortisation expense for the Biruliovsky trademark was 107 and 35 for the years ended 31 December 2008 and 2007, respectively

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

Kurinoe Tsarstvo (“Куриное Царство”) trademark

The carrying value of the Kurinoe Tsarstvo trademark was 24,408 and 33,195 as of 31 December 2008 and 2007, respectively.

In 2008, the carrying value of the Kurinoe Tsarstvo trademark decreased by 1,548 due to expiration of the statute of limitations on tax risks accrued under FIN 48 upon acquisition of Golden Rooster Co. Limited (Note 18).

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

Notes to the consolidated financial statements continued

for the years ended 31 December 2008 and 2007

8 Goodwill and other intangible assets, net continued

The following specific assumptions were used in the impairment test:

- Sales volumes increase by 20%, 27% and 25% during 2009, 2010 and 2011, respectively, and remain stable thereafter;
- Prices are forecast to increase by 33% in 2009 and increase by 10% per annum thereafter;
- Pre-tax discount rate of 25.5%.

Management believes that a 1% increase in discount rate would increase the impairment loss by 1,552 and a 10% decrease in future planned trademark revenues increases the impairment loss by 2,441.

Cherkizovsky ("Черкизовский") trademark

The carrying value of the Cherkizovsky trademark was 14,831 and 17,751 as of 31 December 2008 and 2007, respectively.

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

Impairment summary

The impairment of non-current assets was reflected as follows as of 31 December 2008 and 2007:

	2008 US$000	2007 US$000
Impairment of Biruliovsky trademark	481	–
Impairment of Kurinoe Tsarstvo trademark	1,777	–
Total impairment of non-current assets	**2,258**	**–**

For the impairment analysis the Group used cash flow projections based on actual operating results and business plans approved by management. The discount rate used in the analysis for trademarks and goodwill reflects the time value of money and risks associated with each individual operating segment and/or asset being analyzed. A summary of the key assumption management used in their fair value calculations were as follows:

- Cash flow projections covered a period of five years;
- Cash flow projections were prepared in nominal terms;
- Cash flow projections during the forecast period were based on long-term price trends for both sales prices and input costs;
- Consumer price inflation expectations (in Russian roubles) during the forecast period were 10%; and
- Discount rates were estimated for each item based on the following weighted average cost of capital (in Russian roubles) as calculated for each segment and adjusted for any asset specific risk factors:
  - Meat processing segment 23.5%
  - Poultry and pork segments 20.5%

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

9 Long-term notes receivable

During June 2006, the Group purchased Russian rouble denominated notes receivable from Gazprombank with a maturity date of June 2014 and a face value of 12,851 at the issuance date for total cash consideration of 6,762. In addition, the Group purchased Russian rouble denominated notes receivable from Sberbank in December 2008 at par value for a total cash consideration of 357. The maturity date of those notes is December 2010. As of 31 December 2008, the balance comprised:

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

As of 31 December 2007, the balance comprised:

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

10 Borrowings

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

				2008 US$000		2007 US$000	
	Interest rates	WAIR*	EIR**	Short-term***	Long-term	Short-term***	Long-term
Finance leases	8.30%-16.9%	14.22%	14.22%	4,179	7,476	4,533	9,657
Bonds	8.85%	8.85%	8.85%	68,073	–	–	81,479
Bank loans	8.00%-19.00%	11.65%	4.71%	5,058	7,206	76,593	10,564
Credit lines	8.00%-24.55%	13.13%	4.38%	129,449	305,686	124,224	309,144
Loans from government	3.00%-6.00%	4.16%	4.16%	27,308	5,054	19,545	13,653
Other borrowings	0.00%-7.00%	2.34%	2.34%	2,284	244	4,165	725
				236,351	**325,666**	**229,060**	**425,222**
Total borrowings					**562,017**		**654,282**

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

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

	2010 US$000	2011 US$000	2012 US$000	2013 US$000	2014 US$000	>2014 US$000	**Total US$000**
Total borrowings	77,106	98,801	29,097	51,048	50,894	11,244	**318,190**

As of 31 December 2008, the Group's borrowings are denominated in the following currencies: 542,042 in Russian roubles, 663 in Euro and 19,312 in US dollars. As of December 31 2007, the Group's borrowings are denominated in the following currencies: 552,502 in Russian roubles, 1,983 in Euro and 99,797 in US dollars.

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

Finance leases

As of 31 December 2008 and 2007, the Group used certain fixed assets under leasing contracts that qualified for treatment as finance leases. The lower of the incremental borrowing and the rate implicit in the lease agreement was used in capitalizing the leases.

