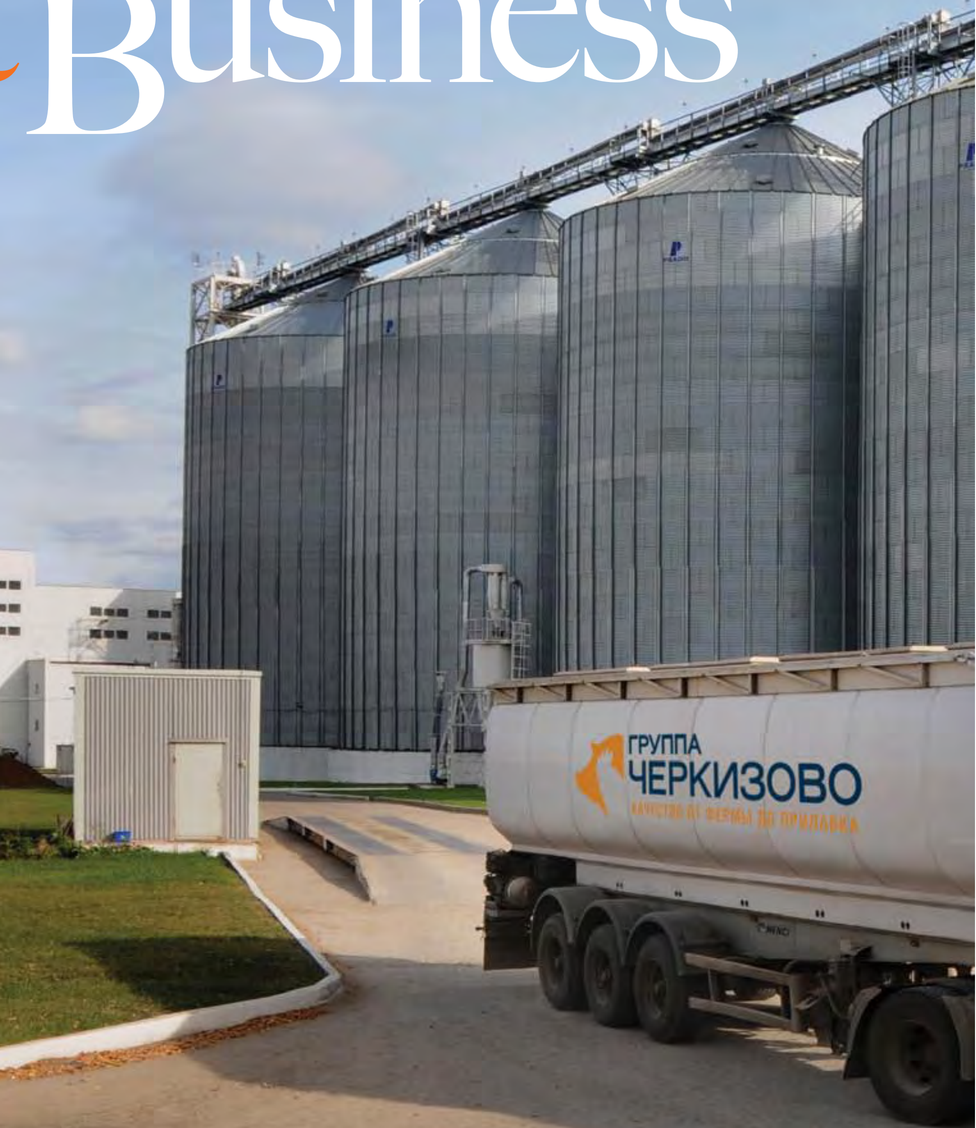
Right Approach

CHERKIZOVO
GROUP QUALITY FROM FARM TO FORK

Annual report 2009

Right Business



Distribution

Russia's leading food-distribution network: technology drives efficiency

Branded meats

Award-winning brands with industry-leading consumer recognition

Pork and Poultry

Investing in domestic capacity to deliver products of the highest quality

Feed production

90% self-sufficiency assures quality of long-term supply and effective cost management

Historic highlights

1993

- Founding shareholders acquire the Cherkizovsky Meat Processing Plant

1994 – 2005

- Key production facilities are acquired

2005

- Cherkizovsky and Mikhailovsky agro-industrial groups merge to form the Cherkizovo Group holding company

2006

- First two modules of the state-of-the-art Lipetsk pig production complex opened
- London Stock Exchange IPO takes place; trading commences on the MICEX and RTS exchanges

2007

- Group acquires OAO Kurinoe Tsarstvo (Chicken Kingdom), Russia's 4th largest poultry producer and leading frozen poultry brand

2008

- 3rd and 4th modules of the pork production complex and new fodder mill launch in Lipetsk
- 3.5m new RTS listed shares are placed, increasing free float from 27.8% to 33.6%
- Group commissions first two modules at new pork farm in Tambov

2009

- US$50m construction project is completed at Vertunovka poultry facility
- Large-scale poultry capacity increase projects start in the Bryansk and Penza regions

Our vision is to become Russia's leading vertically integrated meat producer, focusing in key regions on locally sourced, high quality poultry, pork and branded processed meat products.

We produce approximately 90% of the feed we need and distribute our produce via our own highly efficient logistics network, making us a true vertically integrated agro industrial group.

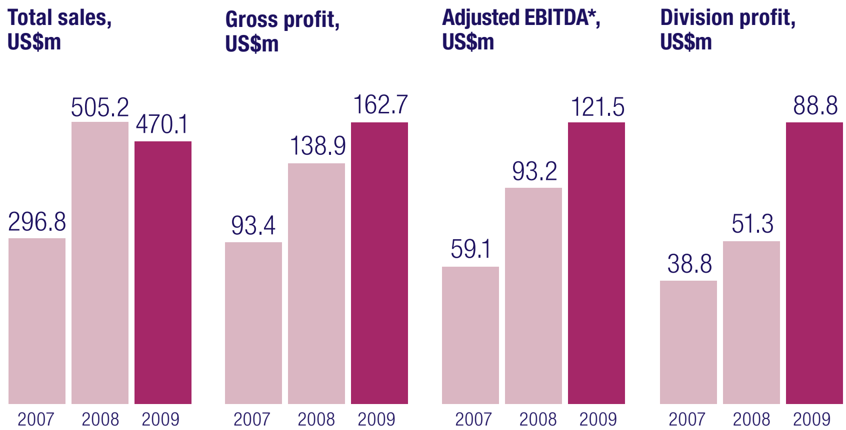
Contents

Performance at a glance

RightResults

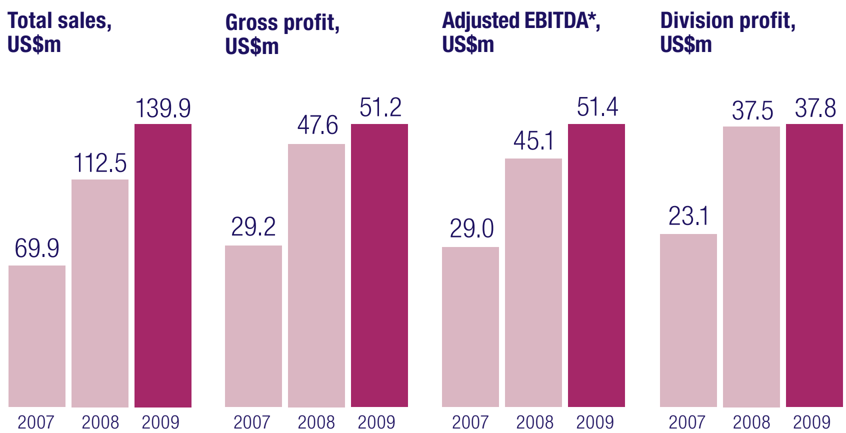
Poultry

We increased sales of our high quality chilled meat, while enhancing margins by generating significant efficiency improvements.



Pork

Increased scale in pork production from our new, state-of-the-art facilities ensured industry-leading margins and greater profitability.

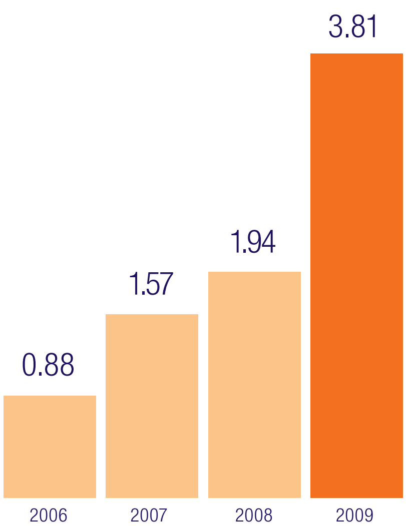


Meat Processing

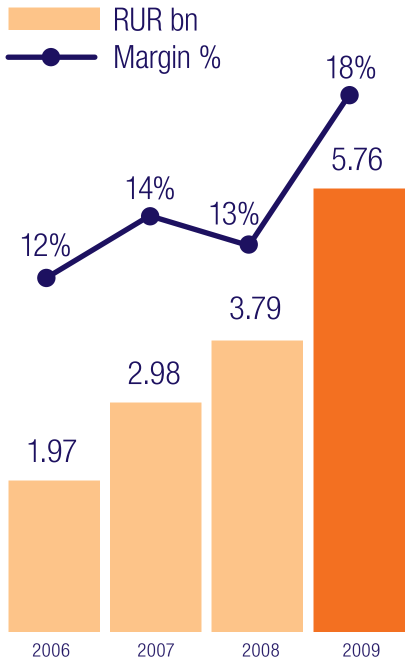
Despite some reduction in consumption during the first half of 2009, we saw an improvement towards the end of the year.

Impressive track record of growth

Net income, RUR bn

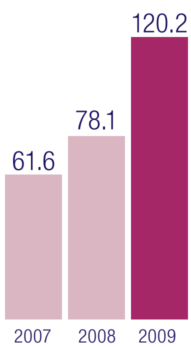


EBITDA and EBITDA margin

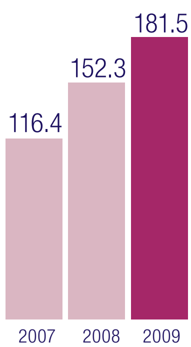


Despite the economic downturn, 2009 was the most profitable year in the history of Cherkizovo Group. It was a key period in our development, when a number of significant investments made over recent years began to generate cash and further drive improving margins.

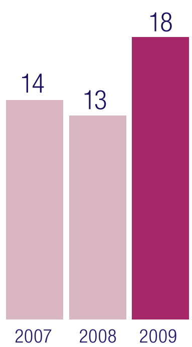
Net income, US$m
2007-2009 +95%



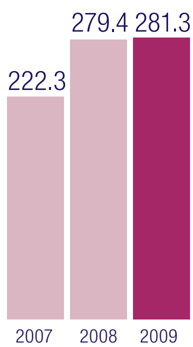
Adjusted EBITDA*, US$m
2007-2009 +56%



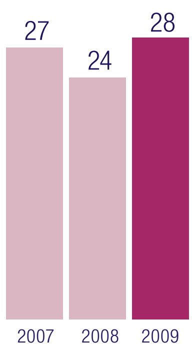
Adjusted EBITDA* margin, %



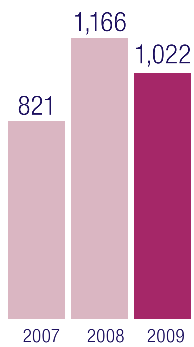
Gross profit, US$m
2007-2009 +26%



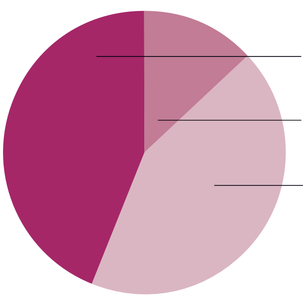
Gross margin, %



Sales, US$m
2007-2009 +24%

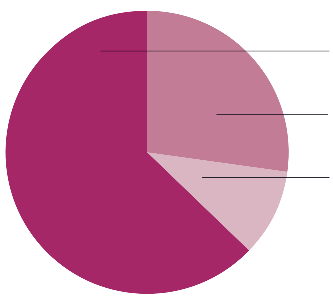


***Adjusted Earnings before Interest, Income Tax, Depreciation and Amortization ("Adjusted EBITDA").**
Adjusted EBITDA represents income before interest, income tax and minority interest, adjusted for certain other items. Adjusted EBITDA margin is defined as Adjusted EBITDA as a percentage of our net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



Contribution to Group Total Sales 2009	%	US$m
Poultry	44	470.1
Pork	13	139.9
Meat Processing	43	460.2
Total		1,022.5*

*Includes interdivision sales and profit eliminations.



