CHERKIZOVO GROUP QUALITY FROM FARM TO FORK

ANNUAL REPORT

AN APPETITE FOR GROWTH 2010

CHERKIZOVO IS A LEADING RUSSIAN VERTICALLY INTEGRATED MEAT PRODUCER

We make feed for our pigs and chickens, while our high-quality, locally produced pork and poultry operations fully complement our award-winning processed meat products. Distribution is the final link in this farm-to-fork process, via our logistics network that gives over 80% of the Russian population access to our products.

GROWING MARKET LEADING POSITIONS

No1 MEAT PROCESSING

Value %

1	CHERKIZOVO GROUP	3.6
2	OMPK	3.3
3	Prodo	2.5
4	Tsaritsino	2.3
5	Pokom	1.9
6	Mikoms	1.6
7	Dymov	1.0
8	Tavr	1.0
	Other	82.8

No2 POULTRY

Slaughter weight by volume %

1	Prioskolie	14.8
2	CHERKIZOVO GROUP	7.2
3	Belgrankorm	6.2
4	Prodo	6.1
5	Belaya Ptitsa	3.1
6	Resurs	2.8
7	Alpi	2.7
8	Ural Broiler	2.3
9	Chelny Broiler	2.2
10	Lisko Broiler	2.2
	Other	50.4

No3 PORK

Live weight by volume %

1	Miratorg	7.2
2	Agro-Belogorie	5.4
3	CHERKIZOVO GROUP	5.0
4	Prodo	4.2
5	Belgorodskiy Bacon	3.4
6	Siberian Agrarian Group	2.6
7	KoPitania	2.4
8	Eksima	2.0
9	Troparevo	1.5
10	Vostochniy	1.4
	Other	64.9

FINANCIAL HIGHLIGHTS

	2009	2010
Total sales, US$m	1019.2	**1188.2**
Gross profit, US$m	281.6	**323.9**
Gross margin, %	*28*	***27***
Adjusted EBITDA*, US$m	182.3	**218.7**
Adjusted EBITDA margin %*	*18*	***18***
Net income, US$m	119.4	**144.4**
Net income margin %	*12*	***12***

OPERATIONAL DEVELOPMENTS

We are constructing three new greenfield pork farms, with a combined capacity of 37,500 live-weight tonnes, in the Tambov, Voronezh and Lipetsk regions

We have acquired a meat-processing plant in the Kaliningrad region

We have bought the Zarechnaya poultry facility in the Penza region, which will accelerate growth in our Penza poultry cluster

We have completed the acquisition of two greenfield pork-production farms in the Penza and Lipetsk regions

We have opened a large breeding facility in the Bryansk poultry cluster

We have successfully placed 3 billion roubles in three-year bonds with a coupon rate of 8.25%

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GOVERNANCE

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CHANGE OF ADDRESS

In 2010 the Cherkizovo Group's head office relocated to a new site in central Moscow. The new address is:

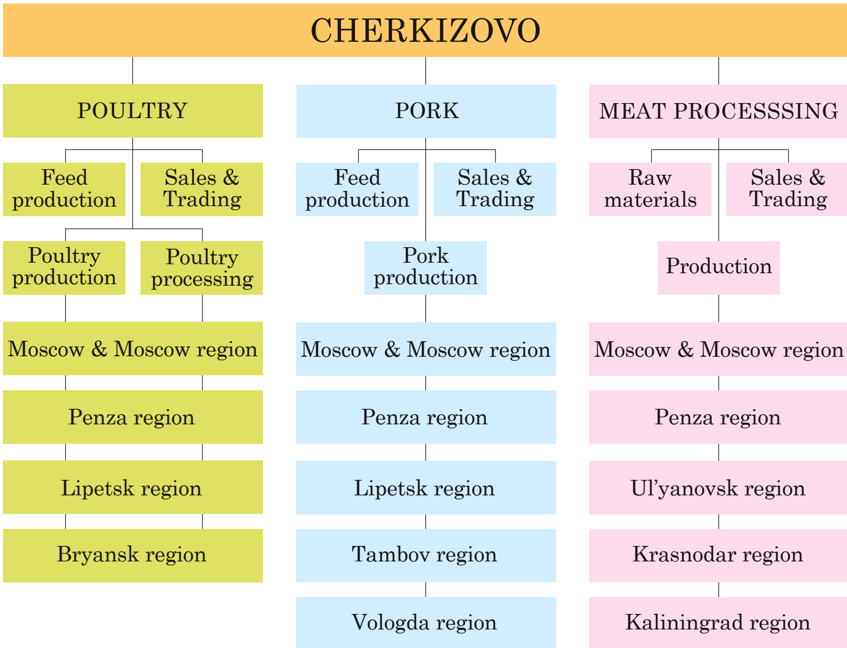
OJSC Cherkizovo Group
12th floor, White Square Office Center
Lesnaya str. 5
Moscow 125047
Russia

NEW WEBSITE

We have a fully revamped web site which was launched in early autumn. Please visit:

www.cherkizovo-group.com

INTEGRATED BUSINESS MODEL
GROUP STRUCTURE



DRIVING THE BUSINESS FORWARD

In 2010, we produced:

- 87,650 live-weight tonnes of pork
- 194,100 slaughter weight tonnes of poultry
- 141,560 tonnes of processed meat

WE ARE ONE OF RUSSIA'S MOST EFFICIENT MEAT PRODUCERS

STRATEGIC OBJECTIVES

Maintain our position as Russia's leading vertically integrated meat producer and further increase market share

Grow both organically and via acquisition

DELIVERING AGAINST OUR STRATEGY

Significant investment in state-of-the-art facilities

Highly efficient facilities enable increased capacity to meet consumer demand

Best-in-class distribution network and diversified customer base

Vertical integration from "Farm to fork" ensures international standards of excellence

Leading portfolio of brands supports market share and consumer satisfaction

Strong financial position

DRIVERS

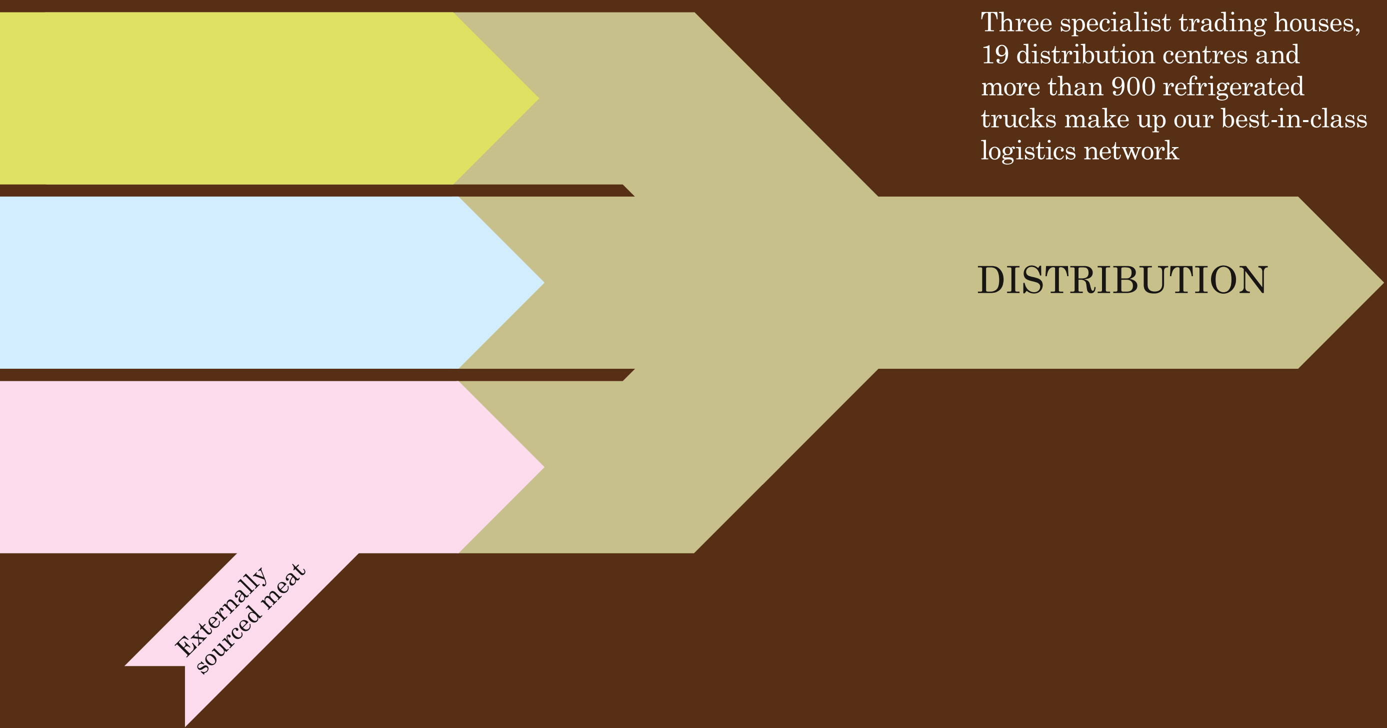
Increasing meat consumption in Russia

Demand for high-quality, locally produced meat

Opportunities for industry consolidation

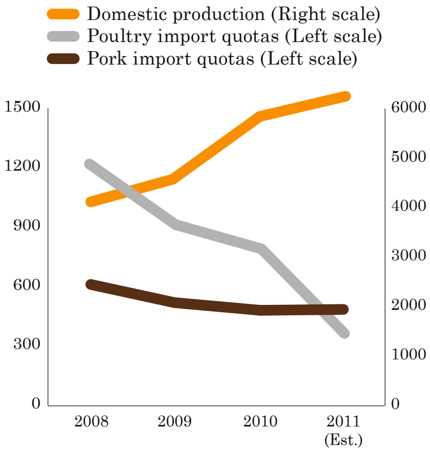
Russian government target for self-sufficiency in food supply

Three specialist trading houses, 19 distribution centres and more than 900 refrigerated trucks make up our best-in-class logistics network



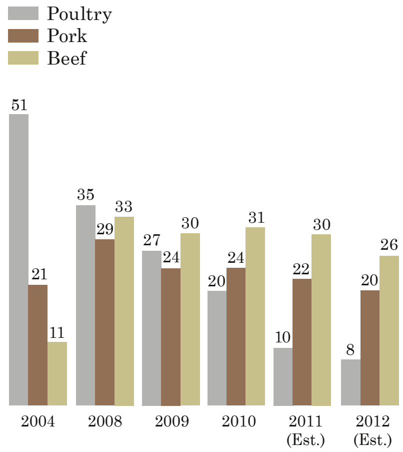
CONSOLIDATION OFFERS SIGNIFICANT GROWTH OPPORTUNITIES

Domestic production and import quotas 2008-2012 (000 tonnes)

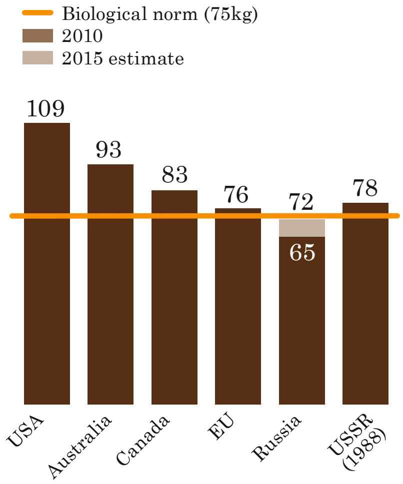


Source: Russian Meat Union

Imported meat consumption, 2004-2012 (%)



Annual per capita meat consumption (kg)