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

	2008		2007	
Payments falling due	**Total minimum lease payments US$000**	**Portion related to interest US$000**	Total minimum lease payments US$000	Portion related to interest US$000
Within one year	5,525	1,346	6,243	1,710
In year two	3,051	910	4,090	1,192
In year three	1,319	720	1,807	910
In year four	869	675	1,045	837
In year five	858	647	1,026	808
After year five	7,932	3,601	10,521	5,085
	19,554	**7,899**	**24,732**	**10,542**

Bonds

During June 2006, the Group raised two billion roubles (74,881 at the issuance date) through an issue of putable bonds with a face value of 1,000 roubles (37 at the issuance date). The issuance was completed in June 2006 with the bonds issued at par value and the Group incurring 378 related to issuance costs that are being amortized into the income statement over the life of the borrowing. The bonds will mature in 2011, unless redeemed in 2009.

The coupon rate on the bonds, payable semi-annually, is set at 8.85% per annum for the first three years. In 2009, the Group will bid a coupon rate to be paid for an additional two years. At that point, the investors in the bonds have the right to redeem the bonds at their par amount or may accept the Group's bid, causing the maturity to be extended to June 2011. The investors' decision to redeem will be decided by each individual bondholder therefore it is possible that either a portion, or the entirety, of the outstanding principle may become due in June 2009.

Notes to the consolidated financial statements continued

for the years ended 31 December 2008 and 2007

10 Borrowings continued

Bank loans

Gazprombank

Borrowings from Gazprombank consist of two long-term rouble denominated loans with interest of 12% per annum. Notes receivable with a carrying value of 7,563 were pledged as collateral under these loan agreements (Note 9). Principal payment is due on maturity in 2014. Amount outstanding was 6,127 and 7,333 as of 31 December 2008 and 2007, respectively.

Lipetzkkombank

Borrowings from Lipetzkkombank consist of one short-term rouble denominated loan with interest of 16% per annum. The loan is guaranteed by a Group company and a related party. Principal payment is due on maturity in 2009. Amount outstanding was 681 and 2,037 as of 31 December 2008 and 2007, respectively.

Savings Bank of Russia

Borrowings from Saving Bank of Russia consist of three short-term rouble denominated loans with interest ranging from 16% to 19% per annum. The loan is guaranteed by a Group company. Principal payment is due on maturity in 2009. Amount outstanding was 1,293 and 1,548 as of 31 December 2008 and 2007, respectively.

Lines of credit

Savings Bank of Russia

Borrowings from the Savings Bank of Russia consist of fifty five rouble denominated lines of credit with interest ranging from 11.5% to 17.25% per annum. Several of these instruments are guaranteed by a related party. Principal payments are due from 2009 to 2014. Amount outstanding was 206,812 and 168,583 as of 31 December 2008 and 2007, respectively.

Gazprombank

Borrowings from Gazprombank consist of five rouble denominated lines of credit with interest ranging from 11.5% to 14% per annum. Some of these facilities are guaranteed by Group companies and related parties. Principal payments are due from 2009 to 2016. Amount outstanding was 133,772 and 160,932 as of 31 December 2008 and 2007, respectively.

Lipetzkkombank

Borrowings from Lipetzkombank consist of five rouble denominated and one US dollar denominated lines of credit with interest ranging from 8% to 15% per annum. Principal payment is due on maturity in 2009. Amount outstanding was 11,201 and 11,997 as of 31 December 2008 and 2007, respectively.

Raiffeisen

Borrowings from Raiffeisen consist of one rouble denominated and one US dollar denominated unsecured loan facilities bearing interest equal to the MosPrime one-month rate which at 31 December 2008 was 24.55% per annum. Principle payment is due on maturity in 2009. Amount outstanding was 16,257 and 37,061 as of 31 December 2008 and 2007, respectively.

Bank Zenith

Borrowings from Bank Zenith consist of two rouble denominated lines of credit with interest ranging from 11.5% to 12.8% per annum. Notes receivable with a carrying value of 3,160 were pledged as collateral under these agreements. Some of these facilities are guaranteed by Group companies and related parties. Principal payment is due on maturity in 2011. Amount outstanding was 66,699 and 54,469 as of 31 December 2008 and 2007, respectively.

The total amount of unused credit on lines of credit as of 31 December 2008 is 59,609. The unused credit can be utilized from 2009 to 2015 with varying expiration of available amounts.

Loans from government

Department of Food Supply of the City of Moscow

Borrowings from the Department of Food Supply of the City of Moscow consist of one rouble denominated long-term and two rouble denominated short-term loans with interest ranging from 3.4% to 4.0% per annum. Principal payments are due on maturity in 2009. Amount outstanding was 24,851 and 15,483 as of 31 December 2008 and 2007, respectively.