Contribution to adjusted EBITDA* 2009	%	US$m
Poultry	63	121.5
Pork	27	51.4
Meat Processing	10	19.6
Total		181.5*

Investing for growth

Right Investment

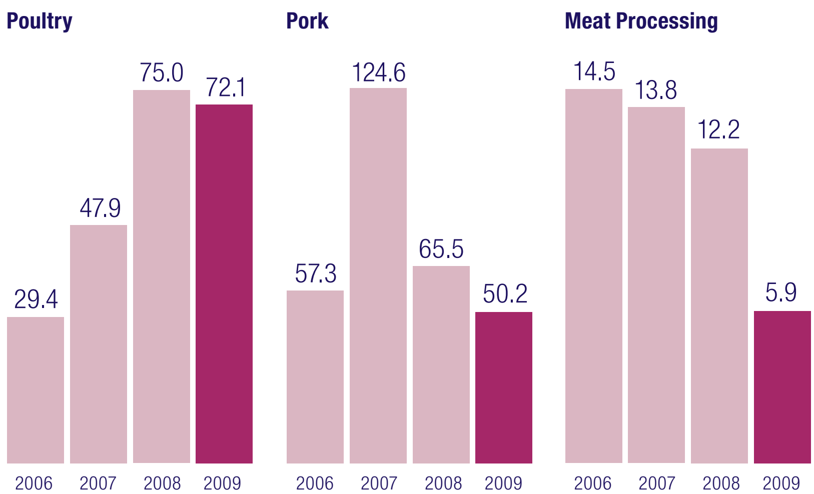
Achieving enhanced operational efficiency is one of our fundamental strategic objectives – using the most advanced facilities and technologies to generate scale at lower cost, while ensuring the highest quality standards.

We have invested US$568m since 2006

By growing our capacity, we are helping the Russian government meet a vital production goal

The government is targeting 90% self sufficiency in food production by 2014. It is therefore highly supportive of Russian food producers, providing subsidised loans and imposing import tariffs and quotas to encourage them to invest in their businesses. Cherkizovo is fully supporting the government's initiative, and is already benefiting from the scale and margin improvements resulting from the investment cycle in greenfield pork production that we completed in 2008. We continue to take advantage of the attractive environment to invest further in our own and Russia's future.

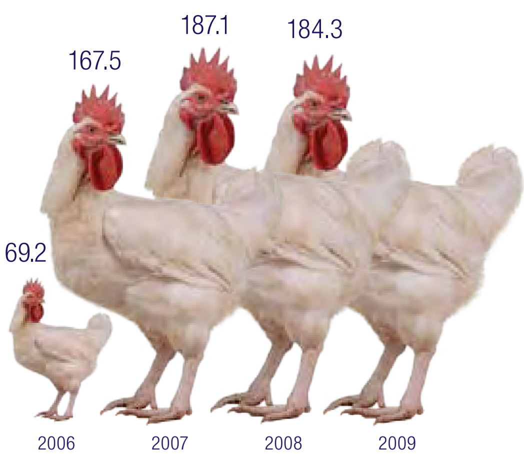
Capital investment, US$m



State-of-the-art production

Cherkizovo's long-term modernisation and expansion programme enabled us to outperform the Russian market in 2009. Our focus on process efficiency has seen us reduce costs, providing a powerful competitive advantage.

Yearly poultry production, (000 tonnes)



Yearly pork production, (000 tonnes)

Right Markets

The highly fragmented, US$35 billion Russian meat market presents exciting growth opportunities for Cherkizovo to consolidate the sector and become the market leader.

Impressive growth potential from positions of strength

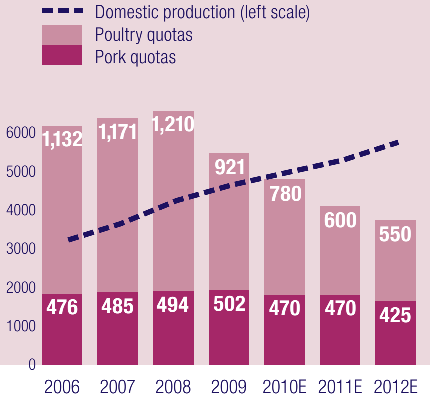
No1 in meat processing in Russia

No2 poulty producer in Russia

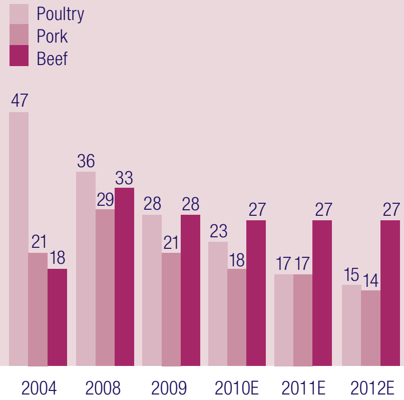
No4 pork producer in Russia

Aiming for 90% self-sufficiency in food production, the Russian government has created a favourable growth regime for local producers.

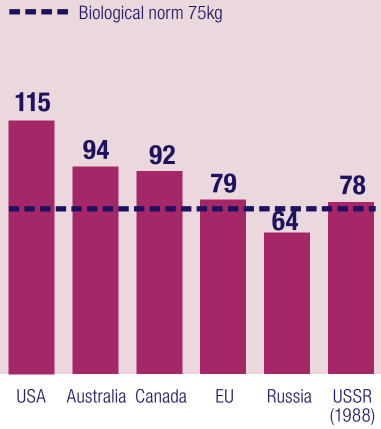
Domestic production and quotas, 2006-2012E (000 tonnes)



Imported meat consumption, % 2004-2012E



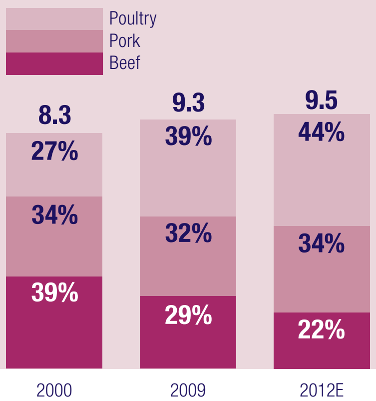
Annual per capita meat consumption, kg



Source: Meat Union of Russia, official statistics

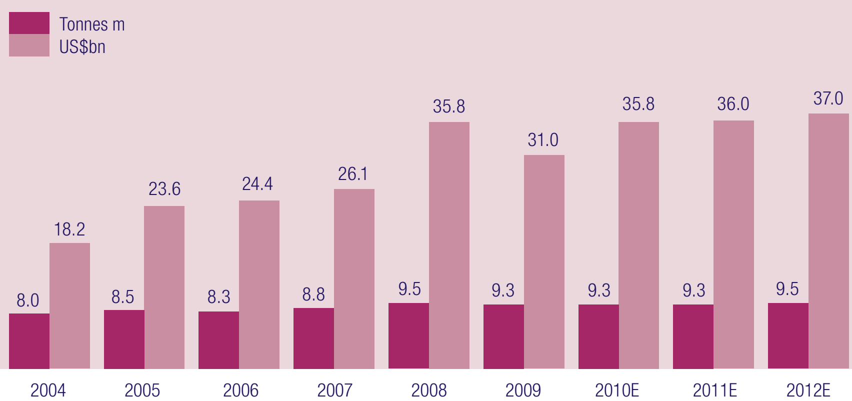
Demand for meat products is returning post the 2008 decline caused by the economic downturn, and the long-term forecast is for robust growth in consumption.

Russian meat market dynamics, tonnes m 2000-2012E



Source: Meat Union of Russia, official statistics

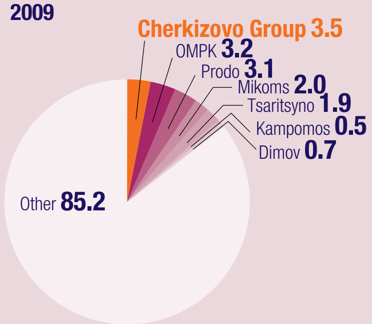
Russian meat market, growth 2004-2012E



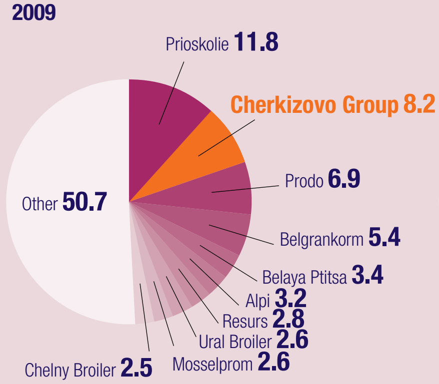
Source: Meat Union of Russia, official statistics

Cherkizovo is acquisitive – and well placed in all sectors to drive industry consolidation.

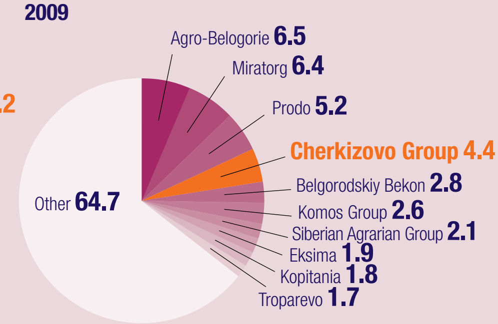
Processed meat, value % 2009



Poultry, slaughter weight, volume % 2009



Pork, live weight, volume % 2009



Right Brands

Cherkizovo's own portfolio of leading brands achieves very wide consumer recognition and loyalty. Our investments in marketing aim to build even further on these valuable attributes.

Petelinka

Chicken Kingdom

Cherkizovsky

Imperiya Vkusa

Vasilievka

Pyat' Zvezd

Penzensky

Myasnaya Gubernia

Petelinka is the brand leader in the chilled poultry segment in Moscow and the Moscow region, with 70% customer loyalty.

Our **Kurinoe Tsarstvo** (Chicken Kingdom) is the No1 frozen poultry brand in the Central Federal District of Russia.

Source: Scanmarket, 2009 research.

Left: Poster from award-winning Petelinka advertising campaign on one of the central buildings in Moscow

RightProducts

Cherkizovo's constant focus on innovation and quality are key drivers of our philosophy. With a multi-award winning and growing portfolio of fresh locally sourced meat products, we have a strong bond of trust and familiarity with consumers.

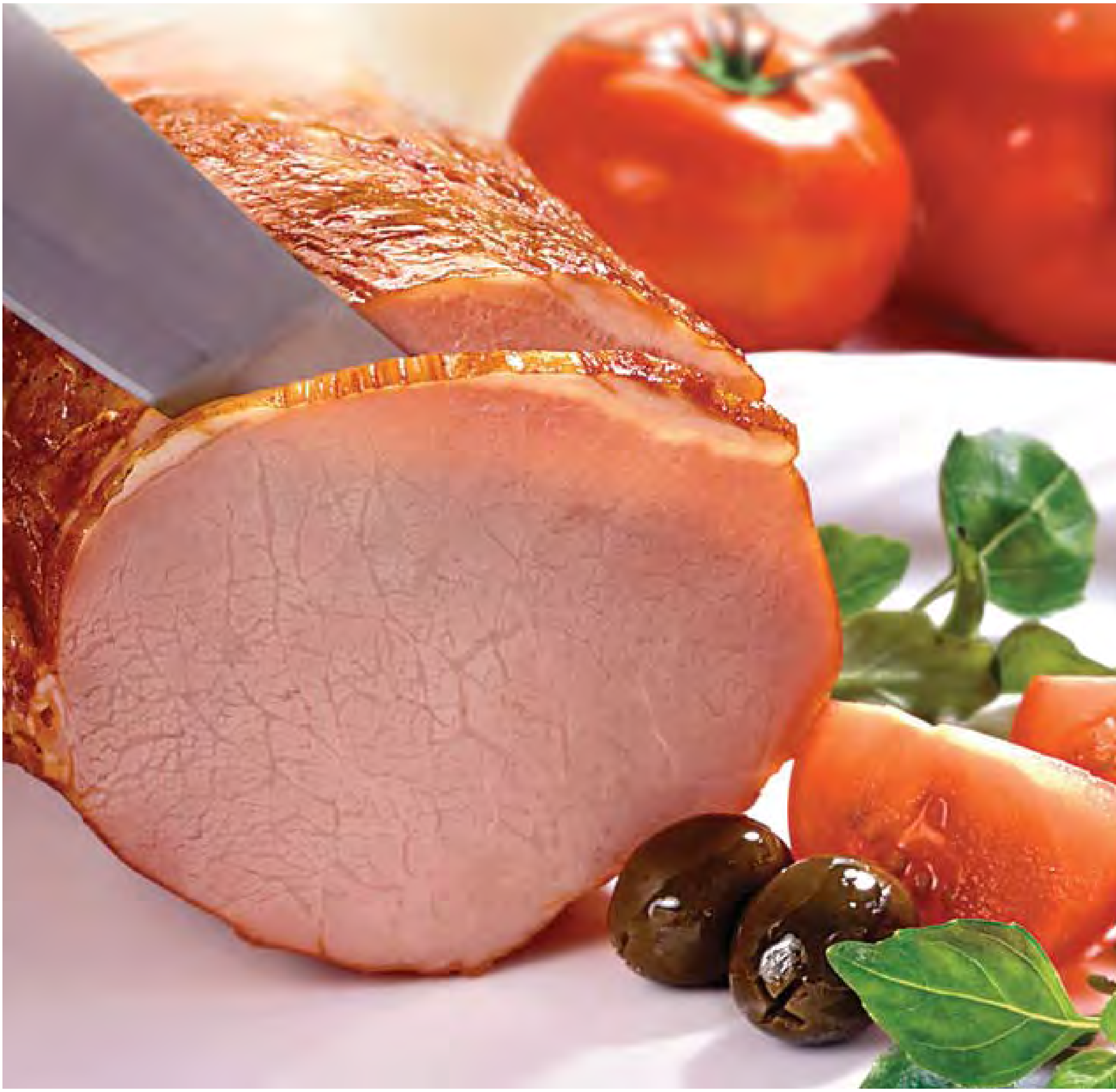
Best quality freshest products.