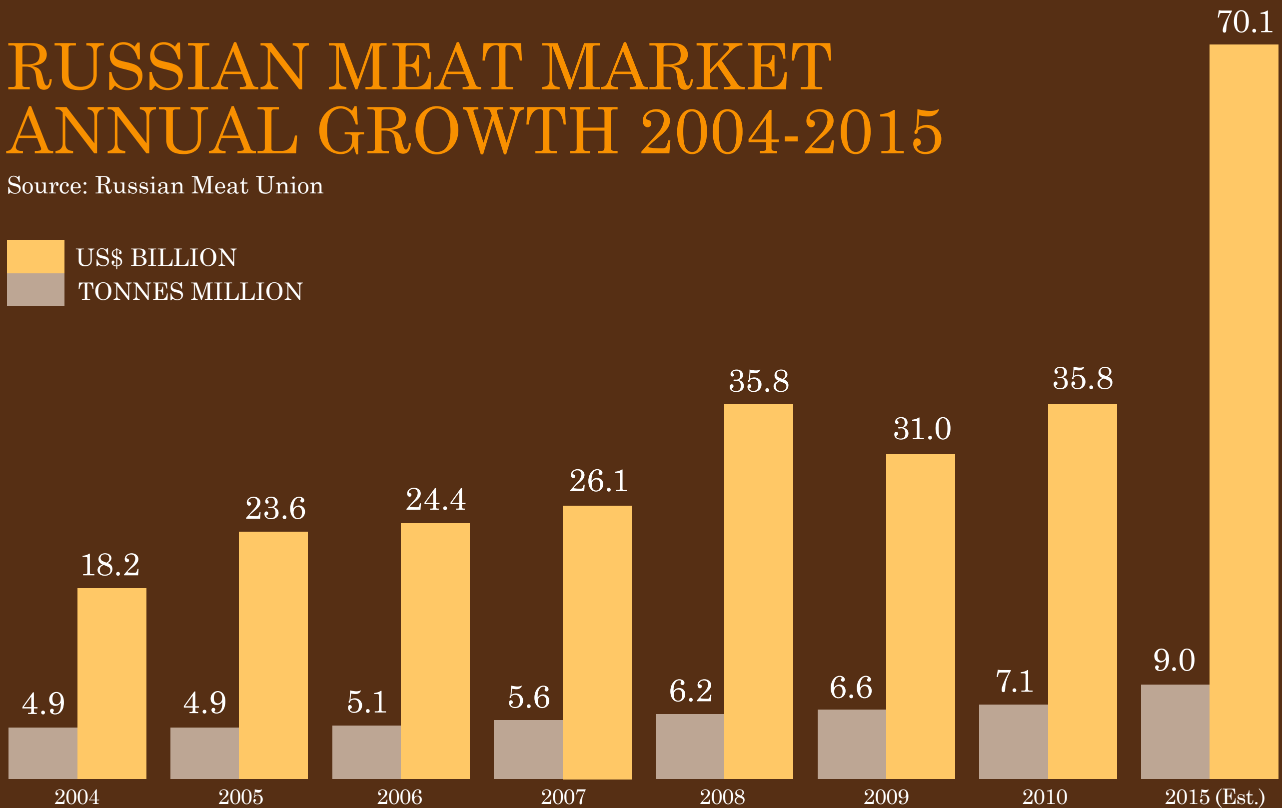


Source: Russian Meat Union (Russia and USSR), USDA (other regions)

EXCITING MARKET OPPORTUNITIES

RUSSIAN MEAT MARKET ANNUAL GROWTH 2004-2015

Source: Russian Meat Union



POULTRY

KEY PRODUCTS

Chilled poultry
Frozen poultry

PRODUCTION FACILITIES

4 clusters
Total capacity:
231,500 lwt per annum

KEY BRANDS

Petelinka
Chicken Kingdom
Vasilievka

PORK

KEY PRODUCTS

Live pigs
Pork carcasses
Fresh pork cuts

PRODUCTION FACILITIES

7 clusters
Total capacity:
90,000 lwt per annum

MEAT PROCESSING

KEY PRODUCTS

Sausages
Salamis
Ready-to-cook products

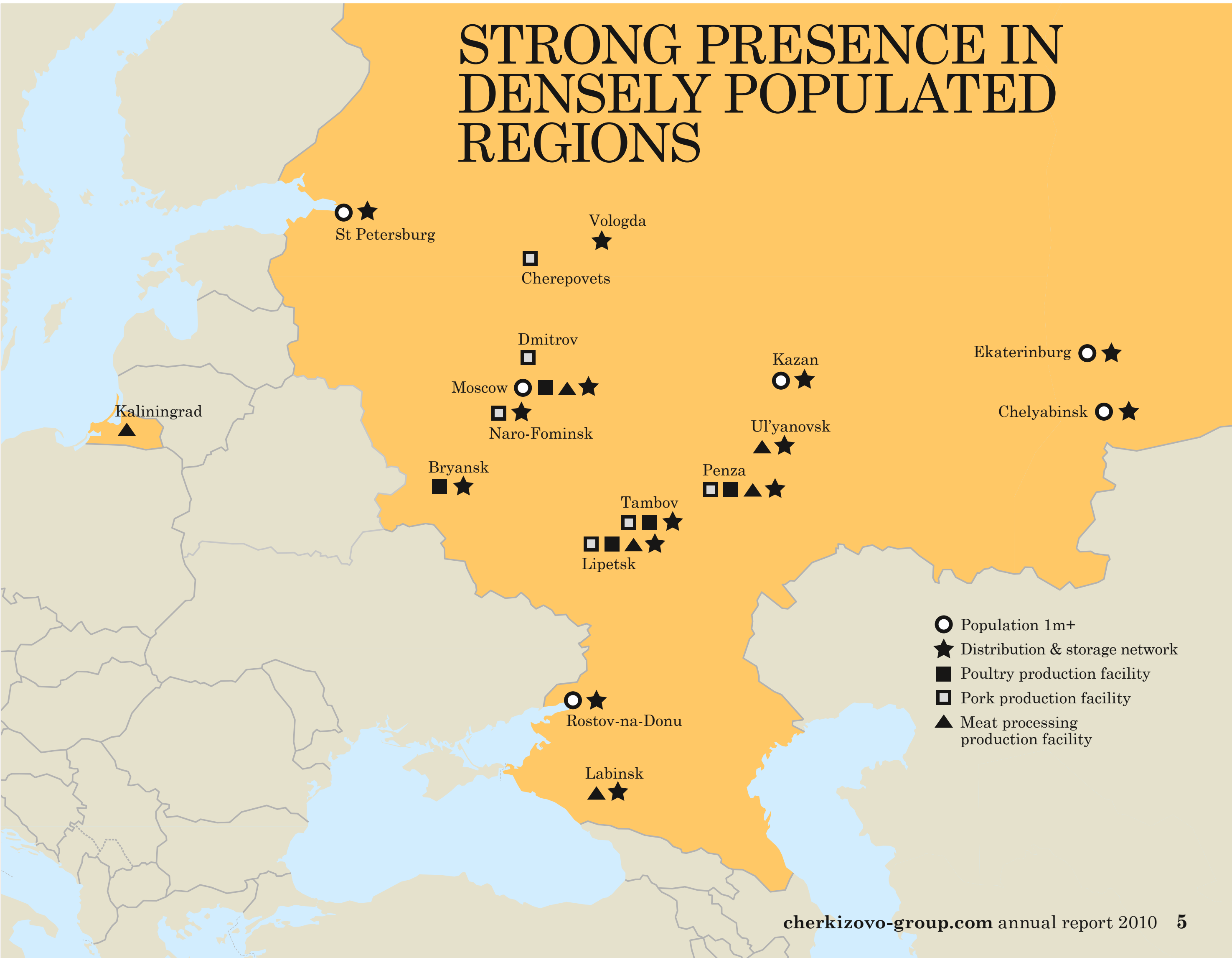
PRODUCTION FACILITIES

7 clusters
Total capacity:
195,000 tonnes per annum

KEY BRANDS

Cherkizovsky
Pyat' Zvezd
Imperia Vkusa
Penzensky
Ulyanovsky
Myaskaya Gubernia

STRONG PRESENCE IN DENSELY POPULATED REGIONS



For Cherkizovo Group, 2010 was yet another year of significant progress against our strategic objectives. Even though a tighter pricing environment and unusual weather conditions had a substantial impact on our operations, we continued to go from strength to strength.

All three core divisions delivered an encouraging performance. In Pork, strong growth resulted from our successful capacity investments and strategic prioritisation. In Poultry, the benefits of our recent capacity increase projects and strong brand recognition combined to deliver strong results. Finally, Meat Processing returned to profitability on rising demand, reflecting a very welcome recovery in consumer confidence.

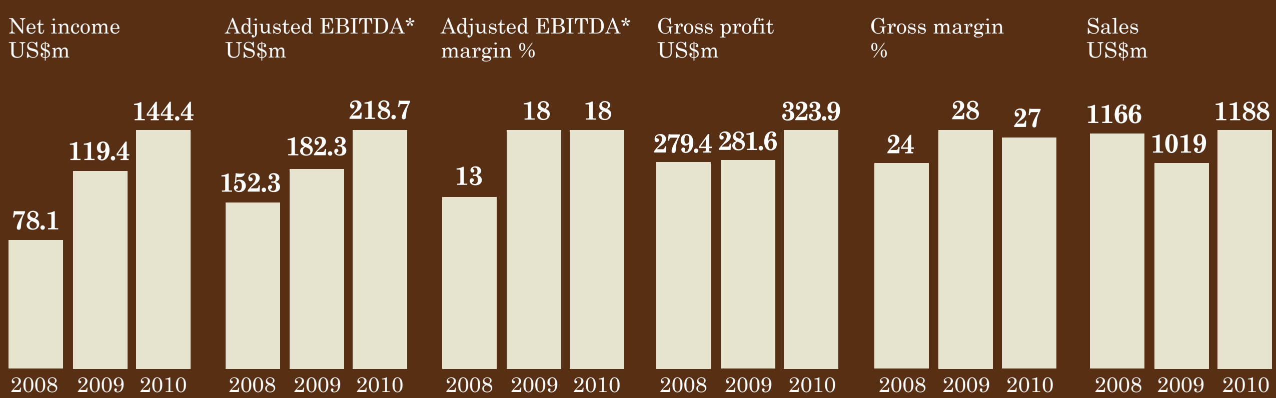
KEY PERFORMANCE INDICATORS

NET INCOME UP 21%

EBITDA* UP 20%

PROFIT UP 15%

SALES UP 17%



POULTRY EBITDA* MARGIN

21%

PORK EBITDA* MARGIN

41%

MEAT PROCESSING EBITDA* MARGIN

7%

INTERNATIONAL RECOGNITION AND IMPROVED MOSCOW LISTING

In May, Moody's Credit Opinion report positively reported on Cherkizovo's recent growth, driven by its refocusing on high-margin poultry and pork segments and the material improvement in the financial profile, with strong 2009 financial metrics for the Group's rating category. Moody's assigned the following ratings to Cherkizovo Group: (i) National scale credit: A3.ru; (ii) Corporate family: B2; and (iii) Probability of default: B2.

The ratings help increase the transparency and understanding of the Group, while providing a baseline to measure future improvements against as Cherkizovo's strong metrics in its high-margin poultry and pork segments build a track record.

In April, Cherkizovo Group announced the transfer of its shares onto quotation list 'A2' at MICEX, with trading commencing on 2nd April 2010.

Inclusion on quotation list 'A' required Cherkizovo to satisfy stringent requirements regarding financial results, liquidity, corporate governance and procedures for information disclosure. The MICEX regulations regarding corporate governance and information disclosure correspond with the highest international standards - reconfirming Cherkizovo's commitment to the highest standard of corporate governance. Cherkizovo's shares are also listed on the London Stock Exchange and traded on the Russian Trading System.

2010 has once again demonstrated the success of Cherkizovo Group's strategy of investing for growth, which has proven its benefits in view of both natural disasters and financial difficulties.

OUR 2010 RESULTS CONFIRM OUR STRATEGY IS RIGHT

Despite the abnormal heat and drought last summer, which led to severe losses in crops and sharply rising grain prices, we have completed the year with solid financial and operational results. Accordingly, in 2010 we are pleased to have increased our EBITDA*, net profit and retained high profitability.

Today, we can say with confidence that Cherkizovo Group is the largest and most successful agro-industrial company in Russia. Cherkizovo's dynamic and sustainable business development in any environment is supported by the Company's vertically-integrated business structure, the right business approach and by a step-by-step implementation of our projects.

OUR BUSINESS

In 2010, Cherkizovo has significantly improved its performance in pork and poultry, as well as returning to profitability in meat processing, which experienced some difficulties in recent years. We have continued our ongoing investment projects and launched new large-scale investment initiatives. We have also made some important acquisitions across segments, which have consolidated our position as a Russian industry leader.

Last year was 'the year of the pork business' for the Group – it was in this segment that we were most active in development and volume growth. In 2010 we acquired two new complexes and started construction on three additional complexes, which will result in installed capacity rising to 150,000 tonnes in 2012. Our increased market share ranks Cherkizovo as one of the top three Russian producers today, and is proof of the Group's successful strategy.

In poultry, we have continued active capacity expansion in our Bryansk and Penza clusters, which should result in an increase in segment capacity by 40% by 2012.

One of the year's achievements is our noticeably improved results in meat processing, the segment which formed the foundation of today's Cherkizovo Group. We have increased sales volumes and sustained profitability, mostly due to the efforts and expertise of a new management team. In the longer term, we intend to bring our processing to a new level by going from commodity products to value added quality products. One of our main competitive advantages is our own resource base and we are confident in our strategy and intend to demonstrate sustained profitability next year.

OUR TEAM

I would like to thank all members of the team for their hard work, enthusiasm and great contribution to the success of the business. Professionalism, team work and dedication to our overall achievement are key to our performance. Our strength is in our unity and we definitely have the potential to take advantage of the opportunities that lie ahead of us.

DIVIDEND POLICY AND OUTLOOK

Core to our strategy is dynamic development of our business, and we continue to reinvest our net profits in the business, as this is truly in the interest of the company and its shareholders.