Department of Taxes and Financial Policies, Moscow City Government

Borrowings from the Department of Taxes and Financial Policies of the Moscow City Government consist of two rouble denominated long-term loans with interest ranging from 5.5% to 6% per annum. Principal payments are due from 2010 to 2011. Amount outstanding was 6,603 and 9,859 as of 31 December 2008 and 2007, respectively.

Other borrowings

Other borrowings primarily represent unsecured loans from shareholders and contractors with interest rates ranging from 0% to 7% per annum. Principal payments are due from 2008 to 2011.

Collateral under borrowings

Shares of and participating interests in the following Group companies are pledged as collateral under certain borrowings as of 31 December 2008:

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

Inventory with carrying value of 19,916 and 37,348 was pledged under certain borrowings as of 31 December 2008 and 2007, respectively.

Property, plant and equipment with carrying value of 151,166 and 136,747 was pledged under loan agreements as of 31 December 2008 and 2007, respectively.

11 Tax related payables

Short-term tax related payables as of 31 December 2008 and 2007 comprised:

	2008 US$000	2007 US$000
Value added tax	3,312	1,857
Property tax payable	1,342	1,142
Payroll related taxes	1,180	1,520
Personal income tax withheld	1,067	1,296
Corporate income tax	461	774
Transportation tax	79	71
Other taxes	108	151
Total short-term tax related payables	**7,549**	**6,811**

Long-term tax related payables as of 31 December 2008 and 2007 comprised:

	2008 US$000	2007 US$000
Corporate income tax	6,890	9,949
Payroll related taxes	34	38
Value added tax	11	
Other taxes	–	16
Total long-term taxes payable	**6,935**	**10,003**

12 Shareholders' equity

Share capital

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

In May 2008, the Group issued an additional 3,505,055 ordinary shares, of which 493,447 ordinary shares were acquired by OJSC Cherkizovo Group's existing shareholders (including holders of global depository receipts (GDRs) acting through the depositary) pursuant to their statutory pre-emptive rights. This issuance increased the number of issued and outstanding shares to 43,069,355. The net proceeds from the offering, after share issuance costs of 3,054, were 79,286. Share issuance costs of 122 remained unpaid as at 31 December 2008 and were recorded in other accounts payable.

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

Notes to the consolidated financial statements continued

for the years ended 31 December 2008 and 2007

12 Shareholders' equity continued

All issued and outstanding shares have equal voting rights. As of 31 December 2008, MB Capital Partners Ltd. (formerly, Cherkizovsky Group Ltd.) owned 61.1% of the outstanding share capital of OJSC Cherkizovo Group. The Group is authorized to issue preferred shares not exceeding 25% of its ordinary share capital. No such shares are currently issued.

In accordance with Russian legislation, earnings available for dividends are limited to retained earnings of OJSC Cherkizovo Group, calculated in accordance with statutory rules in local currency. No dividends were declared or paid for the years ended 31 December 2008 and 2007.

Earnings per share

Earnings per share for the years ended 31 December 2008 and 2007 have been determined using the weighted average number of Group shares outstanding over the period.

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

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

13 Sales

Sales for the years ended 31 December 2008 and 2007 comprised:

	2008 US$000	2007 US$000
Produced goods and goods for resale	1,203,637	849,079
Other sales	13,785	3,900
Sales volume discounts	(41,743)	(24,887)
Sales returns	(9,398)	(7,329)
Total sales	**1,166,281**	**820,763**

14 Cost of sales

Cost of sales for the years ended 31 December 2008 and 2007 comprised:

	2008 US$000	2007 US$000
Raw materials and goods for resale	704,588	479,623
Personnel (excluding pension costs)	79,988	52,520
Depreciation	39,719	26,667
Utilities	31,212	17,931
Pension costs	12,448	7,566
Other	18,884	14,183
Total cost of sales	**886,839**	**598,490**

Raw materials and goods for resale are offset by subsidies received from local governments in the amount of 34,433 and 5,970 for the years ended 31 December 2008 and 2007, respectively. These targeted subsidies are received based on the amount of meat produced.