Successful ISO recertification

As a fully integrated producer, Cherkizovo has total control over the quality of all processes from farm to fork. This ensures our unwavering focus on humanitarian, ecological and hygiene issues that in 2009 contributed to the successful recertification of our products under the strict ISO standards. During 2009 our brands also won several prestigious quality awards to emphasise our position as a highly respected Russian food producer.

Increased use of our own pork in key product ranges

As our new state-of-the-art greenfield farms enter full production, the economies of scale enable us to produce high quality pork at lower costs. Accordingly, we aim to increasingly use our own pork to enhance the value and quality of our processed meats.



Chairman's statement

2009 was the most profitable year in the Company's history, despite the financial crisis. Indeed, Cherkizovo grasped the opportunities that the uncertain environment presented, to move on to a new level of development. The results prove once again that our business strategy is correctly positioned, and confirms our leading position in Russia's agricultural sector.

The financial and economic crisis has compelled the Russian government to approach the problems facing agriculture in a new way, particularly in view of the country's continued dependence on cheap, low-quality imported products. Despite the advantages that arise from its substantial resource potential and cost-competitive production, Russia remains the world's largest meat importer. In 2008 the government therefore announced a programme to secure the nation's food supply, and in 2009 it continued to take measures to reduce imports with a 2014 target for self-sufficiency in poultry and pork.

We are now seeing the first positive results of the practical support that the government has been giving agricultural companies for some years, as the sector as a whole begins its revival. As one of the most important companies in the country's 'real' economy, Cherkizovo Group is well positioned to realise the benefits of the government's financial support, which in 2009 took the form of long-term subsidised loans to meet investment needs.

Our business

Cherkizovo Group is Russia's largest agricultural company to have a fully integrated structure running through the entire production cycle. We work in three main business segments – poultry, pork and meat-processing.

Despite the macroeconomic volatility in 2009, we did not deviate in any way from our established development strategy. Instead, we continued our existing investment projects in poultry and pork and in addition started two new large-scale projects to increase capacity in our Bryansk and Penza poultry clusters. This was facilitated by the subsidised credit lines that the government provides precisely because it appreciates the vast potential in Russian pork and poultry production.

We also see great potential in our meat-processing business despite some financial underperformance during 2009. We plan to enhance our returns from this segment in 2010, by concentrating on deep-processed high-quality products. I am confident that meat-processing will in this way regain its importance to the Group by once again delivering good financial and operational results.

President of the Russian Federation, Dmitry Medvedev, awards Chairman of Cherkizovo Group, Igor Babaev, with the Order of Honor.

"A national project called the 'Development of the agricultural complex' has successfully overcome prejudice against farmers. Working in agriculture is now an honourable way of life once more. This governmental approach will help ensure that the agricultural sector contributes to Russia's positive economic development."

To strengthen our position further, in future we need to concentrate not just on growth and productivity but also on operational efficiency: reducing costs and overheads at every stage, from feed production to distribution. If we can successfully release the embedded value in such processes, we will be able to deliver consistently positive results in future years.

Our team

We owe all the Group's achievements, including this year's exceptional financial results that were delivered in the toughest conditions, to the hard work of our professional team. I would like to thank them for their dedication and massive contribution to the success of the business.

Dividend policy and outlook

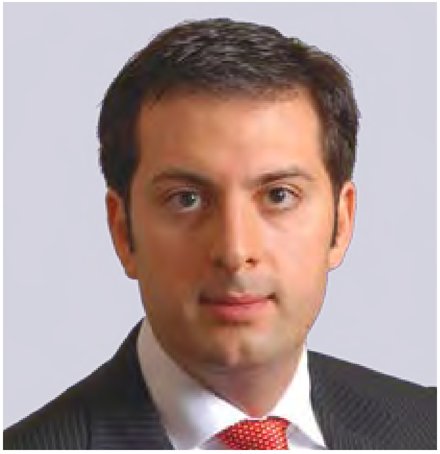
Acting always in the long-term interests of the Company and our shareholders, we continue to focus on Cherkizovo's steady development and reinvest our net profits in the business.

During 2009, we saw a gradual stock market shift away from pessimism to a more optimistic outlook. Investors have also recognised the fundamental importance of agriculture to the Russian economy, and that Cherkizovo is a leading player and the only public company in this key sector. This recognition is demonstrated by the steady rise in the value of the company's shares during 2009, which reached pre-crisis levels by the end of the year.

We have great confidence in the Company's future prospects, underpinned by the advantages that our vertically integrated structure and complete 'farm to fork' agricultural value chain bring us, ensuring our stability in virtually any market environment.

Igor Babaev
Chairman

Chief Executive's statement



We are particularly well placed to continue our investments in improved capacity within our high-margin pork and poultry businesses.

2009 was the most profitable year in the history of Cherkizovo Group. While many of our peers in our own and other sectors were adversely affected by the global financial crisis, our long-term strategy of continuous investment and industry consolidation enabled us to deliver strong growth in both volumes and margin. Moreover the company was able to deliver strong growth not only in operating currency (rouble) terms, but also in reporting currency i.e. dollar terms, despite the devaluation of the national currency.

The economic and market conditions that held sway throughout 2009 were among the most challenging of recent times.

The right strategy

For Cherkizovo, however, such market conditions confirmed that our focus of the last few years has correctly been to concentrate on delivering new, enhanced capacity and efficiency to drive high-volume, high-margin pork and poultry production.

The financial benefits of this focused approached became particularly apparent in 2009 as our investments in new pork farms, strategic acquisitions and process modernisation started to deliver accelerating returns. In addition, the year saw the completion of a major phase of investment in pork production, which has seen this key segment of our business complete the transition from cost centre to a highly cash-generative asset. Just as important was the effective management that saw Cherkizovo honour all its financial obligations during the year including the repayment of our outstanding bond issue, in a business environment where defaults were generally commonplace.

Investing in our business

Market consolidation is another key aspect of our strategy, because it drives scale and efficiency while reducing the competition. The highly successful integration of Chicken Kingdom with our business, which has given us a growing share of the high-margin chilled poultry sector, clearly demonstrates the value of the right acquisition, and we continue to seek further opportunities.

Wider economic issues in Russia and beyond also had some positive impact on Cherkizovo's performance during the year. The decline of the Rouble against the US Dollar during the year made the pricing of domestically-produced meat much more competitive in comparison to imports. In

Cherkizovo outperformed the market in 2009, thanks to our long-term modernisation and expansion programme. This has given us an efficiency advantage that has enabled us to reduce our cost base and achieve better margins.

addition, the reduced costs of construction continued to drive down our capital expenditure needs and so allowed us to extract greater value from our investments.

As a result of our improved liquidity and strong reputation for reliability, we are now better positioned than ever to meet our future long-term borrowing and other financing needs. We are particularly well placed to continue our investments in improved capacity within our high-margin pork and poultry businesses. We launched two major initiatives to increase capacity in our Penza and Bryansk poultry clusters during 2009. Since the year end, we have reached another milestone with the proposed acquisition of two greenfield pork farms in Penza and Lipetsk, that are expected to boost Cherkizovo's production capacity by 30%.

Russia's position in a global market

The Russian government continued its long-term support of the nation's food and agricultural producers in 2009. While the government is targeting 90% self-sufficiency in Russia's food production by 2014, the country remains the world's largest importer of meat and has yet to achieve 70% self-sufficiency. This continues to present us with an excellent market opportunity for meeting the country's needs for valuable but scarce resources such as fresh pork and poultry.

The government regards self-sufficiency as a prerequisite for national security, and therefore remains committed to supporting our sector with the subsidised lending that is substantially cutting the cost of investment and easing our repayment burden.

In addition, towards the end of the year the government also imposed higher tariffs on the import of live pigs, pork by-products and beef and announced its intention to further reduce import quotas for poultry and pork. We believe that these measures will better enable emerging Russian meat producers to compete against international companies and provide the Russian market with quality, locally sourced meat.

Russian market conditions

Naturally, such support benefits all Russian producers. However, Cherkizovo outperformed the market in 2009, thanks to our long-term modernisation and expansion programme. This has given us an efficiency advantage that has enabled us to reduce our cost base and achieve better margins than other companies, by concentrating on high-quality, premium produce. Our new facilities are state-of-the-art, embedding operational efficiencies within a lower cost base. For example, on our new pork farms efficiency indicators are 50-70% higher than the industry average.

These efficiencies provide Cherkizovo with unique competitive advantages within the Russian market. This reflects the long production cycles that are a feature of businesses in our sector, where there is often a period of several years between making a capital investment and generating an acceptable return on it. As one of Russia's leading integrated and diversified meat producers, Cherkizovo is now well positioned to maximise the benefits from prior investments.

The recession did have some impact upon consumption levels, particularly in our meat processing segment at the premium end of the market. However, this did not seriously affect our overall market penetration figures, and we started to see good signs of recovery during the fourth quarter of the year.

Outlook

We believe that this, together with our ongoing restructuring and modernisation work in this segment, will drive further performance improvements throughout 2010 and beyond. We are also confident that there remains significant scope to grow the market for protein in Russia, and that Cherkizovo is exceptionally well-positioned to grasp emerging opportunities over the next few years.

The good harvest of 2009 also leads us to expect relatively low grain pricing in 2010, which will benefit us, as grain is the primary cost in our business.

We have shown again in 2009 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

Investments that significantly increase

New Naryshkinskiy breeding facility launched in 2009 at the Vertunovka site

State-of-the-art production clusters

Recent investments in our production sites in the Bryansk and Penza clusters have already placed us at the forefront of the European poultry industry in terms of both capacity and efficiency. Now, new projects started during 2009 in both regions are set to take production on to the next level.

Major contribution to Group profitability

The segment enjoyed a stable pricing environment in 2009 and benefited from low grain prices, which contributed to the overall profitability of our poultry business. The ongoing successful integration of our 2007 acquisition, Chicken Kingdom, was also an important feature of a year when our Poultry division achieved a record 35% gross margin and 26% adjusted EBITDA margin.

Platform for growth

The production figures from our existing operations are already impressive, with a total Groupwide annual production in 2009 of 184,300 tonnes of slaughter-weight poultry meat. The investment projects launched during 2009, however, will see us significantly outstrip these figures by 2012, with approximately 240,000 tonnes of high-margin slaughter-weight chicken meat.

2009 saw the launch of two major capacity-building projects that will deliver a 40% increase in production by 2012. They exemplify our strategy of achieving efficiency through scale and operational excellence.

growth

Poultry continued

An important driver of Cherkizovo's success is our commitment to invest for future capacity growth, even in difficult market conditions. This commitment delivers on the Group's strategy of providing the Russian market with high quality locally sourced poultry.

As part of this approach, in 2009 we started two large-scale capacity increase projects at our Bryansk and Penza poultry clusters, whose combined impact will increase our total poultry production by 40%.

Bryansk poultry cluster
The first stage of the Bryansk project, which began in 2009, includes the construction of 63 bird houses – 11 at three existing sites and 52 at a new poultry breeding facility. Work also began on a new hatchery, which will have an annual capacity of 43 million eggs. This first stage represents an investment of 1.8 billion Roubles (approximately US$62 million).

The second phase is due to commence in 2010. Following completion, the current annual capacity of the site will rise from 32,000 tonnes to 63,500 tonnes of live-weight poultry meat by 2012.

The new packaging line at our poultry processing plant in Bryansk will take advantage of Russian consumers' growing preference for chilled chicken. During the year, chilled poultry products accounted for over 60% of our chicken sales in Russia. This is a high-margin sector in which our Petelinka brand is already the Moscow region's market leader.

Penza poultry cluster
Phase one of the Penza project was completed in 2009 with the reconstruction of the Vertunovka site. This is now one of Europe's largest parent stock facilities, with an annual production capability of 60 million incubation eggs.

In the second phase, we will construct incubation facilities for 105 million eggs, approximately 100 bird houses and state-of-the-art slaughtering facilities.

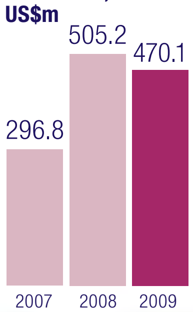
The project is funded by 1.1 billion Roubles (approximately US$37 million) of internal investment and a further 2.5 billion Roubles (approximately US$83 million) of bank support. Upon completion, the current annual capacity of the factory will increase from 60,000 tonnes to 120,000 tonnes of live-weight poultry meat.

Chicken consumption on a strong growth curve
Looking ahead, we expect further growth in poultry sales as figures from the Russian government and the Russian Meat Union show that poultry grew as a proportion of total meat consumption in Russia from 27% in 2000 to 39% in 2009. It is expected to rise to 44% in 2012.