Today, the Group is the leader in the agro-industrial sector in Russia and in 2010 we have once again demonstrated our strength – and our shares have responded accordingly. We are pleased that investors have recognized the significant importance of agriculture to the Russian economy and have put greater trust in our company.

In 2011, we will continue our successful growth strategy by building on both our vertically integrated structure, and on the significant rise of the Russian market. We trust that by taking into account our successes to date and our stable position even in the most difficult of times, shareholders will continue to support our organic growth plans and potential strategic acquisitions.

IGOR BABAEV
Chairman

In 2010, Cherkizovo Group delivered record profits for the fifth year in a row. This highlights the success of the Company's unwavering commitment to its strategy of investing for increased capacity, improved efficiency and industry consolidation. This was achieved despite the year's place in history as one of the worst ever for Russian agriculture, with drought and widespread fires causing a virtual collapse of the country's grain harvest. Everything starts with grain in our business, and this national disaster had a significant impact on our wider operating environment. It is testimony to the Group's underlying good health, however, that we ended the year in a strong position with more than half of our grain stock needs for 2011 already in place.

CHERKIZOVO OUTPERFORMED THE MARKET IN 2010

It is testimony to the Group's underlying good health that we ended the year in a strong position, despite 2010 being one of the worst years in history for Russian agriculture. This provides further evidence that the strategy we have in place for the benefit of all stakeholders is the right one, delivering consistent revenue and profit growth.

RECORD RESULTS
Against this background, I am delighted to say that we saw our profits rise by 21% to US$144.4 million for 2010, with revenues up by 17% to US$1,188.2 million, adjusted EBITDA* growing by 20% to US$218.7 million with an adjusted margin of 18%. Perhaps most satisfying of all was our very strong Group gross margin of 27%, achieved despite the historically high cost of grain and downward pressure on poultry prices.

LEVERAGING INVESTMENTS AND EFFICIENCIES
All our divisions contributed in important ways to this success. We saw strong growth in our high-margin pork business as investments of recent years paid off over a full year for the first time. Pork is now delivering the highest profitability in the Group, and the proportion of our revenue and profitability that it generates will continue to grow in years to come. In 2010, our market share in this division reached 5%, an important milestone that means we are now one of Russia's top three pork producers.

Our poultry division showed a solid performance, delivering capacity increases as we continued to invest in our Bryansk and Penza clusters and to build on strong brand awareness. This was despite a challenging cost environment, which caused significant difficulties for some of our less efficient, higher-cost competitors.

Rising demand also helped to bring about a substantial recovery in our meat processing division. This returned strongly to profitability as consumer confidence strengthened and we successfully leveraged the efficiency advantages of our increasingly automated production facilities.

The scale of our growth in 2010 reflects the fruition of several major projects over recent years, which we maintained despite the global financial crisis of 2008 and 2009. Our continuing commitment to business development even in difficult times is delivering powerful benefits, and 2010 saw us continue to invest aggressively to create a platform for even stronger growth in 2011 and 2012. In doing so, we are targeting an excellent return on investment thanks to the industry-leading margins enabled by our highly efficient, modern plants and equipment.

FINANCIAL MARKET PERFORMANCE
Despite increasing more than five-fold in 2009, Cherkizovo Group's share price delivered a further strong performance in 2010, with our Global Depositary Receipts (GDRs) gaining 72% over the year. We value our relationships with investors and the financial community, and continue to work on improving communication and disclosure. It is gratifying to note the financial markets' increased awareness of the high growth potential of our industry.

OUR CONTINUING INVESTMENT STRATEGY
We made important investments in each of our operating divisions. In poultry we continued to realize our large-scale capacity increase projects. In Penza we acquired the Zarechnaya poultry facility, which will be integrated with the existing project. This site is expected to be operational by late 2011 adding a further production capacity of 22,500 live weight tonnes to the cluster's existing output. At our Bryansk cluster we opened the first line of the poultry breeding facility, which brought us closer to targeted poultry production volumes.

In our pork division, we began the construction of three new greenfield pig farms in the Tambov, Voronezh and Lipetsk regions and completed the acquisition of a controlling interest in two other greenfield pork production sites in Penza and Lipetsk. As a result of these activities, the Group's overall pork production capacity will total an estimated 150,000 tonnes per year by the end of 2012, further strengthening our position in this high-margin business.

We also acquired a meat processing plant in the Kaliningrad region, which will focus on delicacy products and also act as the supplement resource base for our meat processing division, due to the preferential customs treatment that its location allows.

THE RUSSIAN MARKET FOR MEAT CONSUMPTION
Cherkizovo Group aims to maintain and strengthen its leading position as the largest vertically integrated domestic producer of high quality meat on the Russian market.

The market opportunity for a business like Cherkizovo is considerable as Russian per-capita meat consumption (currently standing at some 65 kilos) closes the gap on average European consumption levels (85 kilos) in parallel with growing Russian GDP. I believe that a per capita target of between 75 and 80 kilos is realistic, providing a very substantial market opportunity that we are gearing up to realise.

Moreover, the Russian government's goal of making the nation self-sufficient in meat production by 2014 is proving a benefit. The government is currently supporting this objective through import quotas, subsidies for producers and a ban on grain exports. Moreover, partly in response to growing domestic production, the Russian government has substantially cut poultry import quotas to 350,000 tonnes. This presents our Company, as a leading domestic poultry producer, with further significant growth opportunities.

OUTLOOK
Looking ahead to 2011, I expect the coming year to be another challenging one. While the Russian government has stockpiled reserves of grain that are expected to be released during the first half of 2011 to stabilise grain prices, the position will remain difficult for our entire industry until the middle of the year when we gain some insight into the quality of the forthcoming harvest.

Nonetheless, Cherkizovo is again poised for further substantial growth in 2011, particularly in our pork and poultry businesses as 2010's investments begin to come on stream. We are also in a highly advantageous position thanks to our process efficiency and economies of scale, enabling us to deliver margins substantially higher than our competitors across all our divisions.

Yet again, in 2010 we demonstrated that our strategy is the right one to achieve the consistent revenue and profit growth needed to deliver sustainable success and value for our business, our people and our shareholders.

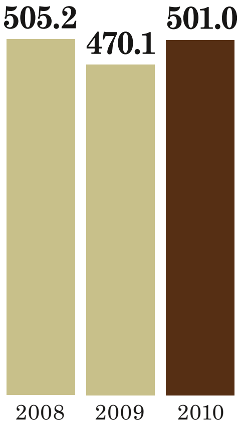
SERGEI MIKHAILOV
Chief Executive Officer

POULTRY BUILDING FROM A POSITION OF STRENGTH

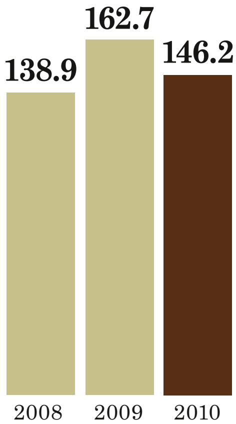
LEADING BRANDS

Petelinka is the chilled poultry brand leader in Moscow and the Moscow region. Our Kurinoe Tsarstvo (Chicken Kingdom) brand is No1 in frozen poultry in the Central Federal District of Russia.

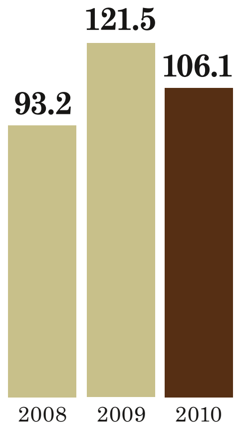
TOTAL SALES
US$m



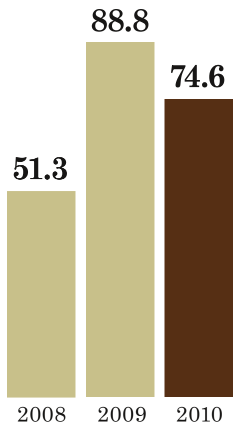
GROSS PROFIT
US$m



ADJUSTED EBITDA*
US$m



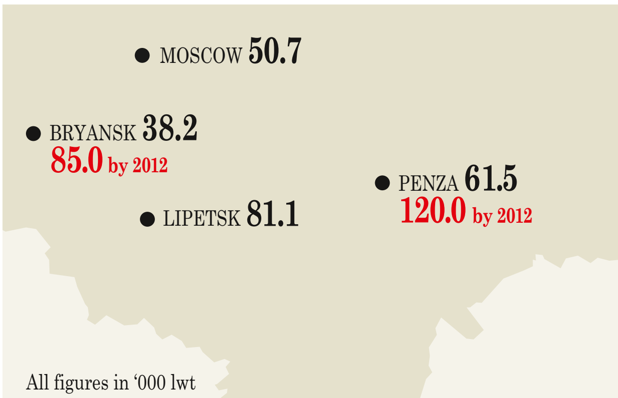
DIVISIONAL PROFIT
US$m



OPERATIONAL KPIs	**2010**	2009	Change %
Average liveweight, g	**2034**	2030	**0.2**
Annual flock turnover, times	**7.4**	7.3	**1.4**
Hatch, %	**75.9**	78.3	**-3.1**
Liveability, %	**92.8**	93.1	**-0.3**
Average growing period, days	**37.5**	37.7	**-0.5**
Meat yield, %	**74.4**	74.0	**0.5**
Adjusted fodder conversion rate (2,000 g liveweight)	**1.85**	1.83	**1.1**
Average daily gain, g	**53.3**	52.9	**0.7**

STRATEGICALLY POSITIONED POULTRY COMPLEXES

The acquisition of the Zarechnaya poultry facility, which was incorporated into the existing Penza operation, marked further progress against the Group's strategic objective of vertically integrating its production facilities. Meanwhile, further to recent investments in capacity building, the first line of the poultry breeding facility at the Group's Bryansk cluster was officially opened in December. Separately, Cherkizovo continued to be recognised for its high quality poultry products, winning several awards at the prestigious "Product of the Year" event, part of the 2010 World Food Moscow exhibition.



Total poultry production at the Cherkizovo Group rose by 5% during 2010, further emphasising the Company's market leadership in this key sector of the Russian economy. Significant investments in large-scale projects made before and during 2010 will see production rise by a further 40% in 2012.

This substantial future growth at our Penza and Bryansk clusters is due to major capacity increases that are set to become fully active during 2011 and into 2012. Such projections are wholly aligned with our commitment to helping the Russian government meet its objective for the country to be self-sufficient in poultry production by 2014.

PENZA CLUSTER

As explained in our last report, Phase 1 of our Penza poultry project was completed in 2009 with the reconstruction of the Vertunovka site, now one of Europe's largest parent stock facilities with an annual production capability of 60 million eggs.

During 2010, the focus of Phase 2 was the Group's Vasilievskaya factory, with the objective of doubling its current annual capacity from 60,000 to 120,000 tonnes of live-weight poultry meat by 2012.

Following these plans we took the strategic opportunity to purchase the nearby Zarechnaya poultry facility, which has 41 bird houses and the capacity for 1.55 million broiler hens, as a means of accelerating this process. This has now been incorporated into our existing Penza cluster as part of our strategy to vertically integrate our production resources, and is expected to be operational by late 2011 following an investment of some $18 million to upgrade facilities.

Once operational, Zarechnaya is expected to contribute a further 22,500 live-weight tonnes to Penza's current capacity. This will increase the cluster's overall rearing capability and enhance the cost-efficiency of its slaughter facility, which will be raised from its current capacity of 8,000 birds-an-hour to 14,000.

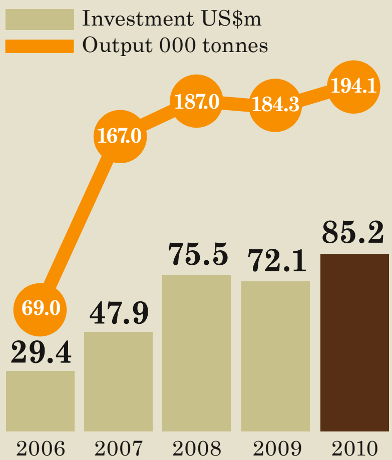
Additional new resources at the combined operation following the upgrade will include an incubation capacity of up to 105 million eggs annually, a fodder factory producing over 300,000 tonnes each year and new bird houses at both the existing and new sites of the Vasilievskaya factory.

OUR FACILITIES MEET EUROPEAN STANDARDS

STATE-OF-THE-ART PRODUCTION FACILITIES

Cherkizovo Group's ongoing investment programme in state-of-the-art poultry facilities has placed the Company at the forefront of Russian domestic production, with the country's most advanced and hi-tech farms for efficient, healthy and humane management.

PRODUCTION FACILITIES



BRYANSK CLUSTER
As reported last year, Cherkizovo started the first phase of a large-scale capacity increase project at the Bryansk poultry cluster in late 2009. When complete, the project will raise the cluster's production capacity from 32,600 to 85,000 tonnes of live-weight meat by 2012.