15 Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended 31 December 2008 and 2007 comprised:

	2008 US$000	2007 US$000
Personnel (excluding pension costs)	67,815	56,699
Transportation	20,810	11,288
Materials and supplies	14,360	10,935
Pension costs	9,127	7,061
Taxes (other than income tax)	7,930	6,122
Security services	7,329	4,400
Depreciation and amortisation	6,029	4,799
Audit, consulting and legal fees	4,905	3,977
Advertising and marketing	4,339	8,236
Utilities	3,006	1,676
Bad debt expense	3,685	2,135
Repairs and maintenance	2,800	2,190
Veterinary services	2,548	2,147
Bank charges	2,014	1,347
Information technology and communication services	1,619	844
Insurance	1,080	699
Other	13,009	12,792
Total selling, general and administrative expenses	**172,405**	**137,347**

16 Other income, net

Other income and expenses for the years ended 31 December 2008 and 2007 comprised:

	2008 US$000	2007 US$000
Interest income	1,983	3,899
Gain from expiration of payables	1,011	467
Other financial loss	(203)	(120)
Foreign exchange (loss) gain	(1,596)	3,205
Total other income, net	**1,195**	**7,451**

17 Interest expense, net

Interest expense for the years ended 31 December 2008 and 2007 comprised:

	2008 US$000	2007 US$000
Interest expense, net	20,742	17,669
Finance lease interest expenses	1,975	710
Amortisation of discount	8	17
Total interest expense, net	**22,725**	**18,396**

In accordance with Russian legislation, enterprises engaged in agricultural activities and enterprises involved in purchasing meat receive subsidies on certain qualifying loans. The Group has accounted for such subsidies by reducing the interest expense on the associated loans by 18,433 and 9,730 for the years ended 31 December 2008 and 2007, respectively.

Interest capitalized in the years ended 31 December 2008 and 2007 was 7,910 and 4,475, respectively.

18 Income tax

The income tax expense for the years ended 31 December 2008 and 2007 comprised:

	2008 US$000	2007 US$000
Current provision	6,966	7,000
Deferred tax (benefit) expense	(5,557)	259
Provision for income tax	**1,409**	**7,259**

Notes to the consolidated financial statements continued

for the years ended 31 December 2008 and 2007

18 Income tax continued

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

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

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

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

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

Income tax charge reconciled to the theoretical tax provision at the statutory rate for the years ended 31 December 2008 and 2007 is:

	2008 US$000	2007 US$000
Income from continuing operations before income tax and minority interest	82,398	73,941
Income from continuing operations before income tax and minority interest of entities taxed at agricultural rates	87,601	58,692
(Loss) income from continuing operations before income tax and minority interest of generally taxed entities	(5,203)	15,249
Statutory tax rate (Agricultural)	0%	0%
Statutory tax rate (General)	24%	24%
Theoretical income tax (benefit) expense at statutory rate	(1,249)	3,660
Impact from agricultural temporary differences calculated at enacted future tax rates	2,094	2,693
Adjusted theoretical income tax expense at statutory rates	845	6,353
Expenses not deductible for Russian statutory taxation purposes, net	4,481	3,933
Change in tax rates	(5,911)	411
Impact from reversal of FIN 48 accruals related to expiration of statute of limitation, net of penalties accrued on FIN 48 tax liabilities	867	(2,528)
Other permanent differences	691	(829)
Change in valuation allowance	436	(81)
Actual income tax provision	**1,409**	**7,259**

Deferred tax assets/(liabilities) arising from tax effect of temporary differences:	**2008 US$000**	2007 US$000
Property, plant and equipment	(30,687)	(44,192)
Intangibles	(3,089)	(4,312)
Other non-current assets	43	52
Other non-current liabilities	1,115	2,039
Other current liabilities	1,389	2,484
Other current assets	3,179	4,545
Loss carry forwards	6,162	7,115
Valuation allowance	(1,669)	(1,556)
Net deferred tax liability	**(23,557)**	**(33,825)**
Deferred tax asset – long-term portion	470	2,030
Deferred tax liability – long-term portion	(28,594)	(42,982)
Long-term deferred tax liability, net	**(28,124)**	**(40,952)**
Deferred tax asset – current	4,621	7,304
Deferred tax liability – current	(54)	(177)
Current deferred tax asset, net	**4,567**	**7,127**
Total deferred tax liability, net	**(23,557)**	**(33,825)**

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

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

	2012 US$000	2013 US$000	2014 US$000	2015 US$000	2016 US$000	2017 US$000	2018 US$000	**Total US$000**
Tax loss carry forwards	55	–	438	2,298	11,481	8,375	8,899	**31,546**

The movements in net deferred tax liability for the years ended 31 December 2008 and 2007 comprised:

	2008 US$000	2007 US$000
Net deferred tax liability, beginning of the year	**(33,825)**	**(14,088)**
Impact of translation loss on beginning balance	4,711	(1,781)
Deferred tax expense (benefit)	5,557	(259)
Deferred tax acquired on acquisition of new consolidated entities	–	(17,697)
Net deferred tax liability, end of the year	**(23,557)**	**(33,825)**

Unrecognized income tax benefits

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

As of 31 December 2007, the Group included accruals for unrecognized income tax benefits of approximately 9,582 as a component of long-term tax related payables (of which approximately 732 and 1,040 were penalties and fines, respectively).