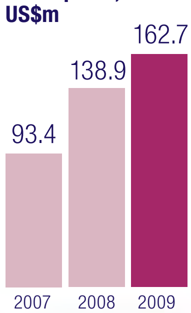
The Company's vertically integrated business model has proven its strength and versatility in adapting quickly to the changing market conditions. It enables us to ensure the consistency of feed supply, to provide controlled costs and assured quality that engages the consumer and helps to maximise our returns. The division will continue to benefit from efficiency improvements and the successful integration of the Poultry businesses.

Operational KPIs	2009	2008	change %
Average liveweight, g	**2030**	2013	0.8
Annual flock turnover, times	**7.3**	7.3	0.0
Hatch, %	**78.3**	78.1	0.2
Liveability, %	**93.1**	93.3	-0.2
Average growing period, days	**37.7**	38.7	-2.6
Meat yield, %	**74.0**	73.4	0.6
Adjusted fodder conversion rate (2,000 g liveweight)	**1.83**	1.87	-0.2
Average daily gain, g	**52.9**	51.1	0.4

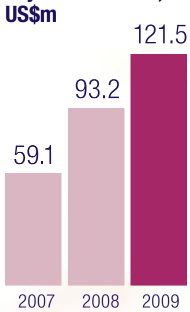
Total sales, US$m



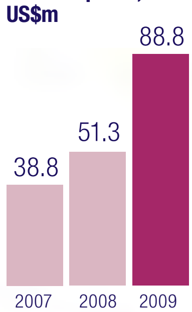
Gross profit, US$m



Adjusted EBITDA*, US$m



Division profit, US$m



No2
in Russian poultry market

Low cost, high quality producer with industry leading

State-of-the-art weaning farm at Lipetsk pork production site

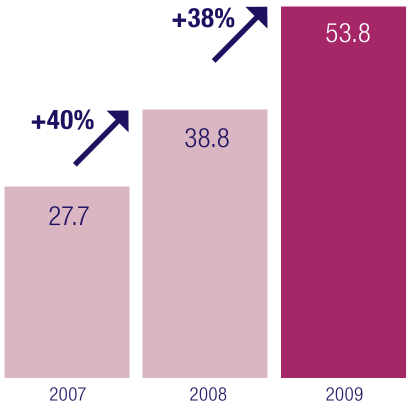
2009 was the year that our new facilities achieved critical mass, delivering scale production of high quality, high margin pork.

margins

Economies of scale show in our results

The value of our strategy to achieve scale production of high-quality, high-margin meat, at low costs, by investing in the most modern facilities and equipment, was underlined in 2009. Achieving a 38% growth in production alongside continued robust margins contributed strongly to overall Group profitability.

Volumes growth, 000 tonnes



Pork continued

For Cherkizovo, the major achievement of 2009 was our success in bringing new capacity on stream. In recent years, this was enabled by our investments in state-of-the-art pig farms in the Lipetsk and Tambov regions, confirming our position as Russia's largest and most efficient greenfield pork producer. As a result, our production increased by 38% over the previous year as our new farms approached full-capacity output.

Industry-leading quality and margins
This was a very significant result for the Company, bringing to fruition the work of several years that is now enabling the process efficiency that gives us the strongest margins and highest quality produce in the Russian pork industry.

Russia is already one of the world's lowest cost producers, where the majority of farms still use out-dated techniques to produce lower margin pork of lesser quality. We are clearly demonstrating the viability of an alternative route, where we can produce world class fresh meat, raised in a humanitarian and ecologically sound environment at a significantly lower cost per kilo than our competitors.

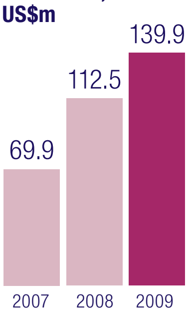
Building high barriers to entry
In doing so, we have built a substantial and durable lead over our competitors. This is a function of the cyclical nature of our industry, in which it can take several years to fine-tune an efficient and profitable production process. The construction of the farms is only one element of this. Elsewhere, for example we have bought sows from Denmark, specially selected for the leanness of their meat. The cycle therefore provides a very high barrier to entry, which will expose ambitious competitors seeking to emulate our success to ongoing costs while we are already reaping the profits of full production for our investors.

The quality factor is key to our ongoing sales strategy, where we are now ideally positioned to capitalise on the emerging consumer trend towards choosing high-quality cuts of branded meat. This approach assures the high margins that will deliver ongoing profitability even during years when we are exposed to fluctuations in both sale prices and feed costs. We experienced the benefits of this approach during 2009, when we maintained our margin despite a market-wide reduction in prices.

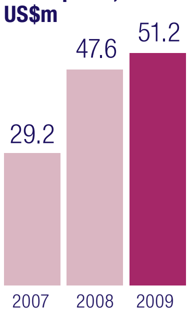
Driving further industry consolidation
We have therefore confirmed that we can sustain profitability even during times of financial crisis. This gives us immense cause for optimism as the market heads towards economic recovery and an environment where we can fully leverage the opportunities of premium pricing in association with cost efficient production. Since the end of 2009, we have continued our work to consolidate Russia's meat industry through the proposed acquisition of two greenfield pork farms in the Penza and Lipetsk regions. These will increase our current capacity by almost 30% by 2012.

Operational KPIs	2009	2008	change %
Average marketable pig weight, kg	**110.0**	111.5	-1
Average fattening period, days	**176**	183	-4
Number of farrows per year	**2.27**	2.27	0
Number of pigs per farrow	**11.8**	11.7	1
Liveability, %	**79**	79	0
Annual pork (live weight) yield per sow, kg	**2303**	2338	-1
Average fodder conversion rate, kg per kg of weight gain	**3.27**	3.33	-2
Average daily gain, g	**619**	603	3

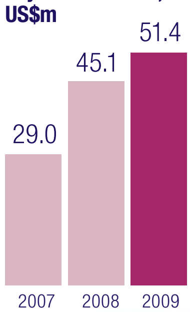
Total sales, US$m



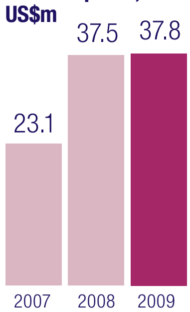
Gross profit, US$m



Adjusted EBITDA*, US$m



Division profit, US$m



No1
pork producer
in greenfield
production

Meat processing

Award

It is through engaging the consumer by concentrating on the product quality and innovation.

During 2009, the primary focus for our Meat Processing division was on reducing costs through modernising and restructuring our operations to gain better efficiencies.

Focus on premium brands

The Russian meat processing industry is highly fragmented and suffers from overproduction at the lower end of the market. For this reason, our commitment remains to developing premium brands which provide the choice and quality that Russian consumers increasingly demand as the overall market returns to economic health.

Prestigious awards recognise quality

This focus on quality was again reflected in our success in a number of prestigious award schemes during the year, where we won a total of 35 awards including 19 Gold standards. We were particularly pleased to have the quality of our brands recognised in such a high profile manner. It highlights the consistent excellence of our established products, as well as the consumer relevance of products which we have launched more recently, as part of our commitment to leading the market and setting new trends through constant innovation.

The extremely difficult market conditions of 2009 were reflected during the first half of the year by a decline in sales of our lower-priced products in some particularly badly affected regions, although these did not impact heavily on our business.

Well positioned for economic recovery

We saw consumption levels begin to rise again before the end of 2009, and we expect this improvement to accelerate further as recovery takes hold. Alongside the enhanced efficiency we are now experiencing as a result of our investments, we believe that this will drive better profitability throughout 2010 and beyond.

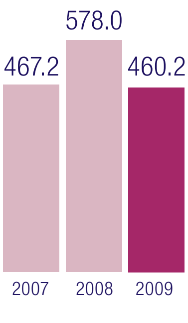
Maintaining the highest meat industry standards

Internationally recognised certification is at the heart of Cherkizovo's commitment to product quality and safety, and in 2009 we achieved successful recertification under the international quality management standard, ISO 9001-2008.

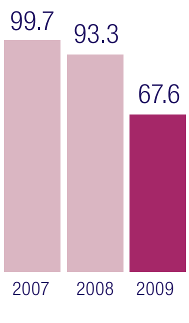
This is a key standard, but it is just part of one of the most complete certification processes of any Russian food producer.

Our chilled meats are also covered by ecological safety certification.

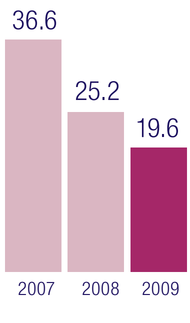
Total sales, US$m



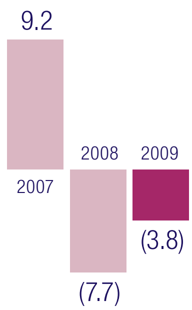
Gross profit, US$m



Adjusted EBITDA*, US$m



Division profit, US$m

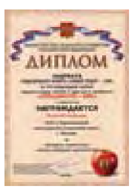


winning quality products

All-Russian Brand III millennium Quality Mark of the 21st Century exhibition. Frankfurters Molochnie GOST - Golden Quality Mark award.

Russian agro-industrial exhibition Golden Autumn-2009. Doktorskaya and Telyachya cooked sausages - Gold Medal

ProdExpo International Food and Beverages Fair 2009. Raw-cooked basturma and special sudjuk - Gold Medal



Distribution

Providing over 80% of the Russian population (some 115 million people) with straightforward access to our fresh, high quality products presents a vast distribution challenge. Cherkizovo rises to this challenge through investments in its information, storage and transit technology, through logistics expertise and by constantly maintaining and renewing our fleet of over 900 refrigerated trucks.

During 2009 Cherkizovo's products' route to reach the consumer emerged as an increasingly powerful driver of margin. We successfully sold up to 40% of our poultry products through modern retail chains, which provide the most attractive environment for selling our value-added chilled and sliced chicken ranges. Greater collaboration with retailers helped to strengthen our financial performance within this segment.

Freshness is fundamental

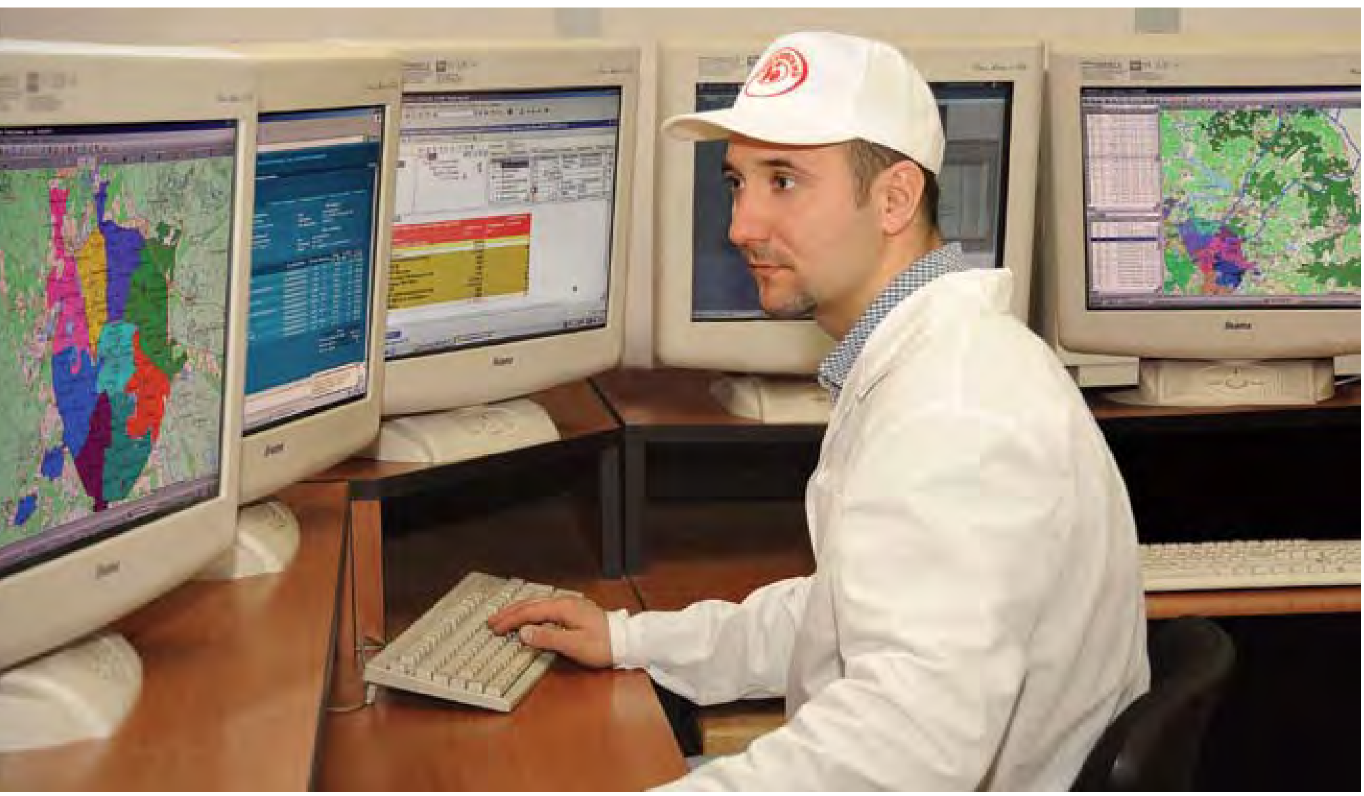
The freshness of our locally reared produce is a key reason behind the trust that customers place in our brands. The distribution division and its unique capabilities are fundamental to delivering on this trust.