The first stage of this project was successfully completed in late 2010, with the official opening of a breeding facility including 26 bird houses with a combined capacity approaching 880,000 broiler hens. These will all be populated from our own hatcheries and use the latest innovations and best practice to ensure the highest ecological, humanitarian and quality standards.

Construction of a further 26 bird houses and a new hatchery producing 66 million eggs each year started during 2010 and is due for completion during the first half of 2011.

THE RUSSIAN POULTRY MARKET
During 2010, the Russian government sought to stimulate demand for nationally produced poultry by reducing import quotas and restricting the use of chlorine anti-microbial treatment, which is used by many foreign producers.

Towards the end of 2010, the market was affected by a large share of imports coming into Russia, which exerted downward pressure on prices. However, this is anticipated to be temporary and the measures taken by government are expected to support prices going forward. Indeed, the reduction in poultry import quotas to 350,000 tonnes in 2011 gives Cherkizovo, as one of the country's leading producers, a substantial opportunity for growth.

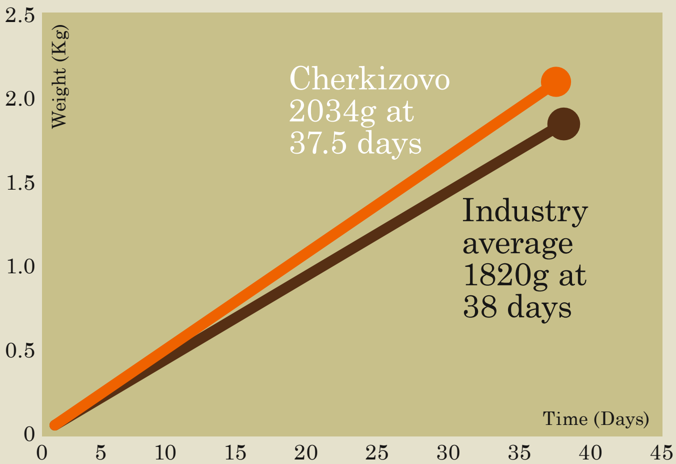
Cherkizovo's pre-eminent position in the Russian poultry market is supported by the power of its Petelinka and Chicken Kingdom brands, both of which won gold medals at the World Food Moscow exhibition. Such awards continue to strengthen the company's reputation and maintain high levels of consumer awareness.

No2
IN RUSSIAN POULTRY MARKET

INDUSTRY LEADING EFFICIENCY

The quality of husbandry, feeding regimes and the overall environment has a powerful effect on a flock's daily rate of gain, a key measurement of its health and value. At Cherkizovo, daily rate of gain significantly exceeds industry average, testimony to the efficiency of our operations.

POULTRY AVERAGE GROWING PERIOD
Cherkizovo vs industry average



AWARD WINNING PRODUCTS

100 Best Russian Products. Gold award

World Food Moscow. Gold awards

World Food Moscow. Silver awards

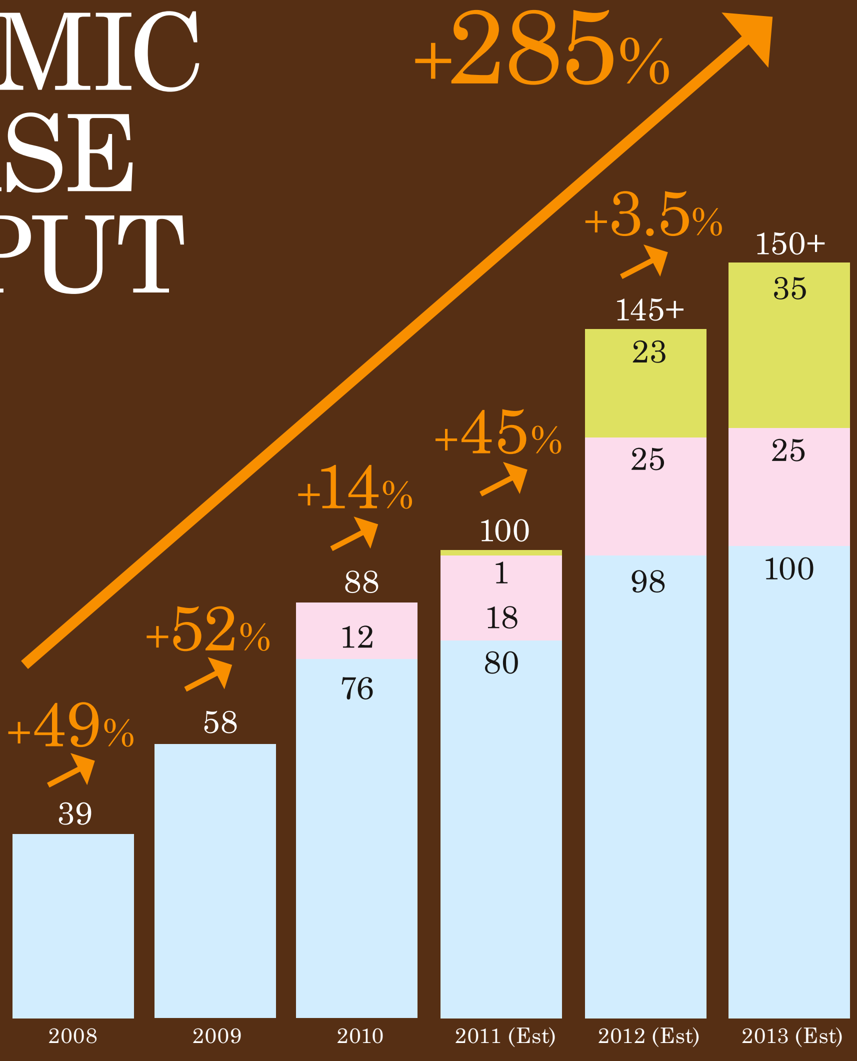
PORK

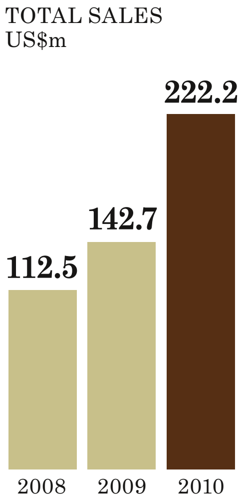
A DYNAMIC INCREASE IN OUTPUT

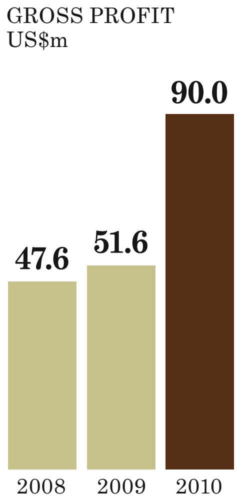
VOLUME SALES 2008-2012

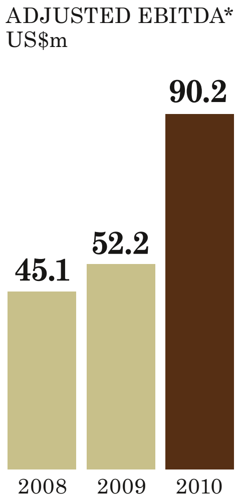
LIVE-WEIGHT
000 TONNES (LWT)

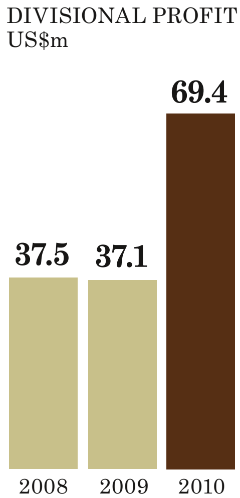
CHERKIZOVO FARMS
ACQUIRED FARMS
GREENFIELD FARMS







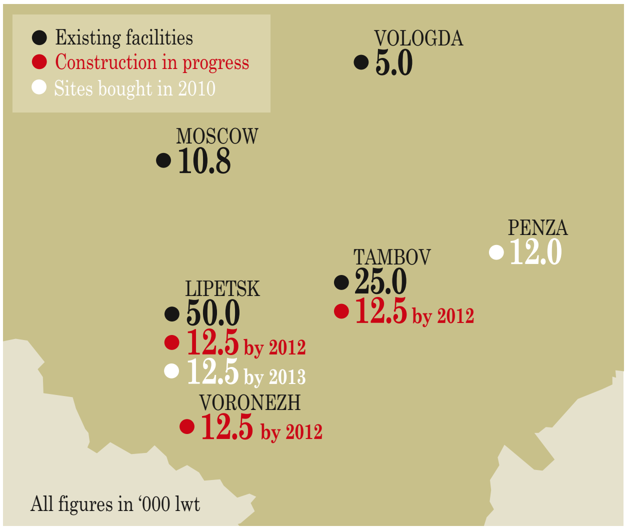




OPERATIONAL KPIs	**2010**	2009	Change %
Average marketable pig weight, kg	**110**	110	**0**
Average fattening period, days	**177**	177	**0**
Number of farrows per year	**2.18**	2.24	**-2**
Number of pigs per farrow	**11.2**	11.6	**-3**
Liveability, %	**78.1**	78.8	**-1**
Annual pork (live weight) yield per sow, kg	**2090**	2252	**-7**
Average fodder conversion rate kg per kg of weight gain	**2.95**	3.27	**-10**
Average daily gain, g	**598**	573	**4**

EXPANDING TO MEET DEMAND

In March 2010, the proposed acquisition of two greenfield pork complexes in the Penza and Lipetsk regions of Central Russia was announced; the deal was completed in November, significantly expanding the Group's high-margin pork division. The Company also started the construction of three new greenfield pork farms in the Tambov, Voronezh and Lipetsk regions. As a result of these activities, the Group's overall pork production capacity will likely total an estimated 153,000 tonnes per year by 2013 – an increase of 73% from 2010 levels.



During 2010, Cherkizovo saw its high-margin, high-quality pork production increase by 50% from the 58,300 tonnes of live weight in 2009, to 87,650 tonnes. This was a powerful confirmation of our growth strategy, as our existing state-of-the-art farms in Lipetsk and Tambov operated at near full capacity for a 12-month period for the first time.

Their contribution was enhanced by an additional 11,450 tonnes produced at the two new greenfield farms that were purchased during the year at Lipetsk and Penza. The division's share of the Russian market rose to 5% in 2010, making the Group one of Russia's top three pork producers.

The additional resources for future growth that Cherkizovo put in place during 2010 were arguably even more important than this highly successful performance. As a result of continuing investments, it is now estimated that the Group's overall annual pork capacity will reach 153,000 tonnes by the beginning of 2013. This is an increase of 164% over its total production for 2009.

CONSOLIDATING THE INDUSTRY

Russia's pork industry is highly fragmented, with less than 50% of production on an industrial level, while greenfield production is even lower. In spite of Cherkizovo being the number three pork producer in Russia, our market share stands at 5% of total national production. By 2013, we expect to have substantially increased that share, in line with our strategy of consolidating and modernising the industry to achieve consistently improving margins and shareholder value.

Divisional growth on this scale is also significantly increasing the proportion of revenue that comes from pork production, thereby enhancing the margins and profitability achieved across the Group.

A CONTINUED FOCUS ON INVESTMENT

Our investments during 2010 combined important greenfield acquisitions and new-build projects.

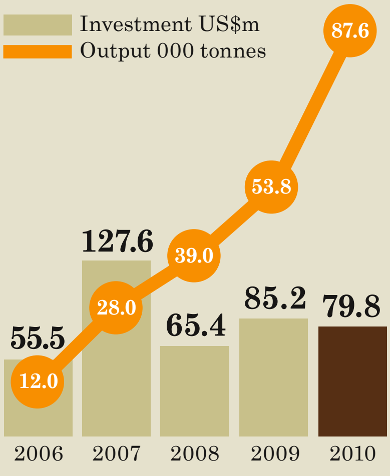
In November, we completed a deal announced in March to acquire the two greenfield pork complexes in the Penza and Lipetsk regions of central Russia. This $100 million purchase will drive a further increase in Cherkizovo's annual pork production capacity with an additional annual 25,000 live-weight tonnes.

ALL OUR FACILITIES MEET EUROPEAN STANDARDS

LEADING THE WAY IN TECHNOLOGY

Deployment of state-of-the art technology and investment in innovative practices has helped to ensure that Cherkizovo continues to set the standard for its peer group.

PRODUCTION FACILITIES



We also started to construct three new greenfield pork farms in the Tambov, Voronezh and Lipetsk regions during 2010, with a combined capacity of 37,500 live-weight tonnes. These are due to commence operations during 2011 and 2012, attaining full capacity by the beginning of 2013.

These new facilities will combine separate breeding, rearing and fattening facilities, all involving state-of-the-art technology to ensure the highest efficiency, humanitarian and environmental standards. To ensure market-leading quality standards, we will be populating the farms with our own parent stock, the lean and high-yielding DanBred breed.

These developments have been carefully sited close to Cherkizovo's existing pork farms and fodder production facilities to ensure that all our operations benefit from shared efficiencies in order to maximise margins.