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

	2008 US$000	2007 US$000
Balance at 1 January	7,810	2,048
Purchase of Golden Rooster Co. Limited (Note 23)	–	7,214
Translation (gain) loss	(1,405)	395
Additions based on tax positions related to the current year	521	45
Additions based on tax positions related to prior years	–	–
Reductions related to settlements with taxing authorities	–	–
Reductions as a result of a lapse of the applicable statute of limitations	(1,993)	(1,892)
Balance at 31 December	**4,933**	**7,810**

As of 31 December 2008, it is estimated that 4,933 of the unrecognized tax benefit will affect future effective tax rates.

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

The Group considers it reasonably possible that approximately 2,870 of the unrecognized income tax benefit (including interest and penalties) will be reversed within the next year, due to the expiration of the statute of limitations.

The Group recognizes accrued penalties related to unrecognized tax benefits and fines in income tax expenses. During the years ended 31 December 2008 and 2007, the Group recognized approximately 827 and 732 in penalties, respectively.

As of 31 December 2008, the tax years ended 31 December 2006, 2007 and 2008 remained subject to examination by the Russian tax authorities.

Notes to the consolidated financial statements continued

for the years ended 31 December 2008 and 2007

19 Fair value of financial instruments

Effective 1 January 2008, the Group adopted the provisions of SFAS 157 applicable to financial assets and liabilities. SFAS 157 provides a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Group's assumptions with respect to how market participants would price an asset or liability. These two inputs used to measure fair value fall into the following three different levels of the fair value hierarchy:

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

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

As of 31 December 2008 and 31 December 2007, there were no financial instruments measured at fair value.

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

As of 31 December 2008, the Group had various long term 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. Other similar debt was determined based on rates available for similar facilities in the Russian Federation at 31 December 2008. 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.

The carrying values and fair values of the Group's long term borrowings, with the exception of finance leases, as of 31 December 2008 and 31 December 2007 are as follows:

		2008 US$000		2007 US$000
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Loans receivable*	**16,220**	**14,163**	**11,643**	**11,753**
Notes receivable, net (Note 9)	**7,903**	**3,680**	**8,357**	**3,566**
Borrowings other than finance leases (Note 10)	**550,362**	**505,743**	**640,092**	**645,394**

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

20 Related parties

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

Trading transactions

Trading transactions with related parties comprise mostly of sales of mixed fodder to LLC RAO Penzenskaya Grain Company and CJSC Penzamyasoprom and purchases of raw materials from these companies.

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

Financing transactions

During 2008 and 2007, certain shareholders issued loans to the Group (Note 10) and, as of 31 December 2008, have personally guaranteed certain of the bank loans and lines of credit for a total amount of 168,142.

As of 31 December 2008 and 2007, and for the years then ended, balances and transactions with related parties are summarized as follows:

	2008 US$000	2007 US$000
Balances		
Short-term loan receivable	8,235	2,703
Trade receivables	15,314	9,962
Advances issued	7,319	7,786
Other receivables and prepayments	2,187	2,940
Long-term loans receivable	2,039	9,675
Trade payables	2,380	3,023
Short-term loans	937	77
Other payables	548	409
Current portion of long-term loans payable	34	163
Long-term loans payable	5	725
Long-term payables to shareholders related to lease agreements	929	1,167
Transactions		
Sales	17,836	12,076
Rental income	135	109
Purchases of IT services	582	224
Purchases of security services	1,241	912
Purchases of goods and services	24,288	18,083
Purchases of property, plant and equipment	40	2,632

21 Long-term payables to shareholders

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

Payables to shareholders for leased property, plant and equipment as of 31 December 2008 and 2007 amounted to 975 and 1,215, respectively, including a long-term portion of 929 and 1,167, respectively.

Movements in the total liability for the years ended 31 December 2008 and 2007 were:

	2008 US$000	2007 US$000
Liability incurred to shareholders in term of lease of this equipment as of 1 January	1,215	1,175
Interest accrued at 14% on leasing liability	166	167
Repayment	(213)	(207)
Translation gain (loss)	(193)	80
Liability incurred to shareholders in term of lease of this equipment as of 31 December	**975**	**1,215**

22 Segment reporting

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

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

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

All three segments are involved in other business activities, including production of dairy, crop cultivation and other services, which are non-core business activities.