This has grown in importance following the full integration of Kurinoe Tsarstvo (Chicken Kingdom) into our operations, which over the last two years has driven a substantial increase in our distribution network for chilled as well as frozen poultry meat. At the same time, we have continued to ensure that all products are delivered in pristine condition regardless of where they are distributed. This commitment to quality produce and distribution excellence has helped maintain our frozen poultry brand, Kurinoe Tsarstvo's, market leadership in the Central Federal Region of Russia, and our Petelinka brand as No1 in the chilled poultry segment in Moscow and the Moscow region.

Meeting retailers' needs

Rapid growth has placed increased importance on our ability to ensure the speed and effectiveness of our packaging, labelling, routing and delivery operations, which already lead the Russian food production industry, in order to satisfy the requirements of our retail partners. During 2009, we made additional investments in our accounting and information systems to improve our overall efficiency and extend our competitive advantage.

Our investment in logistical infrastructure has reduced processing and storage time, while increasing speed and customer satisfaction



We serve 115 million Russian consumers

A widespread, strategic network of 25 distribution centres and sub-divisions from St Petersburg in the north down to Labinsk in the south and to Chelyabinsk in the East means we can reach retailers and consumers the length and breadth of Russia. This is a further source of competitive advantage that most peers cannot match.

Logistics expertise delivers fresh quality products

Logistics expertise ensures freshness and quality

We use GPS-based automated routing technology to maximise the timeliness and efficiency of our delivery operations. As a further failsafe option, we supplement our own resources with services from independent specialist logistics companies to protect and enhance our reputation for trustworthiness. These are important ways of delivering the highest standards of client service at the lowest possible cost to ourselves and our retail partners.

Financial review

Our outstanding performance makes 2009 Cherkizovo's most profitable year to date, despite the particularly challenging macroeconomic environment. In constant currency terms, the Group almost doubled its Net Income, materially increased Adjusted EBITDA by 52% and improved EBITDA margin to 18%. Though there was a significant translation impact on the reported numbers owing to the dramatic depreciation of the rouble against the US dollar, the Group was still capable of demonstrating growth in reporting currency in EBITDA and Net Income. Moreover, our solid financial position enabled us to meet all of the Group's financial obligations during the year, including the repayment of our outstanding bond issue in June 2009.

Our successes in the Poultry division contributed significantly to the Company's overall Adjusted EBITDA margin improvement. The division achieved a record 35% Gross Margin and 26% Adjusted EBITDA Margin as the segment enjoyed a stable pricing environment and particularly low grain prices, as well as the continuing scale benefits from the integration of Chicken Kingdom. During 2009, Cherkizovo continued to invest for future growth in the sector; commencing two large investment projects at our Bryansk and Penza clusters, which are expected to increase the Group's poultry capacity by 40% once the sites are fully operational in 2012.

Our Pork division experienced an exceptional 38% growth in production volumes as our new farms neared full capacity in 2009. Moreover, the additional scale and stable pricing environment enabled us to sustain robust divisional margins for the third consecutive year. The efficiency and lower-cost production achieved at new farms positively influenced the overall Group profitability and we expect further improvements as we see accelerated volume growth this year.

In Meat Processing, we lowered our operating expenses by focusing efforts on operational restructuring. The year 2009 brought pressure on sales volumes in lower-priced, lower-margin products and we saw reduced consumption in some regions where the economy was more negatively impacted. However, during the course of the fourth quarter, we saw stabilization in sales volumes in the division.

In 2009, the Company's vertically-integrated business model proved its strength and enabled Cherkizovo to achieve impressive performance in the face of a highly challenging operating environment. Our strong focus on operating efficiencies has driven significant margin improvement this year and strengthened our competitive position in the domestic market and looking ahead, we intend to capitalize on the momentum we achieved last year. Since the year end, we have already reached another milestone for the Group, with the proposed acquisition of two greenfield pork farms in the Penza and Lipetsk regions. We expect this acquisition, which continues our work in consolidating Russia's meat industry, to increase the Group's current capacity in the high-margin Pork division by almost 30% by 2012.

For the current year, we remain cautious about the effects of continuing pressure on Russian consumption, however, we expect the pricing environment to remain broadly favourable for Cherkizovo's products throughout the year. Russia still remains the biggest importer of meat in

In constant currency terms, the Group almost doubled its Net Income in 2009

2009 Consolidated Selected Financial Data US$000	Meat Processing	Poultry	Pork	Corporate assets/ expenditures	Interdivision	**Combined**
Total Sales	460,158	470,058	139,887	2,438	–	**1,072,541**
including other sales	3,693	55,816	17,634	–	–	**77,143**
including sales volume discount	(17,862)	(17,544)	–	–	–	**(35,406)**
Interdivision Sales	(307)	(22,881)	(24,462)	(2,434)	–	**(50,084)**
Sales to external customers (Sales)	459,851	447,177	115,425	4	–	**1,022,457**
% of total sales	*45%*	*44%*	*11%*			***100%***
Cost of Sales	(392,590)	(307,352)	(88,657)	(2)	47,414	**(741,187)**
Gross profit	**67,568**	**162,706**	**51,230**	**2,436**	**(2,670)**	**281,270**
Gross margin	*15%*	*35%*	*37%*			***28%***
Operating expenses	(59,393)	(62,366)	(8,349)	(13,642)	2,670	**(141,080)**
Operating income	**8,175**	**100,340**	**42,881**	**(11,206)**	**–**	**140,190**
Operating margin	*2%*	*21%*	*31%*			***14%***
Other income and expenses, net	(141)	(1,888)	(196)	14,793	(12,182)	**386**
Interest expenses	(11,841)	(9,682)	(4,879)	(5,424)	12,182	**(19,644)**
Division profit/(loss)	**(3,807)**	**88,770**	**37,806**	**(1,837)**	**–**	**120,932**
Division profit margin	*-1%*	*19%*	*27%*			***12%***
Supplemental information:						
Income Tax expense	973	(5,560)	1,716	(476)	–	**(3,347)**
Depreciation and amortisation expense	10,966	20,585	8,448	107	–	**40,106**
Loss on disposal of property, plant & equipment	503	605	100	–		**1,208**

Adjusted EBITDA* reconciliation						
Division profit/(loss)	**(3,807)**	**88,770**	**37,806**	**(1,837)**	**–**	**120,932**
Add:						
Interest expense	11,841	9,682	4,879	5,424	(12,182)	**19,644**
Interest income	(3,020)	(35)	(34)	(10,219)	12,185	**(1,123)**
Gain on early retirement of bonds	–	–	–	(1,077)	–	**(1,077)**
Reserve on loans receivable	2,128	–	–	285	–	**2,413**
Gain from debt forgiveness	(132)	(150)	(15)	(118)	–	**(415)**
Currency remeasurement loss/(gain), net	1,464	2,069	245	(3,613)	–	**165**
Other financial (income) & expenses, net	(298)	3	–	(51)	(3)	**(349)**
Depreciation and amortisation expense	10,966	20,585	8,448	107	–	**40,106**
Loss on disposal of property, plant & equipment	503	605	100	–	–	**1,208**
Adjusted EBITDA*	19,645	121,529	51,429	(11,099)	–	**181,504**
*Adjusted EBITDA Margin**	*4%*	*26%*	*37%*			***18%***

Reconciliation between net division profit and consolidated income attributable to Group Cherkizovo	
Total net division profit	**120,932**
Net (income)/loss attributable to noncontrolling interests	(4,108)
Income taxes	3,347
Net income attributable to Group Cherkizovo	**120,171**

the world and the Russian government is targeting a substantial reduction in imports by 2012, which presents significant opportunities for Cherkizovo as the leading domestic producer. The Company will continue to leverage the benefits of improving efficiency and increasing capacity, particularly in our higher margin Pork and Poultry businesses, to take advantage of the opportunities in the market and M&A opportunities, and we remain confident that we will continue to deliver against our strategy in the course of the financial year.

Cherkizovo is one of the leading integrated diversified meat producers in the Russian Federation. According to 2009 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, ScanMarket research and our own estimates, we have the largest sales of poultry in Moscow and the Moscow region and are one of the leaders nationally. We are also one of the leaders in the highly-fragmented Russian pork industry.

In 2009, we sold approximately 130,000 tonnes of meat products, 184,300 slaughter-weight tonnes of poultry products and 53,800 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 accompanying services. Expenses for our corporate headquarters are recorded under "corporate expenditures".

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 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 2009 was actually negative at -2.8% (2008: 1.8%), as compared to the general corporate profit tax rate in Russia of 20%. Negative tax rate mainly relates to the fact that in 2009 previously recognized provisions on uncertain income tax positions were released as applicable statutes of limitations expired.

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 was steadily decreasing during 2009 from 13.00% at the beginning of the year to 8.75% in December.

We account for interest on these loans on a net basis, after taking the subsidies into account. As of 31 December 2009, approximately 86% (up from 74% at the end of 2008) of the aggregate principal amount of our loans was eligible for, and received, the subsidies, which reduced interest for the year by US$28.0 million (2008: US$18.4million). As of 31 December 2009 our effective interest rate applicable to the loans to which the interest subsidies applied ranged from 3.85% to 6.96%, compared with the weighted average interest rate on outstanding amounts under the loans, which ranged from 13.7% to 16.5%. As of 31 December 2009 our effective interest rate remained steady at 4% (2008: 4%). 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.

Subsidies

The Group received no direct Federal subsidies in 2009. The Group received regional direct subsidies that were offset against cost of sales in 2009 of US$1.0 million. As noted previously the Group also received subsidies for interest reimbursement of US$28.0 million which offset interest expense.

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 New Year holiday season. 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.

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 depreciated in real terms against the US Dollar by 12.2% in 2009 (2008: appreciation 13.3%), and the average exchange rate of the Rouble against the US Dollar depreciated by 21.7% (2008: appreciation 3.1%) in nominal terms.

Approximately 1.5% of the aggregate principal amount of our long-term debt outstanding at 31 December 2009 consisted of foreign-currency denominated loans (2.8% in 2008), of which approximately 87% were US Dollar-denominated and 13% Euro-denominated). All of our short-term debt balance (excluding the current portion of long-term loans) both at 31 December 2009 and 2008 was Rouble-denominated. Of our outstanding debt, as of 31 December 2009, 97% bore interest at fixed rates, and 3% bore interest at floating rates linked to MosPrime. We have not entered into transactions to hedge against the interest rate risk.

Results of operations

Group Results

The Group performed exceptionally well in 2009. Not only 2009 was our most profitable year to date but these results were also achieved in a very challenging economic environment both in Russia and globally.

While the rouble results are extremely pleasing, on a reporting currency basis, there was a significant translation impact owing to the dramatic 28% depreciation of the average rouble US Dollar exchange rate year on year. Accordingly, on a reported basis, sales decreased by 12% to US$1.0 billion (2008: US$1.2 billion).

Meat Processing accounted for 45% (50% in 2008), Poultry for 44% (42% in 2008) and Pork for 11% (8% in 2008) of the Group's sales. Our Pork and Poultry divisions showed the strongest growth in the year in Rouble terms, with the Pork division growing by 59% and the Poultry division by 19%. Accordingly, we see an increasing share of high margin businesses in the structure of the business of the Group, which is expected to positively affect the overall margin.

Gross profit increased 1% to US$281.3 million (2008: US$279.4 million). In roubles the increase amounted to 29%. Efficiency gains helped contribute to a 20% reduction in operating expenses, and, as a result, operating margin increased to 14% from 9% for 2008. Net income increased 54% to $120.2 million (2008: US$78.1 million).

Adjusted EBITDA* increased 19% to US$181.5 million (2008: US$152.3 million) and adjusted EBITDA* margin improved significantly to 18% (2008: 13%), reflecting a robust operating performance by the Group in a tough environment.