EFFICIENCY ADVANTAGES
Cherkizovo's preference for greenfield production allows the Group to build highly efficient new farms that meet modern international standards. Within the Russian pork market, we continue to compete with higher-cost producers who are prevented from reducing their cost-per-kilo by outdated equipment and production methods that would take a significant investment of time and money to replace.

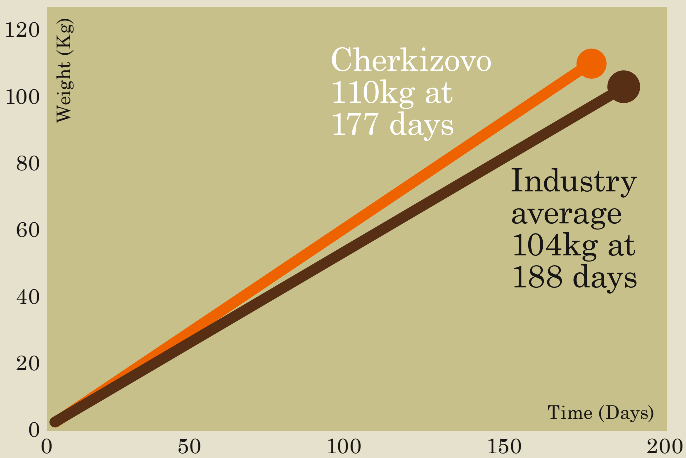
Cherkizovo's efficiency and quality are significant competitive advantages within the Russian protein market. The strong growth and increased profitability of our pork division over six years of consistent investment clearly demonstrates the success of our long-term strategy, which we will seek to continue in future years with further investments in Cherkizovo's pork-production capacity.

The pork sector offers great potential in terms of expanding domestic supply, import substitution and increasing pork as a proportion of Russia's total meat consumption. We also believe that the continuation of government initiatives to support domestic production will help Cherkizovo ensure sustainable increases in productivity.

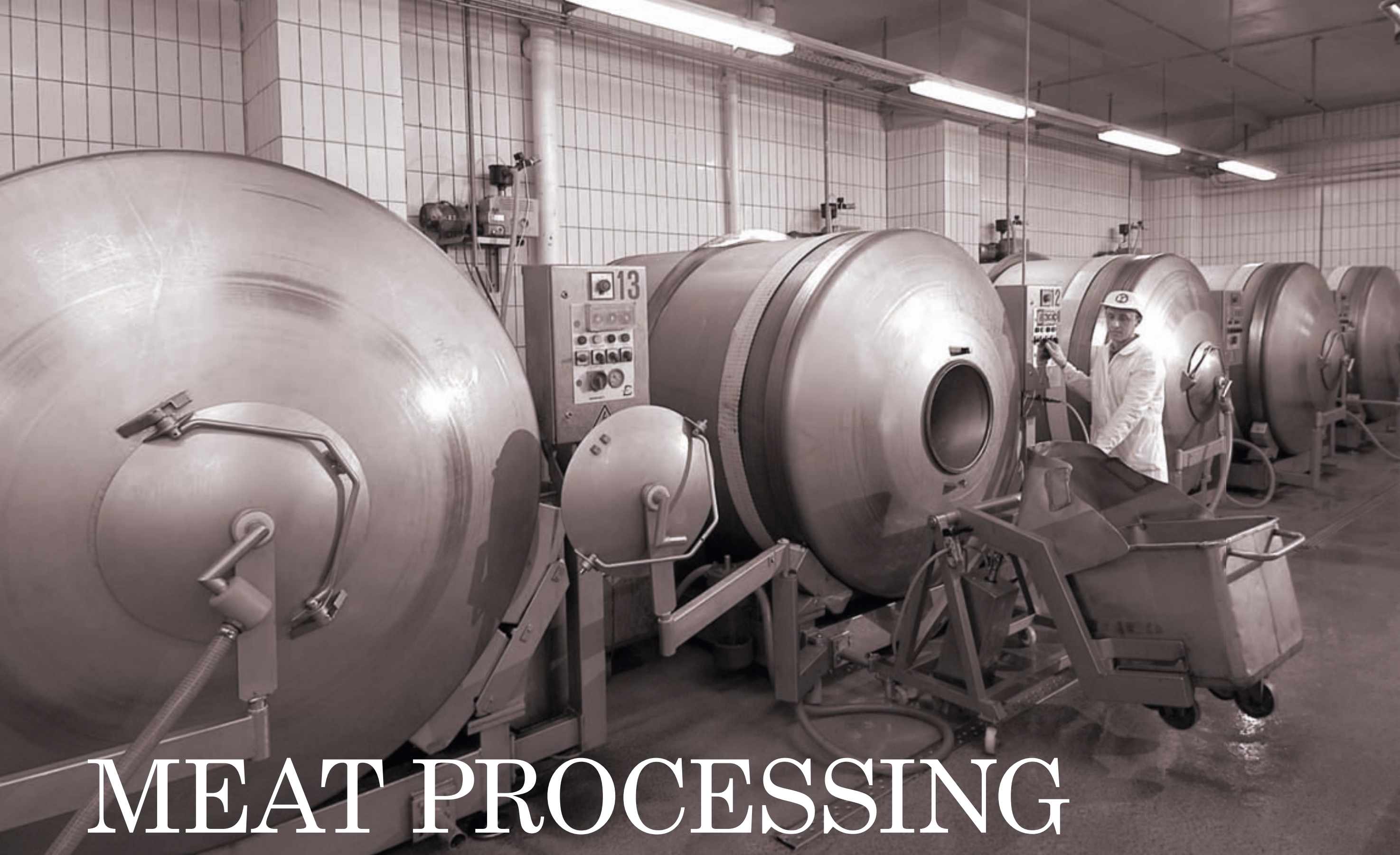
GROWING FASTER AND MORE EFFICIENTLY

A pig's rate of growth is a key determinant of how quickly it delivers a return on investment. Our careful selection of breed and consistent focus on a healthy and nurturing environment ensures that our herds achieve a healthy daily gain well ahead of the industry average for lean, high-quality pork.

PORK AVERAGE GROWING PERIOD
Cherkizovo vs industry average



No3
IN RUSSIAN PORK MARKET



MEAT PROCESSING

CONSISTENTLY AWARD-WINNING QUALITY

As part of a series of measures taken by the Group to restructure the meat processing business and reduce costs, a controlling interest was acquired in a meat processing plant in the Kaliningrad region. A new management team has helped restore the division's profitability to historical levels. Meanwhile, the Group's dominant standing amongst consumers was reiterated by the award of several accolades – including Gold and Silver medals – for its meat products at the ProdExpo International Food and Beverages Fair 2010, which is the largest annual food exhibition in Russia and Eastern Europe.

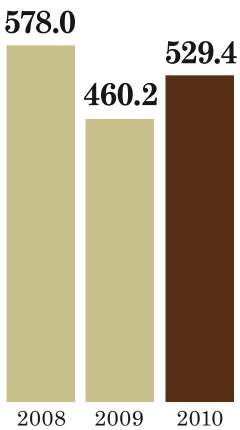
2009 AWARDS

Golden Autumn awards

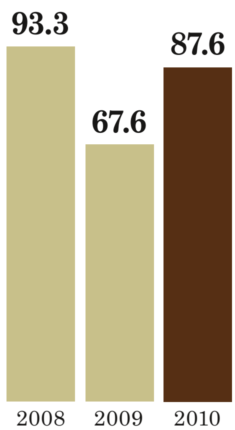
Prodexpo awards

Quality Mark awards

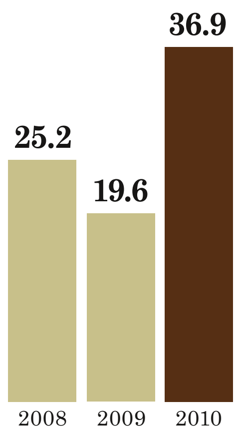
TOTAL SALES
US$m



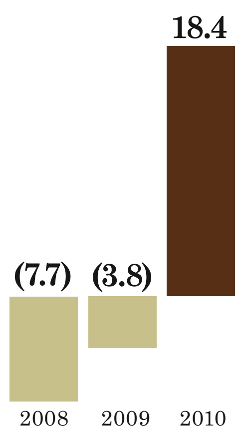
GROSS PROFIT
US$m



ADJUSTED EBITDA*
US$m



DIVISIONAL PROFIT
US$m



Cherkizovo Group's meat processing division successfully returned to profitability in 2010, with a 9% increase in production to some 141,550 tonnes as consumption trends returned to pre-crisis levels. This success follows a range of measures taken in recent years to restructure and modernise our operations for reduced costs and heightened efficiency.

These changes continued into 2010 and included the appointment of Andrei Cholokyan to lead the division's new management team and spearhead the return to profit, as well as a continuing focus on staff training and development to ensure that they are among the most highly qualified in the industry.

EXCEPTIONAL HYGIENE AND PRODUCT SAFETY

We have also maintained our commitment to ensuring that we consistently have the highest possible quality and safety standards, building on our success in 2009 in recertifying under the international quality management standard, ISO 9001-2008. This is just one element of what is one of the most complete certification processes of any Russian food-producer, supported by rigorous on-site hygiene control at all our production sites.

The year's largest investment was the purchase of a meat-processing plant in the Kaliningrad region, where special customs preferences enable the cost-effective distribution of high-quality value-added products across European Russia. The plant will focus on the production of premium-priced smoked products, hams and cooked sausages, fully in line with the Group's strategy of increasing high-margin production.

Cherkizovo paid $4.1 million for the plant with a further investment of $2.5 million for improvements, in order to enhance efficiency and product quality.

THE REWARDS OF QUALITY

The division's award winning reputation for high-quality consumer products, based on the exclusive use of fresh meat, state-of-the-art equipment and extensive quality control, was yet again highlighted in 2010 by its success in a number of prestigious exhibitions. These included the international Best Product Awards, part of the ProdExpo International Food and Beverages Fair, where Cherkizovo won two gold and two silver medals in competition with 530 other companies.

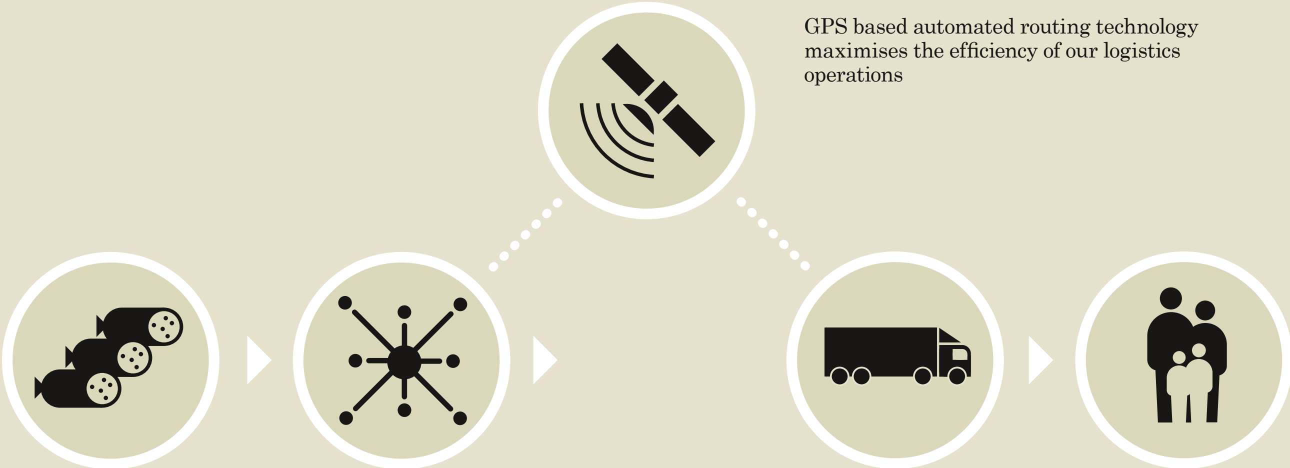
Looking ahead, the company believes that the results of the division's restructuring will enable it to match more closely the exceptional recent performance of our pork and poultry segments, building on growth in consumption to deliver another profitable year in 2011.

2010 AWARDS

100 Best Russian Product awards

Best Penza awards

Prodexpo awards



7 state of the art meat processing facilities

22 distribution & storage facilities

900 refrigerated trucks

80% of Russia's population is covered through our distribution network

DISTRIBUTION

BEST IN CLASS LOGISTICS

Our integrated network of trading houses and distribution centres guarantee rapid, high-quality distribution of our products across the majority of Russia. Today, over 80% of the country's population – 115 million people – has access to a wide range of our meat products.

To aid efficiency, the distribution of products from each of our three operational business segments is managed by specialist trading houses that have strategically sited distribution centres.

We also maintain strong relationships with the independent distributors who sell our products to smaller retailers in the more remote areas of the country.