Notes to the consolidated financial statements continued

for the years ended 31 December 2008 and 2007

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

22 Segment reporting continued

The Group evaluates segment performance based on profit before income taxes. The Group accounts for inter-segment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices.

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

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

	Meat-processing US$000	Poultry US$000	Pork US$000	Corporate assets/ expenditures US$000	Intersegment US$000	Consolidated US$000
Total sales	577,919	505,204	112,507	1,028	–	1,196,658
including other sales	4,581	39,773	6,148	–	–	50,502
including sales volume discount	(26,363)	(15,380)	–	–	–	(41,743)
Intersegment sales	(271)	(19,859)	(9,223)	(1,024)	–	(30,377)
Sales to external customers	577,648	485,345	103,284	4	–	1,166,281
Cost of sales	(484,571)	(366,330)	(64,939)	(40)	29,041	(886,839)
Gross profit	**93,348**	**138,874**	**47,568**	**988**	**(1,336)**	**279,442**
Operating expenses	(85,935)	(70,498)	(8,292)	(12,125)	1,336	(175,514)
Operating income	**7,413**	**68,376**	**39,276**	**(11,137)**	**–**	**103,928**
Other income and expenses, net	71	(2,477)	(102)	26,536	(22,833)	1,195
Interest expenses	(14,763)	(14,611)	(1,724)	(14,460)	22,833	(22,725)
Segment profit	**(7,279)**	**51,288**	**37,450**	**939**	**–**	**82,398**
Supplemental information:						
Expenditure for long-lived assets	12,233	74,994	65,473	5,624	–	158,324
Depreciation and amortisation expense	17,217	22,248	6,271	12	–	45,748
Income tax expense	1,398	(264)	(59)	334	–	1,409

Segment information at 31 December 2007 and for year then ended comprised:

	Meat-processing US$000	Poultry US$000	Pork US$000	Corporate assets/ expenditures US$000	Intersegment US$000	Consolidated US$000
Total sales	467,216	296,803	69,869	660	–	834,548
including other sales	1,521	19,872	3,317	–	–	24,710
including sales volume discount	(17,670)	(7,217)	–	–	–	(24,887)
Intersegment sales	(2,776)	(5,165)	(5,186)	(658)	–	(13,785)
Sales to external customers	464,440	291,638	64,683	2	–	820,763
Cost of sales	(367,539)	(203,381)	(40,684)	(4)	13,118	(598,490)
Gross profit	**99,677**	**93,422**	**29,185**	**656**	**(667)**	**222,273**
Operating expenses	(78,149)	(46,256)	(4,680)	(8,969)	667	(137,387)
Operating income	**21,528**	**47,166**	**24,505**	**(8,313)**	**–**	**84,886**
Other income and expenses, net	1,583	2,248	(64)	22,095	(18,411)	7,451
Interest expenses	(13,890)	(10,659)	(1,390)	(10,868)	18,411	(18,396)
Segment profit	**9,221**	**38,755**	**23,051**	**2,914**	**–**	**73,941**
Supplemental information:						
Expenditure for long-lived assets	13,815	47,911	124,616	14	–	186,356
Depreciation and amortisation expense	15,695	11,267	4,502	2	–	31,466
Income tax expense	3,271	280	2,644	1,064	–	7,259

The reconciliation between net segment profit and net income per the consolidated income statements for the years ended 31 December 2008 and 2007 is as follows:

	2008 US$000	2007 US$000
Total net segment profit	82,398	73,941
Minority interest	(3,994)	(2,848)
Income taxes	(1,409)	(7,259)
Loss from discontinued operations, net of income tax	(3,489)	(2,252)
Gain on disposal of discontinued operations (Note 23)	4,599	–
Consolidated net income	**78,105**	**61,582**

The reconciliation between segment assets and total assets per the consolidated balance sheets as of 31 December 2008 and 2007 is as follows:

	2008 US$000	2007 US$000
Meat processing	292,196	336,853
Poultry	404,582	390,651
Pork	334,204	333,886
Corporate assets	308,517	355,667
Intersegment	(206,937)	(235,755)
Assets of discontinued operations (Note 23)	1,702	14,923
Total assets	**1,134,264**	**1,196,225**

23 Subsidiaries, acquisitions, divestitures

Subsidiaries

As of 31 December 2008 and 2007 the Group controlled the meat processing and agricultural companies through its 100% ownership in AIC Cherkizovsky Ltd. and AIC Mikhailovsky Ltd. and in Golden Rooster Co. Limited.