Consolidated income statement data US$000	**Year ended December 31 2009**	Year ended December 31 2008
Sales	**1,022,457**	1,166,406
Cost of sales	**(741,187)**	(887,015)
Gross profit	**281,270**	**279,391**
Gross margin	***28%***	*24%*
Operating expenses	**(141,080)**	(175,923)
Operating Income	**140,190**	**103,468**
Operating margin	***14%***	*9%*
Income before tax and non-controlling interest	**120,932**	**81,928**
Net income attributable to Group Cherkizovo	**120,171**	**78,105**
Net profit margin	***12%***	*7%*
Weighted average number of shares outstanding	**43,028,022**	41,725,834
Earnings per share		
Income/(loss) from continuing operations	**2.79**	1.83
Loss from discontinued operations	**–**	0.04
Net income per share	**2.79**	**1.87**
Consolidated Adjusted EBITDA reconciliation*		
Income before income tax and minority interest	**120,932**	**81,928**
Add:		
Interest expense	**19,644**	22,725
Interest income	**(1,123)**	(1,965)
Gain on early retirement of bonds	**(1,077)**	–
Reserve on loans receivable	**2,413**	–
Gain from debt forgiveness	**(415)**	(1,019)
Currency remeasurement loss/(gain), net	**165**	1,596
Other financial (income) & expense, net	**(349)**	203
Depreciation expense	**40,106**	45,791
Loss on disposal of property, plant & equipment	**1,208**	822
Impairment of non-current assets	**–**	2,258
Consolidated Adjusted EBITDA	**181,504**	152,339
Adjusted EBITDA Margin	***18%***	*13%*

We will benefit from an increased share of high margin businesses of poultry and pork in the Group's structure

Poultry Division

In 2009 sales volumes were broadly flat at approximately 184,300 tonnes from the comparable 2008 period, as the Group focused on improving the efficiency and scale of its production in the Poultry division. Prices for Cherkizovo Poultry sales increased 16% from 63.87 roubles per kg in 2008 to 74.33 roubles per kg in 2009 (excluding VAT). In US dollar terms, prices decreased by 9% from $2.57 per kg in 2008 to $2.34 per kg in 2009 (excluding VAT).

Total sales in the Poultry division decreased 7% to US$470.1 million (2008: US$505.2 million). Gross Profit increased 17% to US$162.7 million (2008: US$138.9 million) and the division achieved a record 35% Gross Margin (2008: 28%) due to a positive pricing environment supported by lower grain prices, as well as gains from measures implemented to improve efficiency.

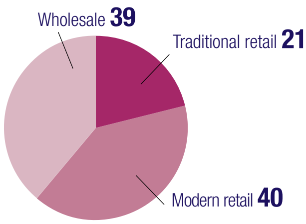
Integration synergies from the acquisition of OJSC Kurinoe Tsarstvo (Chicken Kingdom) helped the division to reduce Operating expenses as a percentage of sales from 14% to 13%. As a result, the division increased its operating income by 47% to US$100.3 million (2008: US$68.4 million), and operating margin increased from 14% to 21% in the same period. Profit in the Poultry division increased by an impressive 73% to US$88.8 million (2008: US$51.3 million).

Adjusted EBITDA* increased 30% to US$121.5 million (2008: US$93.2 million), while Adjusted EBITDA* margin in the Poultry division in 2009 increased to 26% from 18% in 2008.

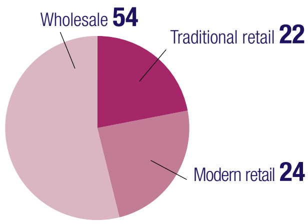
In terms of distribution of our poultry products, we have seen an increase of sales through modern retail in 2009, driven by increasing share of sales of chilled poultry which requires a sophisticated format provided mostly by modern retail chains.

Poultry sales, %

2009



2008



Poultry processing division income statement data US$000	**Year ended December 31 2009**	Year ended December 31 2008
Total Sales	**470,058**	505,204
Interdivision sales	**(22,881)**	(19,859)
Sales to external customers	**447,177**	485,345
Cost of sales	**(307,352)**	(366,330)
Gross profit	**162,706**	**138,874**
Gross margin	***35%***	*28%*
Operating expenses	**(62,366)**	(70,498)
Operating Income	**100,340**	**68,376**
Operating margin	***21%***	*14%*
Other income and expenses, net	**(1,888)**	(2,477)
Interest expenses	**(9,682)**	(14,611)
Division profit	**88,770**	**51,288**
Division profit margin	***19%***	*10%*
Poultry division Adjusted EBITDA reconciliation**		
Division profit/(loss)	**88,770**	**51,288**
Add:		
Interest expense	**9,682**	14,611
Interest income	**(35)**	(144)
Gain from debt forgiveness	**(150)**	(140)
Currency remeasurement loss/(gain), net	**2,069**	2,761
Other financial income & expense, net	**3**	–
Depreciation expense	**20,585**	22,248
Loss on disposal of property, plant & equipment	**605**	779
Impairment of non-current assets	**–**	1,777
Poultry division Adjusted EBITDA*	**121,529**	**93,180**
Adjusted EBITDA Margin	***26%***	18%
Volumes, 000 (slaughter weight)	**184,300**	187,100
Price / kg	**US$2.34**	US$2.57

Pork Division

Sales volumes in the Pork division continue to be the driver of the Group's growth and they increased 38% in 2009 to approximately 53,800 tonnes compared to approximately 39,000 tonnes in 2008. Furthermore, we expect significant organic volume gains in 2010, also supported by the proposed acquisition of two greenfield pork production complexes which is expected to add almost 30% to the existing capacity of the Group.

In 2009 Pork division prices increased in rouble terms by 6%, from 68.36 roubles per kg in 2008 to 72.12 roubles per kg in 2009 (excluding VAT). In US dollar terms, prices decreased by 17% from $2.75 per kg of live weight in 2008 to $2.27 per kg of live weight in 2009 (excluding VAT).

Total sales in the pork division increased 24% to US$139.9 million (2008: US$112.5 million). Gross Profit increased 8% to US$51.2 million (2008: US$47.6 million) while Gross Margin decreased to 37% due to higher sales volumes coming in the second half of the year when pork prices were particularly pressured by increasing imports of live pork into Russia.

Operating expenses as a percentage of sales decreased to 6% from 7% in 2008, reflecting increasing economies of scale at the new farms. The division generated Operating Income of US$42.9 million (2008: US$39.3 million), while Operating Margin decreased to 31% (2008: 35%). Profit in the Pork division increased 1% to US$37.8 million (2008: US$37.5 million).

Adjusted EBITDA* generated by the division increased 14% to US$51.4 million (2008: US$45.1 million), and Adjusted EBITDA* Margin decreased to 37% (2008: 40%).

Pork processing division income statement data US$000	**Year ended December 31 2009**	Year ended December 31 2008
Total Sales	**139,887**	112,507
Interdivision sales	**(24,462)**	(9,224)
Sales to external customers	**115,425**	**103,283**
Cost of sales	**(88,657)**	(64,939)
Gross profit	**51,230**	**47,568**
Gross margin	***37%***	*42%*
Operating expenses	**(8,349)**	(8,293)
Operating Income	**42,881**	**39,275**
Operating margin	***31%***	*35%*
Other income and expenses, net	**(196)**	(102)
Interest expenses	**(4,879)**	(1,723)
Division profit	**37,806**	**37,450**
Division profit margin	***27%***	*33%*
Pork division Adjusted EBITDA reconciliation**		
Division profit/(loss)	**37,806**	37,450
Add:		
Interest expense	**4,879**	1,723
Interest income	**(34)**	–
Gain from debt forgiveness	**(15)**	–
Currency remeasurement loss/(gain), net	**245**	102
Depreciation expense	**8,448**	6,271
Loss on disposal of property, plant & equipment	**100**	(437)
Pork division Adjusted EBITDA*	**51,429**	**45,109**
Adjusted EBITDA Margin	***37%***	*40%*
Sales Volumes, 000 (live weight)	**53,800**	38,800
Price / kg	**$2.27**	$2.75

The structure of our debt portfolio has considerably improved in favour of long-term debt

Meat Processing Division

Sales volumes decreased 10% to approximately 130,000 tonnes, due to decreased sales volumes of lower-priced, lower-margin products and lower consumption in some regions of Russia where the economy was more negatively impacted.

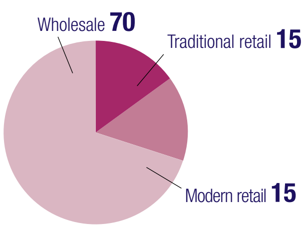
Average division prices increased by 10% from 103.86 roubles in 2008 to 113.80 roubles in 2009 (excluding VAT). In US dollar terms, the division's prices decreased by 14% from $4.18 per kg in 2008 to $3.59 per kg in 2009 (excluding VAT).

Sales in the Meat Processing division decreased 20% to US$460.2 million (2008: US$578.0 million). Divisional Gross Profit decreased 28% to US$67.6 million (2008: US$93.3 million), while Gross Margin decreased from 16% to 15%, largely due to the increase in raw meat prices. However, Operating expenses as a percentage of sales, decreased to 13% from 15% in 2008, reflecting lower selling expenses and operational restructuring at production sites. The division loss was US$3.8 million in 2009.

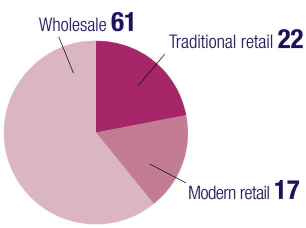
Adjusted EBITDA* for the division decreased 22% to US$19.6 million (2008: US$25.2 million), and Adjusted EBITDA* margin remained unchanged at 4%.

Meat Processing sales, %

2009



2008



Meat processing division income statement data US$000	**Year ended December 31 2009**	Year ended December 31 2008
Total Sales	**460,158**	578,045
Interdivision sales	**(307)**	(271)
Sales to external customers	**459,851**	**577,774**
Cost of sales	**(392,590)**	(484,748)
Gross profit	**67,568**	**93,297**
Gross margin	***15%***	*16%*
Operating expenses	**(59,393)**	(86,343)
Operating Income	**8,175**	**6,954**
Operating margin	***2%***	*1%*
Other income and expenses, net	**(141)**	74
Interest expenses	**(11,841)**	(14,777)
Division loss	**(3,807)**	**(7,749)**
Division profit margin	***-1%***	*-1%*
Meat processing division Adjusted EBITDA reconciliation**		
Division profit/(loss)	**(3,807)**	**(7,749)**
Add:		
Interest expense	**11,841**	14,777
Interest income	**(3,020)**	(1,490)
Reserve on loans receivable	**2,128**	–
Gain from debt forgiveness	**(132)**	(879)
Currency remeasurement loss/(gain), net	**1,464**	2,298
Other financial income & expense, net	**(298)**	(4)
Depreciation expense	**10,966**	17,261
Loss on disposal of property, plant & equipment	**503**	479
Impairment of non-current assets	**–**	481
Meat processing division Adjusted EBITDA	**19,645**	**25,174**
Adjusted EBITDA Margin	***4%***	*4%*
Sales Volumes, 000	**129,800**	144,600
Price / kg	**US$3.59**	US$4.18

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 Poultry segment
- potential acquisitions
- repayment of debt.

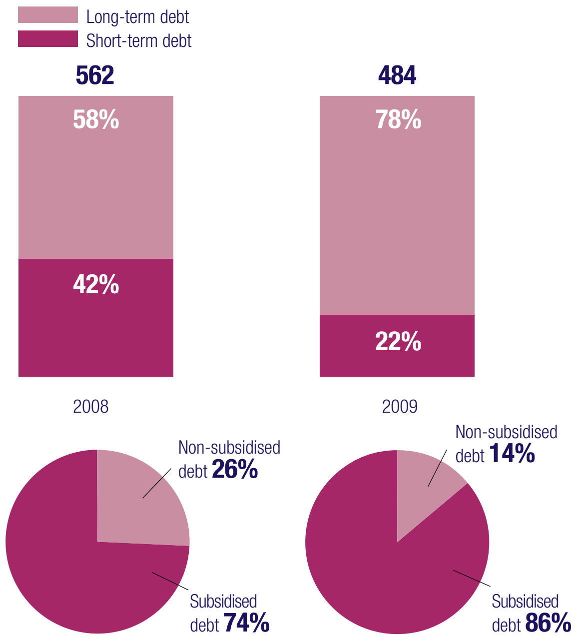
We anticipate that capital expenditure, potential acquisitions and repayment of long-term debt will represent the most significant use of funds for the next few years.

We generally rely on operating cash flows and bank loans to finance capital expenditure. In 2009, the major sources of our funds were our operating cash flows and short and long-term borrowings. We financed our capital expenditure primarily with short and long-term borrowings.

Debt

Net Debt decreased 13% to US$445.2 million from US$512.3 million in 2008. As of 31 December 2009, total Debt was at US$484.1 million, while the structure of the debt portfolio changed in favour of long-term debt, which was approximately US$375.7 million or 78% of the debt portfolio, increasing from 58% of the debt portfolio at the end of 2008. Short-term debt was US$108.5 million, or 22% of the portfolio, decreasing from 42% at the end of 2008 in line with our strategy of refinancing short-term debt on a long-term basis. Cost of Debt for 2009 remained at 4%. The portion of subsidized debt in the portfolio was 86%, increasing from 74% at end of 2008.

Total debt, US$ million



Financial review continued

Capital expenditure

Our total capital expenditure in 2009, excluding acquisitions, amounted to US$129 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.