DELIVERING INCREASED EFFICIENCY

THE CHERKIZOVSKY TRADING HOUSE – one of the leading companies trading in the Russian meat market – handles our processed meats. The reliable and efficient delivery system and high-quality customer service upon which Cherkizovo's trading policy is based comes as a result of our successful trading operations. Its activities cover a large geographic area, including the whole of European Russia as well as the North West, Siberian, Far Eastern and Volga-Urals regions and the South of Russia. We operate in these regions through distributors, regional offices and federal retailers. In addition to these regional sales, the Company also sells its products through both large and small retailers and premium outlets.

THE PETELINO TRADING HOUSE is the specialist distributor of our chilled and frozen poultry meat throughout Russia. Our main partners include federal and local retailers, large distributors and meat processing factories. As a result of our high quality products, well-known brands, efficient distribution channels, automated systems, effective management and innovative approach to business development, Petelino is the recognized leader of the Russian chilled poultry sector.

THE MYASNOE TSARSTVO TRADING HOUSE sells products from Cherkizovo Group's pork division; both high-quality live pork produced at our own pork farms, and raw pork meat. Its main clients include large meat processing plants and factories, slaughtering facilities and farms.

Myasnoe Tsarstvo is the Russian market leader in live pork sales; predominantly due to the high quality of the meat it sells, produced in our state of the art new-generation greenfield pork farms.

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. In 2010 we continued to improve our accounting and information systems in order to increase overall efficiency and extend our competitive advantage.

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.

During 2010 we have delivered a solid performance, with a 17% increase in revenue and growth in Adjusted EBITDA* of 20%. This has resulted in a healthy 18% Group Adjusted EBITDA* margin. However, our results were affected by a soft pricing environment in the poultry and pork divisions, as well as rising input costs, particularly towards the end of the year.

PERFORMANCE DRIVING FORWARD

2010 saw Cherkizovo successfully navigate through a tough operating environment; we delivered a robust financial performance and continued to invest for greater efficiency and long-term growth.

REVENUE UP

17%

ADJUSTED EBITDA* UP

20%

ADJUSTED EBITDA* MARGIN UP

18%

2010 Consolidated Selected Financial Data US$000	Meat Processing	Poultry	Pork	Corporate assets/ expenditures	Interdivision	**Combined**
Total Sales	529,354	500,961	222,239	4,856	(69,197)	**1,188,213**
including other sales	2,670	61,410	14,436	–	–	**78,516**
including sales volume discount	(21,308)	(19,904)	–	–	–	**(41,212)**
Interdivision Sales	(616)	(35,962)	(27,773)	(4,846)	69,197	–
Sales to external customers	528,738	464,999	194,466	10	–	**1,188,213**
% of total sales	*44.5%*	*39.1%*	*16.4%*			***100.0%***
Cost of Sales	(441,725)	(354,805)	(132,198)	(10)	64,397	**(864,341)**
Gross profit	**87,629**	**146,156**	**90,041**	**4,846**	**(4,800)**	**323,872**
Gross margin	*16.6%*	*29.2%*	*40.5%*			***27.3%***
Operating expenses	(61,805)	(64,742)	(15,614)	(19,543)	4,800	**(156,904)**
Operating income	**25,824**	**81,414**	**74,427**	**(14,697)**	–	**166,968**
Operating margin	*4.9%*	*16.3%*	*33.5%*			***14.1%***
Other income and expenses, net	1,081	(399)	422	7,669	(6,962)	**1,811**
Financial expense, net	(8,473)	(6,436)	(5,438)	(2,551)	6,962	**(15,936)**
Division profit/(loss)	**18,432**	**74,579**	**69,411**	**(9,579)**	–	**152,843**
Division profit margin	*3.5%*	*14.9%*	*31.2%*			***12.9%***
Supplemental information:						
Income Tax expense	6,584	(1,972)	60	(527)	–	**4,145**
Depreciation expense	10,994	23,799	15,521	230	–	**50,544**
Loss on disposal of property, plant & equipment	60	880	244	(2)		**1,182**

Adjusted EBITDA* reconciliation						
Division profit/(loss)	**18,432**	**74,579**	**69,411**	**(9,579)**	–	**152,843**
Add:						
Financial expense, net	8,473	6,436	5,438	2,551	(6,962)	**15,936**
Interest income	(530)	(31)	(355)	(7,266)	6,962	**(1,220)**
Foreign exchange loss/(gain)	(461)	726	(13)	102	–	**354**
Other financial income & expenses	(90)	(295)	(54)	(505)	–	**(944)**
Depreciation expense	10,994	23,799	15,521	230	–	**50,544**
Loss on disposal of property, plant & equipment	60	880	244	(2)	–	**1,182**
Adjusted EBITDA*	**36,878**	**106,094**	**90,192**	**(14,470)**	–	**218,694**
*Adjusted EBITDA Margin**	*7.0%*	*21.2%*	*40.6%*			***18.4%***

Reconciliation between net division profit and consolidated net income attributable to Group Cherkizovo	
Total net division profit	**152,843**
Net (income)/loss attributable to noncontrolling interests	(4,249)
Income taxes	(4,145)
Net income attributable to Group Cherkizovo	**144,449**

In the poultry division, profitability was at a robust level of 29% Gross Margin, and a 21% Adjusted EBITDA* margin. We have made significant progress at our capacity-increase projects in Bryansk and Penza, and our acquisition of the Zarechnaya facility in the Penza region and recent launch of the Rosha and Komarovka broiler breeding sites will enable us to achieve significant production volume increases in 2011.

The pork division has enjoyed significant growth and we anticipate this will be further supported in 2011 by the full integration of the two new farms. Already, for 2010 we have increased our market share and successfully positioned ourselves among the top three producers in the Russian market. Moreover, we are pleased to report that construction has commenced on three greenfield complexes in the Tambov, Voronezh and Lipetsk regions which are expected to become operational during 2011 and 2012, adding some 37,500 tonnes of capacity. By the end of 2013 our production volumes will have grown to over 150,000 tonnes, further strengthening our market leadership in this high-margin business and positively affecting our overall performance.

Meat processing continues to see rising demand as consumer confidence improves. We have seen some very positive results, with an increase in sales volumes and sustained profitability. Our products enjoy strong brand recognition and continue to win industry awards for quality.

The outlook for 2011 is challenging. The operational impact of steep rises in grain and other feedstock input costs will largely be felt in the coming months, and we anticipate that these will only be partially offset by higher pricing. This reflects an unusually weak pricing environment in the last quarter of 2010, despite commodity inflation, partly as a result of short-term oversupply of meat in the market due to destocking by less efficient producers and individual households in response to rising feed costs. Combined with an increased share of poultry imports late in 2010, it has put downward pressure on selling prices, especially for poultry sales in the first quarter of 2011. In this respect, the recent decisions announced by the Government to introduce direct subsidies for agricultural producers to offset sharp cost increases, and the resolution to distribute feed grain from the intervention fund at below market prices to regions that have suffered most from the drought is encouraging.

We also welcome the Government's decision to decrease import quotas for 2011, which were cut almost by half in poultry as compared to 2010. Aside from the reduction, the new quota allows only for imports of leg quarters, which considerably changes the market picture. In addition, with the anticipated growth in domestic production, pioneered by Cherkizovo Group in the early 2000s, the market is expected to reach Government-set self-sufficiency levels in poultry towards the end of 2011, with imports taking around a 10-12% share of the market.

Cherkizovo is one of the leading integrated diversified meat producers in the Russian Federation. According to statistics from Russia's Meat Union, we have the largest market share of processed meat products in Russia; and according to Russian Poultry Union and our own estimates, we have the largest sales of poultry in Moscow and the Moscow region and are the second largest producer nationally. We are also the third largest producer of pork in the highly-fragmented Russian pork industry.

In 2010, we sold approximately 141,550 tonnes of meat products, 194,100 slaughter-weight tonnes of poultry products and 87,650 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 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 of pigs, at facilities in the Moscow, Lipetsk, Vologda, Tambov and Penza 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.

Our operations are structured into three operating divisions: Meat Processing, Poultry and Pork. We operate seven 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 integrated production clusters and associated sales and trading operations. Our Pork operations consist of seven integrated pork complexes.

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 2010 was actually at 2.7% (2009: negative effective tax rate 2.7%), as compared to the general corporate profit tax rate in Russia of 20%. In 2009, negative tax rate mainly relates to the fact that we saw a large recognition of previously unrecognised income tax benefits as a result of release of provisions relating to income tax risks where the statute of limitation was 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 slowly decreasing during 2010 from 8.75% at the beginning of the year to 8.00% in December.

We account for interest on these loans on a net basis, after taking subsidies into account. As of 31 December 2010, approximately 88% (up from 86% at the end of 2009) of the aggregate principal amount of our loans was eligible for, and received subsidies, which reduced interest for the year by US$42.7 million (2009: US$31.9 million). As of 31 December 2010 our effective interest rate applicable to the loans to which the interest subsidies applied ranged from 0.28% to 1.62%, compared with the interest rates on outstanding amounts under the loans, which ranged from 7.5% to 15.0%. As of 31 December 2010 our effective interest rate decreased to 3% (2009: 4%). Such subsidies were netted against interest expense. The favourable interest rate subsidies are not available to non-production agriculture-related operations, such as our trading, mergers and acquisitions and Meat Processing operations.

SUBSIDIES

The Group received no direct Federal subsidies in 2010. The Group received regional direct subsidies that were offset against cost of sales in 2010 of US$1 million.

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 appreciated in real terms against the US Dollar by 12.2% in 2010 (2009: depreciation 12.2%), and the average exchange rate of the Rouble against the US Dollar appreciated by 4.3% (2009: depreciation 21.7%) in nominal terms.

All our long-term debt outstanding (excluding finance leases) at 31 December 2010 consisted of rouble denominated loans. Approximately 1.5% of the aggregate principal amount of our long-term debt outstanding at 31 December 2009 consisted of foreign-currency denominated loans, of which approximately 87% were US Dollar-denominated and 13% Euro-denominated). Practically all of our short-term debt balance (excluding the current portion of long-term loans) at 31 December 2010 and 2009 was Rouble-denominated. We have not entered into transactions to hedge against the interest rate risk.

RESULTS OF OPERATIONS

GROUP RESULTS

Cherkizovo has made solid progress in 2010 in its operational and financial results, though performance was affected by a soft pricing environment late in the year, while unusual weather conditions have affected operational results and costs.

Sales increased by 17% to US$1,188.2 million (2009: US$1019.2 million) driven by organic growth across all segments.

Meat Processing accounted for 44% (45% in 2009), Poultry for 39% (43% in 2009) and Pork for 17% (12% in 2009) of the Group's sales. 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 15% to US$323.9 million (2009: US$281.6 million). In roubles the increase amounted to 10%. Operating margin was a robust 14%. Net income increased 21% to $144.4 million (2009: US$119.4 million).

Adjusted EBITDA* increased 20% to US $218.7 million (2009: US$182.3 million) and adjusted EBITDA* margin was 18%, reflecting a robust operating performance by the Group in a tough environment.

POULTRY DIVISION

Sales volumes in the Poultry division in 2010 increased by 5% to approximately 194,100 tonnes of slaughter weight compared to 184,300 tonnes in 2009.

Prices for poultry sales in dollar terms increased by 1% from $2.34 per kg in 2009 to $2.37 per kg in 2010 (excluding VAT)[1]. Prices in rouble terms decreased by 3% from 74.33 roubles per kg in 2009 to 71.89 roubles per kg in 2010 (excluding VAT). The pricing environment for poultry products at the end of 2010 was affected by a large share of imports entering Russia in the fourth quarter. This led to higher inventory stocks and put pressure on prices during the first quarter of 2011. However, given the considerable reduction in poultry import quotas, together with expected meat price inflation resulting from rising input costs, we expect upward trends in poultry prices from the second quarter of the year.

1 For price calculation in dollar terms the Company used the average exchange rate for 2010 of 30.37 roubles per 1 US Dollar, for 2009 the average rate was 31.72 roubles per 1 US dollar.