AIC Cherkizovsky Ltd. is a holding company under 100% control of the Company. AIC Cherkizovsky Ltd. includes the meat-processing segment, which consists of meat processing plants, distribution companies and other companies registered and operating in the Russian Federation. As of 31 December 2008 and 2007 the following principal companies were included in AIC Cherkizovsky Ltd.:

Name of company	Legal form	Nature of business	% 31.12.2008	% 31.12.2007
JSC MPP Babaevskiy	Closed Joint Stock Company	Meat processing plant	85%	85%
JSC Belmyaso	Open Joint Stock Company	Meat processing plant	0%	75%
JSC Biruliovsky meat processing plant (JSC BMPP)	Open Joint Stock Company	Meat processing plant	95%	95%
JSC Meat and Poultry Processing Plant Penzensky (JSC MPPP Penzensky)	Open Joint Stock Company	Meat processing plant	95%	95%
JSC Meat Processing Plant Ulyanovsky (JSC MPP Ulyanovsky)	Open Joint Stock Company	Meat processing plant	85%	85%
JSC Cherkizovsky meat processing plant (JSC CMPP)	Open Joint Stock Company	Meat processing plant	87%	87%
LLC MPP Salsky	Limited Liability Company	Meat processing plant	81%	81%
TIC Cherkizovo Ltd. (Cherkizovo-2)	Limited Liability Company	Procurement company	100%	100%
LLC Cherkizovo-Kashira (Cherkizovo-Kashira Ltd.)	Limited Liability Company	Meat processing plant	99%	99%
LLC Cherkizovsky (Saint Petersburg)	Limited Liability Company	Trading company	100%	100%
JSC Trading Company of Agroindustrial Complex Cherkizovsky (JSC Trading Company of AIC Cherkizovsky)	Open Joint Stock Company	Trading company: distribution of products of AIC Cherkizovsky	100%	100%

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23 Subsidiaries, acquisitions, divestitures continued

AIC Mikhailovsky Ltd. is a holding company under 100% control of the Company. AIC Mikhailovsky Ltd. includes the pork and poultry segments that consist of companies engaged in the production of various types of compound feed, raising of poultry, pigs and cattle and the distribution of meat registered and operating in the Russian Federation. As of 31 December 2008 and 2007 the following principal companies were included in the AIC Mikhailovsky Ltd.:

Name of company	Legal form	Nature of business	**% 31.12.2008**	% 31.12.2007
CJSC Petelinskaya	Closed Joint Stock Company	Raising poultry	**84%**	84%
JSC Vasiljevskaya	Open Joint Stock Company	Raising poultry	**100%**	100%
LLC Petelino Trade House	Limited Liability Company	Trading company: distribution of products of AIC Mikhailovsky	**84%**	84%
CJSC Botovo	Closed Joint Stock Company	Pig breeding	**76%**	76%
LLC Petelinsky Poultry Factory	Limited Liability Company	Meat processing	**84%**	84%
LLC Trading House Petelino-Samara	Limited Liability Company	Trading company: distribution of products of AIC Mikhailovsky	**100%**	100%
JSC Lipetskmyasoprom	Open Joint Stock Company	Pig breeding	**100%**	100%
LLC Mikhailovsky Feed Milling Plant	Limited Liability Company	Mixed fodder production	**100%**	100%
LLC Kuznetsovsky Kombinat	Limited Liability Company	Pig breeding	**100%**	100%
LLC Tambovmyasoprom	Limited Liability Company	Pig breeding	**99%**	99%
LLC Budenovets Agrifirm	Limited Liability Company	Pig breeding	**100%**	100%

Acquisitions

Golden Rooster

On 28 August 2007, the Group completed an acquisition of 100% of the share capital of Golden Rooster Co. Limited. Golden Rooster Co. Limited is a company registered in Cyprus that holds 100% of the share capital of OJSC Kurinoe Tsarstvo. OJSC Kurinoe Tsarstvo is a poultry producer with a fully integrated poultry production cycle and operations in both the Lipetsk and Bryansk regions of the Russian Federation. The company produces chilled and frozen poultry products under the “Chicken Kingdom” brand name.

The purchase consideration was 142,466 including 673 of transaction costs. The acquisition was accounted for using the purchase method with goodwill of 697 recognized as a result of the purchase price allocation. No adjustments were made to the purchase price in 2008.

Divestitures

2007 discontinued operations (LLC MPP Salsky)

In November 2007, management of the Group made a decision to dispose of a subsidiary in the meat processing segment – LLC MPP Salsky (“Salsky”). The disposal was classified as an asset held for sale and reflected as a discontinued operation in 2007. The assets and liabilities classified as discontinued operations were recorded at lower of cost or market. At the time of the classification as an asset held for sale, the Group had a plan for disposal. Subsequent to that time, primarily due to the deterioration in the worldwide economy and lack of available financing, the Group was unable to close the sale of Salsky. While the Group actively solicited offers during the period, it did not receive any other reasonable offers to purchase Salsky and in response, reduced the price. The Group continues to actively market Salsky at a price that is reasonable given the change in market conditions. As at 31 December 2008, management has determined that the Group has met the conditions for an exception to the one-year sale requirement under SFAS 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”. As a result, Salsky continues to be classified as held for sale as of 31 December 2008.