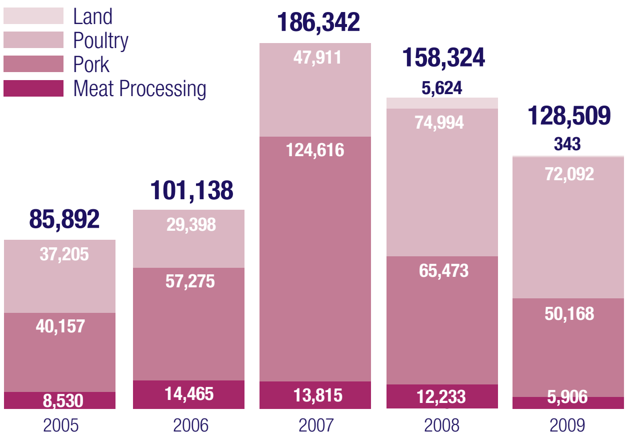
In 2009, capital expenditure in our Poultry segment totalled US$72 million and related mainly to the completion of the Vertunovskaya production site, the capacity increase projects at Bryansk and Penza clusters, and the construction of the new slaughter facility in Penza.

In 2009, capital expenditure in our Pork segment amounted to US$50 million, covering the completion of construction of our new pork facilities in Lipetsk and Tambov.

In 2009, capital expenditures in our Meat Processing segment totalled US$6 million and covered improvements at our existing meat processing sites.

The following diagram sets out our capital expenditure by segment, for the five years ended 31 December 2009.

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 2009 and 2008:

For the year ended 31 December	**2009 US$000**	2008 US$000
Net cash from operating activities	**176,216**	128,220
Net cash used in investing activities	**(121,489)**	(172,375)
Net cash from financing activities	**63,332**	89,410
Net increase/(decrease) in cash and cash equivalents[1]	**(10,706)**	32,729

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

In 2009 for the first time in the Group's history we achieved a positive Free Cash Flow of US$54.7, compared with a negative one of US$44.2 in 2008. The fact that we achieved this not through the reduction of CAPEX (in constant currency terms it actually increased by 1%) but through the increase in operating cash flows makes this achievement even more notable.

Net cash from operating activities in 2009 increased to US$176.2 million (2008: US$128.2 million).

This significant increase in net cash from operating activities in 2009 compared to 2008 (up by US$48.0 million) mostly related to factors including: a large increase (US$43.8 million) in Income from continuing operations, a slight decrease in inventories in 2009, compared to the large decrease in 2008; a slight increase in trade receivables in 2009, compared to the large increase in 2008; a decrease in other current assets, compared to increase in 2009 (which mostly relates to the amounts of accrued subsidies and tax receivables).

A slight decrease in inventories of US$0.7 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 many of our suppliers now require payments in advance and it is more prudent in terms of cash flows to optimize working capital requirements, reducing the levels of inventory.

The increase in livestock mostly relates to the growing operations at our pork facilities in Lipetsk (modules 3 and 4 in Lipetsk reaching full capacity), and also to the commissioning of our new poultry site at Naryshkino in addition to Vertunovka reaching full capacity (both are part of JSC Vasiljevskaya in Penza).

The large increase in inventories during 2008 is primarily the result of 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 slight increase in trade receivables mainly resulted from the increase in sales in general which was offset by the change in payment terms with some of the wholesale customers requiring them to pay in advance.

The increase in trade receivables in 2008 mainly resulted from a significant (compared to an increase in 2009) increase in general sales and in those of mixed fodder to related parties.

Decrease in other current assets mostly relates to a decrease in accrued but not received subsidies for interest reimbursement, and decrease in current receivable VAT.

Accrued subsidies went down due to the quicker reimbursement of interest expenses by local governments in 2009 compared to 2008. The same is true for receivable VAT.

Our investment activities in 2009 showed a significant decrease in the use of cash, which totalled US$121.5 million (2008: US$172.4 million). The decrease is mostly due to the depreciation of the rouble in 2009. In constant currency terms our capital expenditure increased slightly (by 1%).

In 2009 net cash flow used in financing activities was US$63.3 million. In 2008 net cash from financing activities was US$89.4 million. A decrease in net cash flow from financing activities in 2009 resulted primarily from the increased use of cash for repaying long-term loans. Around a half of the repayment of long-term loans is a repayment of the 2 billion rouble bond issue. Also the change in our debt portfolio with the shift from short-term loans to long-term ones led to a decrease in short-term loans received.

In 2008 we had 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.

Liquidity
As of 31 December 2009, we had total cash and cash equivalents of US$39.0 million. We also had working capital of US$128.3 million which is a significant improvement from US$24.4 million in 2008. 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$236.8 million (2008: US$260.8 million) as of 31 December 2009. Our future plans for improving liquidity and our working capital position include further refinancing short-term debt on a long-term basis.

In 2009 trade receivables remained flat at US$86.6 million (2008: US$87.9 million). Trade receivables from related parties at 31 December 2009 increased to US$20.3 million (2008: US$14.8 million). Trade receivables' turnover averaged 31 days as of 31 December 2009 (2008: 28 days). The allowance for doubtful accounts, which we create on a case-by-case basis, was US$4.9 million (2008: US$3.3 million).

Trade accounts payable decreased slightly to US$64.2 million at 31 December 2009 (2008: US$66.3 million). Trade payables to related parties decreased slightly to US$1.4 million as of 31 December 2009 (2008: US$2.4 million). As of 31 December 2009 trade payables' turnover averaged 32 days (2008: 27 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 2009, advances paid amounted to US$31.2 million, net of allowances for doubtful accounts (2008: US$29.7 million). Of our total net advances, US$16.4 million (2007: US$7.3 million) was to related parties. The allowance for doubtful accounts at 31 December 2009 was US$1.6 million (2008: US$1.4 million).

Inventory consists primarily of raw materials and goods for resale, work-in-progress, livestock and finished goods. As of 31 December 2009, our inventories were US$138.4 million (2008: US$133.9 million).

The value of our livestock at 31 December 2009 was US$59.3 million (2008: US$55.3 million). An increase is due to the increased operations at our pork facilities in Lipetsk (modules 3 and 4), and to the commissioning of our new poultry site at Naryshkino in addition to Vertunovka reaching full capacity (both are part of JSC Vasiljevskaya in Penza).

Other receivables mainly comprise subsidies due from the government, which decreased to US$16.3 million in 2009 (2008: US$28.4 million).

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

Outlook
Looking ahead, 2010 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. In addition, the outlook for grain harvest for 2010 and grain inventories, rolling from previous harvests enable us to predict a favourable grain pricing environment.

Our results for the first quarter of 2010 were broadly in line with our expectations in the Poultry and Pork segments, with Meat Processing showing better than expected results mainly due to the pick-up of demand for the division's products accompanied by the rise of division prices in both Rouble and Dollar terms.

Therefore, despite the challenging economic conditions, we remain cautiously optimistic about consumption patterns and pricing trends for our products.

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, 60
Mr Babaev has served as Chief Executive Officer of most Group companies since 1998. He joined Cherkizovsky MPP (CMPP) 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 Anapa Meat Processing Plant, head of Armavir Meat Canning Plant, 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 Complex 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. In 2009 Mr. Babaev was awarded the Order of Honour for his outstanding achievements by the President of the Russian Federation, Dmitry Medvedev.

Sergei Mikhailov Chief Executive Officer, 31
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, 28
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 OJSC 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, 42
Mr Dyachuk has been head of our Legal Department since 2006. A practising 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 CMPP from 1996 to 2000 and a member of the legal department at CMPP 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, 65
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, 50
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. He 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.

Leveraging our sector experience

for the benefit of Cherkizovo's shareholders

Marcus Rhodes Non-executive Director, Chairman of Audit Committee, 49

Mr Rhodes joined the Board of Directors in February 2009. He has over 20 years' experience in audit, ranging from major financial to consulting companies in several countries including Russia and Poland. From 2002 to 2008, he acted as an audit partner for Ernst & Young. Since 2007, Mr Rhodes has served as a Director of SPARTACUS Private Equity Group Ltd. He also serves as Independent Director for the Boards of Directors of Wimm-Bill-Dann Foods (since 2008) and Rosinter Restaurants Holding (since 2009). Mr Rhodes gained a BA degree (Hons) in economics from Loughborough University in England in 1982, and a certificate from the Institute of Chartered Accountants in England & Wales in 1986.

Ludmila Mikhailova Chief Financial Officer, 34

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 was 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, 45

Mr Minosyants is a former 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.

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 kilometres. 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 at New Year.

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 Moscow Interbank Currency Exchange (MICEX) and the London Stock Exchange (LSE). They are also traded on the Russian Trading System (RTS). In connection with our listing on the MICEX, 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 their business relations with the Group, we believe that Mr Samuel B Lipman and Mr Marcus Rhodes can be regarded as 'independent directors' in accordance with the Combined Code;
- the formation of an Audit Committee: Cherkizovo formed an Audit Committee in April 2006;
- 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:

- determine our business priorities;
- convene annual and extraordinary general shareholders' meetings, including setting a date and time, approving the agenda and determining the date of record for the register of persons entitled to participate (except in certain circumstances specified under Federal Law on Joint-Stock Companies);
- conduct placement of our bonds and other equity securities, in certain cases provided for by Federal Law on Joint-Stock Companies;
- determine the price (monetary value) of our property and the price of our securities to be placed or repurchased, as provided for by Federal Law on Joint-Stock Companies;
- repurchase our shares, bonds and other securities, in certain cases provided for by Federal Law on Joint-Stock Companies;
- carry out the election and early termination of the powers of our sole executive body (General Director) and payment of an indemnity to him;
- make recommendations on the amount of dividends and the payment procedure;
- use our reserve fund and other funds of the Company;
- create branches and representative offices;
- approve internal documents of the Company, except for those internal documents for which approval falls within the competence of the Company's general shareholders' meeting or General Director;
- approve major and interested party transactions, in certain cases as provided for by Federal Law on Joint-Stock Companies;
- increase 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;
- approve 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;
- approve our share registrar; and
- undertake other issues, as provided for by the Federal Law on Joint-Stock Companies.

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 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 is present.

The Board met 13 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 2009.

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 complexes, 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 12 and 13, the Chief Executive Officer's Review, 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 2010 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 2009:

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
Marcus Rhodes, Non-executive Director

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.

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

For the years ended 31 December 2009 and 2008

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on page xxx, 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 2009 and 2008 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 2009 and 2008 were approved on 29 March 2010 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 Shareholders of OJSC Cherkizovo Group:

We have audited the accompanying consolidated balance sheets of OJSC Cherkizovo Group and its subsidiaries (together the "Group") as of 31 December 2009 and 2008 and the related consolidated statements of income, cash flows and changes in equity and comprehensive income for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 2 to the financial statements, the Group did not maintain historical cost records for property, plant and equipment acquired prior to 31 December 2001. At 31 December 2009 and 2008, the stated amounts of such property, plant and equipment approximated US $47,670 thousands and US $51,864 thousands, respectively. On 31 December 2001, the Group established the carrying value of such assets based on the estimated fair values at such date. In our opinion, accounting principles generally accepted in the United States of America require that property, plant and equipment be stated at historical cost. The information needed to quantify the effects of these items on the financial position, results of operations, and cash flows of the Group is not reasonably determinable from the accounts and records.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine competent evidential matter regarding the carrying value of property, plant and equipment, the financial statements referred to in the first paragraph present fairly, in all material respects the consolidated financial position of the Group as of 31 December 2009 and 2008 and the consolidated results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche CIS

29 March 2010

Moscow, Russia

Consolidated balance sheets

As of 31 December 2009 and 2008

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

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

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

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

Consolidated income statements

For the years ended 31 December 2009 and 2008

	Notes	2009 US$000	2008 US$000
Sales	13	1,022,457	1,166,406
Cost of sales	14	(741,187)	(887,015)
Gross profit		**281,270**	**279,391**
Selling, general and administrative expenses	15	(139,872)	(172,843)
Impairment of non-current assets		–	(2,258)
Other operating expense		(1,208)	(822)
Operating Income		**140,190**	**103,468**
Other income, net	16	386	1,185
Interest expense, net	17	(19,644)	(22,725)
Income from continuing operations before tax		**120,932**	**81,928**
Income tax	18	3,347	(1,462)
Income from continuing operations		**124,279**	**80,466**
Loss from discontinued operations, net of tax	23	–	(4,000)
Discontinued operations, net of tax	23	–	4,599
Net Income		**124,279**	**81,065**
Less: Net income attributable to non-controlling interests		(4,108)	(2,960)
Net Income attributable to Group Cherkizovo		**120,171**	**78,105**
Amounts attributable to Group Cherkizovo:			
Income from continuing operations, net of tax		120,171	76,508
Discontinued operations, net of tax		–	1,597
Net income		**120,171**	**78,105**
Weighted average number of shares outstanding		43,028,022	41,725,834
		US$	US$
Earnings per share (basic and diluted):			
Income from continuing operations attributable to Group Cherkizovo	12	2.79	1.83
Discontinued operations attributable to Group Cherkizovo, net of tax		–	0.04
Net income attributable to Group Cherkizovo per share		**2.79**	**1.87**