Consolidated income statement data US$000	**Year ended 31 December 2010**	Year ended 31 December 2009
Sales	1,188,213	1,019,153
including Sales volume discount	(41,212)	(35,407)
including Sales returns	(12,302)	(9,843)
Cost of sales	(864,341)	(737,518)
Gross profit	**323,872**	**281,635**
Gross margin	*27.3%*	*27.6%*
Operating expenses	(156,904)	(141,891)
Operating Income	**166,968**	**139,744**
Operating margin	*14.1%*	*13.7%*
Income before income tax (expense) benefit and non-controlling interests	**152,843**	**120,243**
Net income attributable to Group Cherkizovo	**144,449**	**119,442**
Net profit margin	*12.2%*	*11.7%*
Weighted average number of shares outstanding	43,028,022	43,028,022
Earnings per share		
Net income attributable to Cherkizovo Group per share – basic and diluted	**3.36**	**2.78**
Consolidated Adjusted EBITDA reconciliation*		
Income before income tax (expense) benefit and non-controlling interests	**152,843**	**120,243**
Add:		
Financial expense, net	15,936	19,896
Loss from disposal of consolidated entities		
Interest income	(1,220)	(1,123)
Gain on early retirement of bonds	–	(1,123)
Reserve on loans receivable	–	2,413
Foreign exchange loss/(gain)	353	157
Other financial income & expenses	(944)	(719)
Depreciation expense	50,544	41,340
Loss on disposal of property, plant & equipment	1,182	1,208
Consolidated Adjusted EBITDA*	**218,694**	**182,292**
Adjusted EBITDA Margin*	*18.4%*	*17.9%*

Poultry processing division income statement data US$000	**Year ended 31 December 2010**	Year ended 31 December 2009
Total Sales	500,961	470,058
Interdivision sales	(35,962)	(28,104)
Sales to external customers	**464,999**	**441,954**
Cost of sales	(354,805)	(307,352)
Gross profit	**146,156**	**162,706**
Gross margin	*29.2%*	*34.6%*
Operating expenses	(64,742)	(62,366)
Operating Income	**81,414**	**100,340**
Operating margin	*16.3%*	*21.3%*
Other expenses, net	(399)	(1,888)
Financial expense, net	(6,436)	(9,682)
Division profit	**74,579**	**88,770**
Division profit margin	*14.9%*	*18.9%*
Poultry division Adjusted EBITDA* reconciliation		
Division profit	**74,579**	**88,770**
Add:		
Financial expense, net	6,436	9,682
Interest income	(31)	(35)
Foreign exchange loss	726	2,069
Other financial (income) and expenses, net	(295)	(147)
Depreciation expense	23,799	20,585
Loss on disposal of property, plant & equipment	880	605
Poultry division Adjusted EBITDA*	**106,094**	**121,529**
Adjusted EBITDA Margin*	*21.2%*	*25.9%*

Total sales in the Poultry division increased 7% to US$501.0 million (2009: US$470.1 million). Gross Profit decreased 10% to US$146.2 million (2009: US$162.7 million), divisional Gross Margin was 29% (2009: 35%), mostly due to lower selling prices in the period, as well as rising costs.

Operating expenses as a percentage of sales were flat at 13%. Operating income of the division decreased by 19% to US$81.4 million (2009: US$100.3 million), and operating margin was 16%. Profit in the Poultry division decreased by 16% to US$74.6 million (2009: US$88.8 million).

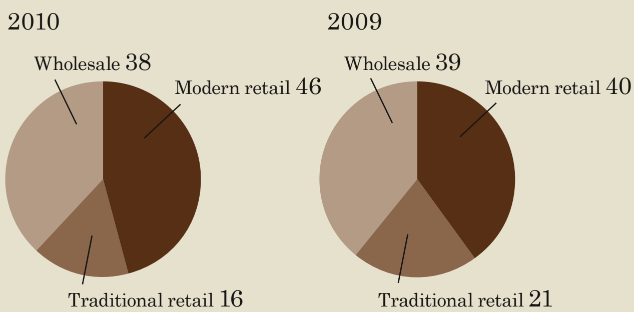
Adjusted EBITDA* decreased 13% to US$106.1 million (2009: US$121.5 million), while Adjusted EBITDA* margin in the Poultry division was 21% for 2010.

PORK DIVISION

In 2010, Cherkizovo's state-of-the-art pork farms in Lipetsk and Tambov operated at near to full capacity. Production at the existing farms was approximately 76,200 tonnes of live weight. Together with the acquisition of two new farms in Lipetsk and Penza which produced approximately 11,450 tonnes, sales volumes in the Pork division in 2010 increased by 50% to approximately 87,650 tonnes of live weight, compared to approximately 58,300 tonnes in 2009. This ranked Cherkizovo Group as the third largest producer in Russia, as the Group has increased its market share to 5% in this still highly fragmented market.

In dollar terms, prices for pork sales increased by 4% from $2.27 per kg of live weight in 2009 to $2.37 per kg of live weight in 2010 (excluding VAT)*. Prices in rouble terms were almost flat, slightly decreasing from 72.12 roubles per kg in 2009 to 71.95 roubles per kg in 2010 (excluding VAT). The pricing environment for pork products in Russia in the second half of 2010 was affected by a larger than usual reduction of livestock by smaller and less efficient producers and households as a result of a sharp increase in input costs.

Poultry sales channels, %



Pork processing division income statement data US$000	**Year ended 31 December 2010**	Year ended 31 December 2009
Total Sales	222,239	142,746
Interdivision sales	(27,773)	(25,402)
Sales to external customers	**194,466**	**117,344**
Cost of sales	(132,198)	(91,138)
Gross profit	**90,041**	**51,608**
Gross margin	*40.5%*	*36.2%*
Operating expenses	(15,614)	(9,160)
Operating Income	**74,427**	**42,448**
Operating margin	*33.5%*	*29.7%*
Other expenses, net	422	(187)
Financial expense, net	(5,438)	(5,131)
Division profit	**69,411**	**37,130**
Division profit margin	*31.2%*	*26.0%*
Pork division Adjusted EBITDA* reconciliation		
Division profit	**69,411**	**37,130**
Add:		
Financial expense, net	5,438	5,131
Interest income	(355)	(34)
Foreign exchange loss/(gain)	(13)	237
Other financial income, net	(54)	(15)
Depreciation expense	15,521	9,683
Loss on disposal of property, plant & equipment	244	100
Pork division Adjusted EBITDA*	**90,192**	**52,232**
Adjusted EBITDA Margin*	*40.6%*	*36.6%*

Total sales in the Pork division increased by 56% to US$222.2 million (2009: US$142.7 million). Gross Profit increased 74% to US$90.0 million (2009: US$51.6 million) while Gross Margin was 41%. In November 2010 the Group completed the acquisition of two farms in the Penza and Lipetsk region. These acquisitions are transactions between entities under common control, and have been accounted for accordingly in the financial and operational results in a manner similar to a pooling of interest with assets and liabilities transferred at historical cost. Cherkizovo's historical financial information has also been restated to include the acquired entities for all periods presented.

Operating Expenses as a percentage of sales were at 7%. The division generated Operating Income of US$74.4 million, up 75% (2009: US$42.4 million), while Operating Margin was 34% (2009: 30%). Profit in the Pork division increased by 87% to US$69.4 million (2009: US$37.1 million).

Adjusted EBITDA* generated by the division increased 73% to US$90.2 million (2009: US$52.2 million), and Adjusted EBITDA* Margin was 41% (2009: 37%).

MEAT PROCESSING DIVISION

In 2010, consumption recovered to pre-crisis levels, and sales volumes in the Meat Processing segment increased by 9% to approximately 141,550 tonnes.

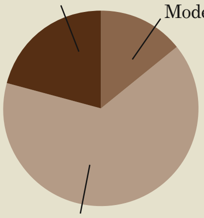
Prices in dollar terms increased by 8% from $3.59 per kg in 2009 to $3.89 per kg in 2010 (excluding VAT)*. Prices in rouble terms increased by 4% from 113.80 roubles in 2009 to 118.21 roubles per kg in 2010 (excluding VAT).

Total sales in the Meat Processing division increased 15% to US$529.4 million (2009: US$460.2 million). Divisional Gross Profit increased 30% to US$87.6 million (2009: US$67.6 million), while Gross Margin increased from 15% to 17%, due to lower prices of purchased meat and increased operational efficiency. Operating expenses as a percentage of sales decreased to 12% from 13% for 2009. Division profit was US$18.4 million as opposed to a division loss of $3.8 million for 2009.

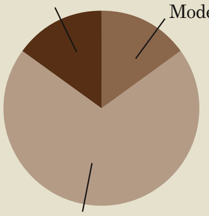
Adjusted EBITDA* for the division increased 88% to US$36.9 million (2009: US$19.6 million), and Adjusted EBITDA* margin increased to 7% (2009: 4%).

Meat Processing sales channels, %

2010



2009



Meat processing division income statement data US$000	**Year ended 31 December 2010**	Year ended 31 December 2009
Total Sales	529,354	460,158
Interdivision sales	(616)	(307)
Sales to external customers	**528,738**	**459,851**
Cost of sales	(441,725)	(392,603)
Gross profit	**87,629**	**67,555**
Gross margin	*16.6%*	*14.7%*
Operating expenses	(61,805)	(59,393)
Operating Income	**25,824**	**8,162**
Operating margin	*4.9%*	*1.8%*
Other income and expenses, net	1,081	(141)
Financial expense, net	(8,473)	(11,841)
Division profit/(loss)	**18,432**	**(3,820)**
Division profit margin	*3.5%*	*-0.8%*
Division profit/(loss)	**18,432**	**(3,820)**
Add:		
Financial expense, net	8,473	11,841
Interest income	(530)	(3,020)
Foreign exchange (gain)/loss	(461)	1,464
Reserve on loans receivable	–	2,128
Other financial income and expenses	(90)	(430)
Depreciation expense	10,994	10,966
Loss on disposal of property, plant & equipment	60	503
Meat processing division Adjusted EBITDA*	**36,878**	**19,632**
Adjusted EBITDA Margin*	*7.0%*	*4.3%*

LIQUIDITY AND CAPITAL RESOURCES

CAPITAL REQUIREMENTS

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

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

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

We generally rely on operating cash flows and bank loans to finance capital expenditure. In 2010, the major sources of our funds were our operating cash flows and long-term borrowings. We financed our capital expenditure primarily with long-term borrowings.

DEBT

Net Debt increased 12% to $580.2 million from $517.4 million in 2009. As of 31 December 2010, total Debt was at US$648.4 million, while the structure of the debt portfolio changed in favour of short-term debt, which was approximately US$182.5 million or 28% of the debt portfolio, increasing from 20% of the debt portfolio at the end of 2009. Long-term debt was US$465.9 million, or 72% of the portfolio, decreasing from 80% at the end of 2009. Cost of Debt for 2010 decreased to 3% from 4% in 2009. The portion of subsidized debt in the portfolio was 88%, increasing from 86% at end of 2009.

CAPITAL EXPENDITURE

Our total capital expenditure in 2010, excluding acquisitions, amounted to US$173.7 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.

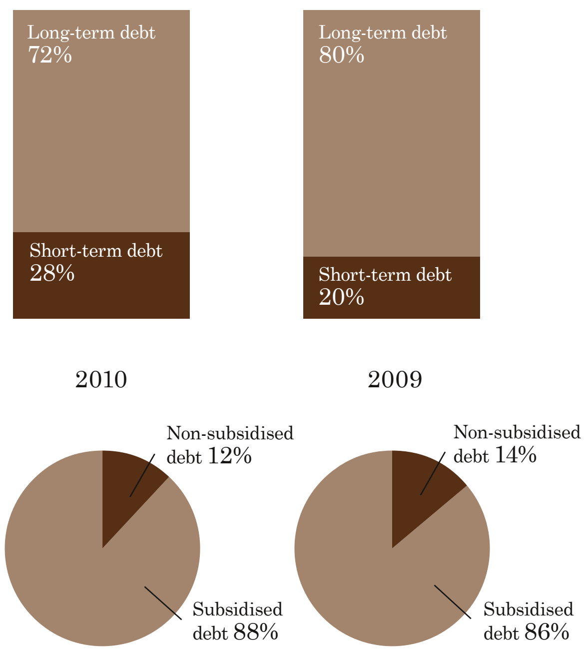
In 2010, capital expenditure in our Poultry segment totalled US$85 million and related mainly to the completion of the Komarovskaya production site at Vasilyevskaya Poultry Plant, the capacity increase projects at Bryansk and Penza clusters, and the construction of the new slaughter facility in Penza.

In 2010, capital expenditure in our Pork segment amounted to US $79.8 million, covering construction of our new pork facilities in Lipetsk, Voronezh and Tambov.

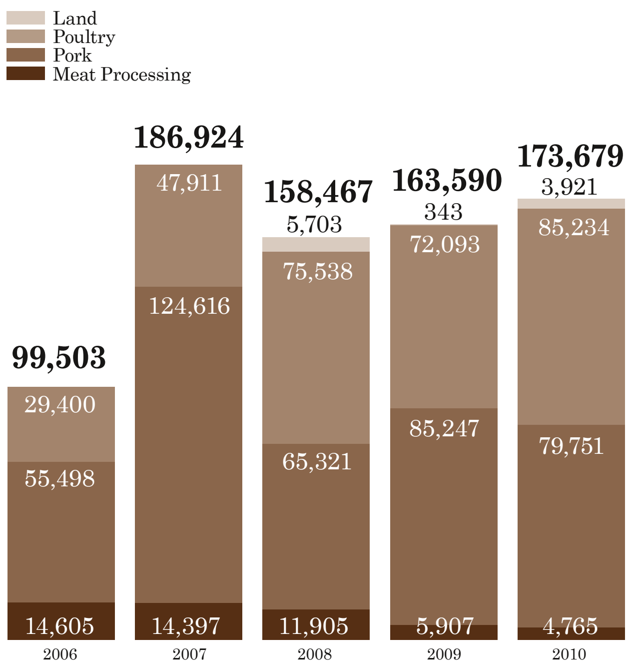
In 2010, capital expenditures in our Meat Processing segment totalled US$5 million and covered improvements at our existing meat processing.