2008 discontinued operations (JSC Belmyaso)

In November 2008, management of the Group received an offer from a third party to purchase JSC Belmyaso, a subsidiary in the meat processing segment located on the Ukrainian border in southwest Russia. Management accepted the offer as the sale was consistent with its plan to optimize the cost structure of the meat processing segment. The sale was completed in December 2008, with the Group selling its 75% share ownership in JSC Belmyaso for proceeds of 68. The Group will not have any significant continuing involvement with the entity. The gain on the sale of the subsidiary amounted to 4,599.

Net assets of discontinued operations were as follows as of 31 December 2008 and 2007

	2008 US$000	2007 US$000
Cash	3	98
Trade and other receivables, net	–	3,096
Inventory	243	2,170
Deferred tax assets	156	1,266
Property, plant and equipment	1,258	7,299
Other assets	42	994
Total assets	**1,702**	**14,923**
Trade and other payables	(504)	(5,432)
Short and long-term loans	(2,020)	(10,865)
Total liabilities	**(2,524)**	**(16,297)**
Minority interest	**–**	**(1,065)**
Net liabilities of discontinued operations	**(822)**	**(2,439)**

Results from discontinued operations were as follows for 2008 and 2007:

	2008 US$000	2007 US$000
Sales	15,675	26,405
Cost of sales	(16,131)	(24,980)
Gross (loss) profit	**(456)**	**1,425**
Operating expenses	(2,897)	(3,676)
Gain (loss) from disposal of property, plant and equipment	30	(116)
Operating loss	**(3,323)**	**(2,367)**
Other expenses, net	(655)	(1,023)
Loss before income tax and minority interest	**(3,978)**	**(3,390)**
Income tax (expense) benefit	(546)	395
Minority interest	1,035	743
Loss from discontinued operations	**(3,489)**	**(2,252)**

24 Commitments and contingencies

Legal

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

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

Taxation

Laws and regulations affecting businesses in the Russian Federation continue to change rapidly. These changes are characterized by different interpretations and arbitrary application by the authorities. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Under certain circumstances reviews may cover longer periods. Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects could be significant. Management believes that the total amount of possible tax risks, in accordance with FAS 5 "Accounting for Contingencies," is 4,578 as of 31 December 2008.

Environmental remediation costs

The Group's management believes that it is in compliance with applicable legislation and is not aware of any potential environmental claims; therefore, no liabilities associated with such costs are recorded as of 31 December 2008.

Notes to the consolidated financial statements continued

for the years ended 31 December 2008 and 2007

24 Commitments and contingencies continued

Capital commitments

At 31 December 2008, the Group had large capital projects in progress at JSC Lipetskmyasoprom, LLC Tambovmyasoprom, and CJSC Petelinskaya. As part of these projects, commitments had been made to contractors of approximately 51,699 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 1,849 towards completion of the project.

Operating lease commitments

At 31 December 2008, the Group had the following obligations under non-cancellable operating lease agreements:

	2009 US$000	2010 US$000	2011 US$000	2012 US$000	2013 US$000	>2013 US$000	**Total US$000**
Total commitments	314	314	314	314	254	2,780	**4,290**

25 Subsequent events

Acquisitions

In March 2009, the Group acquired 57.29% of the share capital of OAO Penzensky Kombinat Khleboproductov (“Penzensky”) from a third party for cash consideration of 1,886. Penzensky is involved in grain processing and production of bread products in the Penza region of Russia. Penzensky will be a part of operations in the poultry segment of the Group. As of 31 March 2009, the purchase price allocation was not finalised as the Group had not completed its assessment of the fair value of the acquired net assets. As of the date of acquisition, Penzensky did not prepare financial statements in accordance with US GAAP. As a result, the Group has not provided the disclosures as required by SFAS 141, Business Combinations, as the disclosure would be impracticable.

Borrowings

In the first quarter of 2009, the Group entered into several new credit facilities with Sberbank in the amount of 8,975 bearing interest rates ranging from 16.75% to 17.5%. The Group drew down on existing credit facilities with Sberbank in the amount of 20,837, repaid 15,991 on these facilities and fully paid down the Raiffeisen facility in the amount of 16,257.

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