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

Consolidated cash flow statements

For the years ended 31 December 2009 and 2008

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

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

Consolidated cash flow statements continued

For the years ended 31 December 2009 and 2008

	2009 US$000	2008 US$000
Cash flows from/(used in) investing activities:		
Purchases of long-lived assets	(130,287)	(165,248)
Proceeds from sale of property, plant and equipment	855	1,028
Sale of consolidated entities net of cash surrendered	–	58
Acquisition of subsidiaries, net of 14 cash acquired (Note 23)	(2,140)	–
Sale of notes receivable	10,310	–
Purchases of notes receivable	(3,260)	(402)
Issuance of long-term loans	(901)	(1,968)
Repayment on long-term loans issued	784	1,342
Issuance of short-term loans	(17,950)	(7,098)
Repayments on short-term loans issued	21,100	56
Net cash flow used in investing activities associated with continuing operations	**(121,489)**	**(172,232)**
Net cash used in investing activities associated with discontinued operations	**–**	**(143)**
Total net cash used in investing activities	**(121,489)**	**(172,375)**
Cash flows from (used in) financing activities:		
Proceeds from long-term loans	89,508	113,954
Repayment of long-term loans	(128,967)	(46,223)
Proceeds from long-term loans from related parties	1,004	149
Repayment of long-term loans from related parties	(85)	(1,025)
Purchase of treasury stock	–	(496)
Proceeds from short-term loans	90,733	273,951
Repayment of short-term loans	(115,279)	(330,665)
Proceeds from shares issued	–	82,340
Payments for services related to share issuance	–	(2,903)
Cash distributed to shareholders	(246)	(48)
Net cash (used in) from financing activities associated with continuing operations	**(63,332)**	**89,034**
Net cash from financing activities associated with discontinued operations	**–**	**376**
Total net cash (used in) from financing activities	**(63,332)**	**89,410**
Total cash (used in) from operating, investing and financing activities	**(8,605)**	**45,255**
Impact of exchange rate difference on cash and cash equivalents	(2,101)	(12,526)
Net increase (decrease) in cash and cash equivalents:	**(10,706)**	**32,729**
Cash and cash equivalents associated with continuing operations, at the beginning of the period	49,667	16,859
Cash and cash equivalents associated with discontinued operations, at the beginning of the period	–	79
Cash and cash equivalents associated with continuing operations, at the end of the period	**38,961**	**49,667**
Cash and cash equivalents associated with discontinued operations, at the end of the period	**–**	**–**
Supplemental Information:		
Income taxes paid	4,649	8,521
Interest paid	62,056	71,697
Property, plant and equipment acquired on account	6,532	11,285
Property, plant and equipment acquired under finance leases	599	6,494

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

Consolidated statements of changes in equity and comprehensive income

For the years ended 31 December 2009 and 2008

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

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

Notes to the consolidated financial statements
For the years ended 31 December 2009 and 2008

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

The business of the Group
The Group's operations are spread over the full production cycle from feed production and breeding to meat processing and distribution. The operational facilities of the Group include six meat processing plants, four pig production complexes, four poultry production complexes and one combined fodder production plant. The Group also operates three trading houses with subsidiaries in 12 major Russian cities.

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

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

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

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

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

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

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

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

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

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

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

Management estimates

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

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

Cash and cash equivalents

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

Accounts receivable and allowance for doubtful accounts

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

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

Inventory

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

Livestock

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

The Group treats breeding animals as fixed assets with costs to be depreciated over their useful lives, as follows:

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

Value Added Tax

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

2 Summary of significant accounting policies continued

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

Capitalised interest expenses

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

Business combinations

The acquisition of businesses from third parties is accounted for using the purchase method as required by the Business Combinations and Consolidation Topics of FASB ASC, 805 and 810, respectively. On acquisition, identifiable assets and liabilities of an entity are measured at their fair values as at the date of acquisition. The interest of minority shareholders is stated at fair value at the date of acquisition. Goodwill arising on acquisitions is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized.

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

Goodwill and other intangible assets

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

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

Goodwill and intangible assets deemed to have indefinite lives are subject to annual impairment tests at fiscal year end or earlier if indications of impairment exist, in accordance with the Intangibles – Goodwill and Other Topic of the FASB ASC 350. In the Group's assessment of goodwill, management makes assumptions regarding estimates of future cash flows and other factors to determine the fair value of the reporting unit. For purposes of testing goodwill for impairment, management has determined that each segment represents a reporting unit.

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

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

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

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

Loans receivable not held for sale

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

Notes receivables

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

Revenue recognition

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

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

Sales are recognised, net of VAT and discounts, when goods are shipped to customers. The Group grants discounts to customers primarily based on the volume of goods purchased. Discounts are based on monthly, quarterly, or annual target sales. Discounts range up to 18.8% for the meat processing segment and 13.5% for the poultry and pork segments. The discounts are graduated to increase when actual sales exceed target sales. Discounts are accrued against sales and accounts receivable in the month earned.

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

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

Marketing expenses

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

Government subsidies

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

2 Summary of significant accounting policies continued

Taxation

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

Income Taxes Topic of the FASB ASC 740 spell out the accounting for uncertain tax positions. Those provisions apply to all tax positions that are within the scope of the Topic and require a two-step approach for recognizing and measuring tax benefits. The topic establishes a "more-likely-than-not" recognition threshold that must be met before a tax benefit can be recognized in the financial statements. To meet this threshold, the enterprise must determine that upon examination by the taxing authority, the tax position is more likely to be sustained than not, based on the technical merits of the position. Once the recognition threshold has been met, the enterprise is required to recognise the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with the taxing authority. In both steps, enterprises must presume that the taxing authority has full knowledge of all relevant information.

Concentration of credit risk

Financial instruments that potentially expose the Group to concentration of credit risk consist primarily of cash and cash equivalents, accounts receivable from customers and advances paid to vendors. As of 31 December 2009, 36%, 19% and 13% of total cash balances were held on deposit in three Russian financial institutions. As of 31 December 2008, 52% and 28% of total cash balances were held on deposit in two Russian financial institutions.

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

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

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

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

Non-controlling interest

Non-controlling interest that resulted from acquisitions that occurred before 1 January 2009 is accounted for at historical value, which is the minority's share in the book value of a subsidiary's net assets on the date, when the control over a subsidiary was established by the Group. Non-controlling interest that resulted from acquisitions completed after 1 January 2009 is accounted for at fair value as of the date, when the control over a subsidiary was established by the Group.

Leasing

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

Pension costs

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

Fair value of financial instruments

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

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

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

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

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

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

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

Effect of accounting pronouncements adopted

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

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

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

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

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

2 Summary of significant accounting policies continued

New accounting pronouncements

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

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

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

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

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

3 Cash and cash equivalents

Cash as of 31 December 2009 and 2008 comprised:

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

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

4 Inventory

Inventory as of 31 December 2009 and 2008 comprised:

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

5 Other receivables, net

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

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

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

6 Other current assets

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

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

7 Property, plant and equipment, net

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

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

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

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

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

8 Goodwill and other intangible assets, net

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

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

Goodwill

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

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

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

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

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

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

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

Other intangible assets

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

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

Computer software

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

Biruliovsky (“Бирюлевский”) trademark
The Biruliovsky trademark was fully impaired in 2008.

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

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

Kurinoe Tsarstvo (“Куриное Царство”) trademark
The carrying value of the Kurinoe Tsarstvo trademark was 23,711 and 24,408 as of 31 December 2009 and 2008, respectively.

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

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements continued
For the years ended 31 December 2009 and 2008

8 Goodwill and other intangible assets, net continued
Impairment summary

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

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

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

9 Long-term notes receivable
During June 2006, the Group purchased Russian rouble denominated notes receivable from Gazprombank with a maturity date of June 2014 and a face value of 12,851 at the issuance date for total cash consideration of 6,762. In May 2009, the Group redeemed one of these notes with a face value of 10,709 in exchange for 6,492.

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

As of 31 December 2009, the balance comprised:

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

As of 31 December 2008, the balance comprised:

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

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

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

* WAIR represents the weighted average interest rate on outstanding loans.

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

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

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

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

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

Finance leases

As of 31 December 2009 and 2008, the Group used certain fixed assets under leasing contracts that qualified for treatment as finance leases. The lower of the incremental borrowing rate and the rate implicit in the lease agreement was used in capitalizing the leases.

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

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

Bonds

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

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

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

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

Bank Loans

Gazprombank

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

Savings Bank of Russia

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

10 Borrowings continued

Lipetskkombank

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

Lines of credit

Savings Bank of Russia

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

Gazprombank

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

Bank Zenith

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

Raiffeisenbank

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

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

Loans from governmental agencies

Department of Food Supply of the City of Moscow

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

Department of Taxes and Financial Policies, Moscow City Government

Borrowings from the Department of Taxes and Financial Policies of the Moscow City Government consist of two rouble denominated long-term loans with interest ranging from 5.5% to 6% per annum. Principal payments are due from 2010 to 2011. Amount outstanding was 4,034 and 6,603 as of 31 December 2009 and 31 December 2008, respectively.

Other borrowings

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

Collateral under borrowings

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

- JSC Vasiljevskaya – 92%;
- CJSC Petelinskaya – 51%;
- JSC Lipetskmyasoprom – 51%;
- LLC Budenovets Agrifirm – 51%;
- LLC Mikhailovsky Feed Milling Plant – 51%;
- LLC Kuznetsovsky Kombinat – 51%;
- LLC Ardymsky Feed Milling Plant – 51%;
- CJSC Botovo – 51%;
- JSC MPP Ulyanovsky – 35%;
- LLC AIC Mikhailovsky – 51%;
- JSC Biruliovsky meat processing plant – 51%;
- LLC Kurinoe Tsarstvo – Bryansk – 99%.

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

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

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

11 Tax related payables

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

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

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

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

Notes to the consolidated financial statements continued

For the years ended 31 December 2009 and 2008

12 Shareholders' equity

Share capital

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

In May 2008, the Group issued an additional 3,505,055 ordinary shares, of which 493,447 ordinary shares were acquired by

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

In October 2008, the Group purchased 62,000 global depository receipts, which equates to 41,333 ordinary shares, for 496.

These treasury shares were accounted for using the cost method. This transaction decreased the number of outstanding shares to 43,028,022.

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

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

Shares granted to employees

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

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

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

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

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

Earnings per share

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

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

13 Sales

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

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

14 Cost of sales

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

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

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

15 Selling, general and administrative expenses

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

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

16 Other income (expense), net

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

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

17 Interest expense, net

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

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

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

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

18 Income tax

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

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

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

The statutory income tax rates for all operations in the meat processing and non-agricultural operations in the poultry/pork segments are 20% and 0% for agricultural operations within the poultry/pork segments for the years presented under Russian legislation.

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

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

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

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

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

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

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

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

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

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

18 Income tax continued

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

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

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

Unrecognized income tax benefits

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

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

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

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

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

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

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

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

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

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

19 Fair value of financial instruments

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

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

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

20 Related parties

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

Trading transactions

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

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

Financing transactions

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

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

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

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

21 Long-term payables to shareholders

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

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

22 Segment reporting

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

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

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

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

Segment information at 31 December 2009 and for the year then ended comprised:

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

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

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

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

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

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

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

Notes to the consolidated financial statements continued
For the years ended 31 December 2009 and 2008

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

AIC Cherkizovsky Ltd. is a holding company under 100% control of the Company. AIC Cherkizovsky Ltd. includes the meat processing segment, which consists of meat processing plants, distribution companies and other companies registered and operating in the Russian Federation. As of 31 December 2009 and 2008, the following principal companies were included in AIC Cherkizovsky Ltd.:

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

AIC Mikhailovsky Ltd. is a holding company under 100% control of the Company. AIC Mikhailovsky Ltd. includes the pork and poultry segments that consist of companies engaged in the production of various types of compound feed, raising of poultry, pigs and cattle and the distribution of meat that are registered and operating in the Russian Federation. As of 31 December 2009 and 2008, the following principal companies were included in AIC Mikhailovsky Ltd.:

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

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

Acquisitions

Penzensky Kombinat Hleboproductov

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements continued
For the years ended 31 December 2009 and 2008

23 Subsidiaries, acquisitions, divestitures continued
The actual results of operations of Penzensky Kombinat Hleboproductov are included in the consolidated financial statements of the Group only from the date of acquisition and were:

Sales	5,741
Operating Loss	(367)
Net Loss	(202)

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

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

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

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

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

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

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

Discontinued operations

OJSC Belmyaso

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

Results from discontinued operations were as follows for 2008:

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

Sale of non-controlling interest in a subsidiary

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

24 Commitments and contingencies

Legal

As of 31 December 2009 and 2008, several Group companies reported negative net assets in their statutory financial statements. In accordance with the Civil Code of the Russian Federation, a liquidation process may be initiated against a company reporting negative net assets. Management believes that it is remote that the liquidation process will be initiated against those companies.

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

Taxation

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

Environmental remediation costs

The Group’s management believes that it is in compliance with applicable legislation and is not aware of any potential environmental claims; therefore, no liabilities associated with such costs are recorded as of 31 December 2009.

24 Commitments and contingencies continued

Capital commitments

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

Also the Group is in the process of implementing an integrated management planning and accounting system related to the meat processing segment of the business. As part of this project, commitments have been made to contractors of approximately 1,845 towards completion of the project.

Operating lease commitments

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

	2010 US$000	2011 US$000	2012 US$000	2013 US$000	2014 US$000	>2014 US$000	**Total US$000**
Total commitments	456	456	456	456	456	7,800	**10,080**

25 Subsequent events

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

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

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

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