The following diagram sets out our capital expenditure by segment, for the five years ended 31 December 2010.

Total debt, US$ million



Capital expenditure, US$000



CASH FLOW

The table below represents movements in our cash flows from various activities during the two years ended 31 December 2010 and 2009:

For the year ended 31 December	**2010 US$000**	2009 US$000
Net cash from operating activities	**166,359**	181,997
Net cash used in investing activities	**(212,942)**	(153,566)
Net cash from financing activities	**75,504**	(36,201)
Net increase/(decrease) in cash and cash equivalents	**28,330**	(9,834)

Net cash from operating activities in 2010 decreased to US$166.4 million (2009: US$182.0 million).

This decrease in net cash from operating activities in 2010 compared to 2009 (by US$15.6 million) mostly related to factors including: significant increase in inventories in 2010, compared to the decrease in 2009; significant increase in trade receivables and advances paid in 2010, compared to the slight increase in 2009. Increase in income from continuing operations of US$25.1 million and a significant increase in trade payables in 2010 compared to 2009 had a positive effect on the amount of net cash flow increase.

A significant increase in inventories of $31.2 million is made up of an increase in raw materials (wheat, corn, peas), and by an insignificant increase in livestock. The increase in raw materials mostly relates to the fact that predicting significant increase in the price levels, purchases were for the maximum amount possible. The increase in inventories was also due to the significant increase in prices for raw materials, compared to 2009.

The increase in livestock mostly relates to the commissioning of our new poultry site in Bryansk and the commissioning of new production capacities at our new pork sites in Lipetsk.

The increase in trade receivables mainly resulted from the increase in sales in general.

In 2009 the 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.

Increase in advances given in 2010 mostly relates to prepayment for sunflower oil. Because of this prepayment the Group obtained significant discounts from market prices for this product.

Increase in trade payables of US$8.4 million is mainly a result of the increase in production volumes in our meat processing division and also due to increased feed requirements in our pork division attributable to increased production.

Net cash used in the Group's investing activities increased, amounting to US$212.9 million (2009: US$153.6 million). The increase is mainly due to a deposit in Zenith Bank (amounting to US$33.8 million).

In 2010 net cash flow from financing activities was US$75.5 million. In 2009 net cash flow used in financing activities was US$36.2 million. Increase in net cash flow from financing activities was due to a public offering of 3,000,000 bonds, as well as an increase in short-term loans for working capital, needed particularly for grain purchases.

LIQUIDITY

As of 31 December 2010, we had total cash and cash equivalents of US$68.2 million plus short-term bank deposits of US$33.8 million. We also had working capital of US$161.3 million which is a significant improvement from US$124.1 million in 2009. 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$343.7 million as of 31 December 2010 (2009: US$233.1 million).

In 2010 trade receivables remained flat at US$81.3 million (2009: US$77.2 million). Trade receivables from related parties at 31 December 2010 remained flat at US$13.5 million (2009: US$10.8 million). Trade receivables' turnover averaged 25 days as of 31 December 2010 (2009: 28 days). The allowance for doubtful accounts, which we create on a case-by-case basis, was US$4.8 million (2009: US$5.1 million).

Trade accounts payable increased and amounted to US$73.3 million at 31 December 2010 (2009: US$65.5 million). Trade payables to related parties increased to US$4.4 million as of 31 December 2010 (2009: US$2.2 million). As of 31 December 2010 trade payables' turnover averaged 31 days (2009: 32 days).

As of 31 December 2010, advances paid amounted to US$42.1 million, net of allowances for doubtful accounts (2009: US$30.3 million). Of our total net advances, US$6.2 million (2009: US$15.8 million) was to related parties. The allowance for doubtful accounts at 31 December 2010 was US$1.8 million (2009: US$1.6 million).

Inventory consists primarily of raw materials and goods for resale, work-in-progress, livestock and finished goods. As of 31 December 2010, our inventories were US$183.2 million (2009: US$142.9 million).

The value of our livestock at 31 December 2010 was US$71.8 million (2009: US$63.5 million). An increase is due to the increase of operations to full capacity at our pork site in Lipetsk (commissioning of module 5), as well as commissioning of poultry site Roscha in Bryansk.

Other receivables mainly comprise subsidies due from the government, which decreased to US$6.0 million in 2010 (2009: US$10.3 million)

Other current assets include other taxes receivable, prepaid expenses, spare parts and notes receivable. The increase here is mainly because of the increase in VAT receivable.

OUTLOOK

Cherkizovo has made solid progress in 2010 in its operational and financial results, though performance was affected by a soft pricing environment late in the year, while unusual weather conditions have affected operational results and costs. We have continued investing in production growth. These investments have focused on large-scale projects to increase poultry capacity, and provide significantly higher output from 2011. The first site was completed and launched in Bryansk at the end of 2010, and we have recently launched a new broiler site at our Penza cluster. The Pork division has continued to deliver its volume growth in line with management's expectations, supported by the accretive acquisition of two farms completed in 2010.

The outlook for 2011 is challenging. Grain prices have been rising globally, but the operational impact in Russia will be particularly felt in coming months. Other feedstock commodity input prices have also been rising sharply, and these will put margins under pressure. To some extent, pricing action will offset the impact of rising costs, but given the weak pricing environment in the fourth quarter of 2010, pricing is likely to be more pronounced in the second half of the year. The consequences of these actions on overall consumer demand remain to be seen, and ultimately an appropriate balance will be sought between profitability and growth.

In this situation, we welcome the recent support measures announced by the Government, in particular to introduce direct subsidies for agricultural producers to offset sharp cost increases, and to distribute feed grain from the intervention fund at below market prices to regions suffering from drought consequences. In addition, poultry import quotas were significantly reduced since Russia is expected to achieve self-sufficiency in poultry meat already towards the end of 2011. Overall, we anticipate further volume growth across our Poultry, Pork and Meat Processing divisions. Management is confident that the Group will continue to focus on providing efficiency increases and delivering against our strategy.

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*. Adjusted EBITDA* represents operating income plus depreciation and amortisation expense, loss on disposal of property, plant and equipment and other items, which are expenses primarily related to financing activities, adjusted for certain other items. 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.

Igor Babaev

Sergei Mikhailov

Evgeny Mikhailov

BROAD EXPERIENCE OF THE MANAGEMENT POSITIONS CHERKIZOVO TO DELIVER AGAINST ITS STATED STRATEGY

Igor Babaev, 61
Chairman
Mr Babaev has served as Chief Executive Officer of most Group companies since 1998. He joined Cherkizovsky MPP in 1988 as chief engineer, becoming President and a member of the Board of Directors in 1993. Before joining Cherkizovsky MPP, he was an engineer and senior engineer at Essentuki Canning Plant. He was also head of 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 "Honored 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 Honor for his outstanding achievements by the President of the Russian Federation Dmitry Medvedev.

Sergei Mikhailov, 32
Chief Executive Officer
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, 29
Executive Director
Mr Mikhailov serves as Head of Investments project department of Cherkizovo Group. 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

Samuel Lipman

Musheg Mamikonian

Marcus Rhodes

Ludmila Mikhailova

Artur Minosyants

Yury Dyachuk, 43
Head of Legal Department
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, 66
Non-executive Director
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, 51
Non-executive Director
Mr Mamikonian has also served as Chief Executive Officer of OJSC Lianozovsky Sausage Plant, Chairman of the Board of Directors of OJSC Dmitrovsky Meat Plant and Chief Executive Officer of CJSC Myasnoy Alliance since 2003, and has been President of the Russian Meat Union since 1998. From 2001 to 2003, he was Chairman of the Board of Directors of OJSC Lianozovsky Sausage Plant. In 1998, he was Chief Executive Officer of CJSC Eko-Torg and between 1997 and 1998 was Deputy President at CMPP. He graduated from Yerevan K. Marx Polytechnic Institute with a degree in Engineering in 1981 and received a PhD from Moscow Technological Institute of Meat and Milk Industry in 1986. He holds over 100 patents for technical and technological inventions, and in 1999 received a Russian Federation State award for achievements in Science and Technology.

Marcus Rhodes, 50
Non-executive Director
Chairman of Audit Committee
Mr Marcus Rhodes joined Board of Directors in February 2009. He has over 20 years experience in audit ranging from major financial to consulting companies in several countries, Russia and Poland included. From 2002 to 2008, he acted as an audit partner for Ernst & Young. Since 2007, Mr Rhodes has served as Director for 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 earned 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, 35
Chief Financial Officer
Ms Mikhailova was Deputy Chief Executive Officer of the Company from September 2005 to February 2006. From January 2005 to March 2005 she was First Deputy President of AIC Cherkizovsky, and Deputy Chief Executive Officer of LLC Group Cherkizovo from March 2005 to September 2005. From July to December 2004 she was Deputy President of Cherkizovsky MPP. From 2002 to 2004, she was a financial analyst at General Mills Corporation Canada (Toronto). In 2002, she worked at ING Barings in London, and from 2000 to 2001 she worked for McFarlane Gordon Inc. (Toronto). She was previously a financial analyst at Cherkizovsky MPP (1996 to 1998). She graduated from the Financial Academy of the Government of the Russian Federation in 1998. In 1999, she completed a Canadian Securities Course at the Canadian Securities Institute, and in 2003 she received an MBA from Schulich School of Business, York University (Canada).

Artur Minosyants, 45
Chief Operating Officer
Mr Minsoyants was previously First Deputy President for Finance and Economics of Cherkizovsky MPP, and from 1996 to 2000 was Finance and Economics Director of Birulevsky MPP. Before joining, he was Head of Finance of Armavir City Administration. Mr Minosyants is a graduate of the Moscow Plekhanov Institute for the National Economy and holds a PhD in Economics.

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.

In 2010 we launched our corporate magazine, which aims both to inform employees about key events at Cherkizovo and in our market place, and also to help the development of our corporate culture.

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 Group is firmly committed to attaining high standards of corporate governance and conducting the Group's operations in accordance with the best principles of corporate governance.

Cherkizovo's shares are listed on the Moscow Interbank Currency Exchange (MICEX) and the London Stock Exchange (LSE). In connection with our listing on the MICEX in quotation list A2, we are required to comply with the corporate governance standards of our home country. These include:

- the obligation to have at least three non-executive directors: Cherkizovo's Board of Directors includes three independent directors, as defined in the Corporate Governance Code approved by the Federal Service for Financial Monitoring. These criteria differ from those set out in the UK's Combined Code on Corporate Governance. We believe that Mr Mamikonian M. L., Mr Samuel B Lipman and Mr Marcus Rhodes can be regarded as 'independent directors' in accordance with the Combined Code;
- the formation of the Executive Board: Cherkizovo formed the Executive Board in June 2010;
- the formation of an Audit Committee: Cherkizovo formed an Audit Committee in April 2006, membership in the Audit Committee is formed annually;
- the formation of HR and Compensation Committee: Cherkizovo formed HR and Compensation Committee in July 2010;
- the adoption of the bylaws on insider trading;
- 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;
- undertake other issues, as provided for by the Federal Law on Joint-Stock Companies; and
- other authorities statutory by the Company's charter and internal documents.

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 10 times during the year. At this time, the number of obligatory meetings during the year is not determined.

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.

CORPORATE GOVERNANCE CONTINUED

AUDIT COMMITTEE
The members are Mr Mamikonian M. L., Mr Samuel B Lipman and Mr Marcus Rhodes, who chairs the committee. As a chartered accountant and a retired “Big 4” audit partner, Marcus Rhodes possesses recent and relevant financial experience. The audit committee meets four times a year.

The audit committee maintains a formal calendar of items that are to be considered at each committee meeting and within the annual audit cycle.

The main responsibilities of the audit committee are to:

- Monitor the integrity of the annual and interim financial statements and any formal announcements relating to the Company’s financial performance, paying particular attention to significant reporting judgments contained therein, including critical accounting policies and practices;
- Review and monitor the external auditors’ independence and objectivity and the effectiveness of the audit process;
- Make recommendations to the Board, for submission to shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors;
- Monitor and review the effectiveness of the internal audit function;
- Maintain a policy on the engagement of the external auditors to supply non-audit services; and
- Review arrangements by which employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control or other matters.

During the year, the audit committee discharged its responsibilities as set out in its terms of reference by undertaking the following work:

- Reviewing the effectiveness of the external audit process, the external auditors strategy and plan for the audit, and the qualifications, expertise, resources and independence of the external auditors;
- Agreeing the terms of engagement and fee of the external auditors for the audit;
- Reviewing the policy on auditor independence and the provision of non-audit services by the external auditors;
- Reviewing the potential impact on the Group’s financial statements of significant corporate governance and accounting matters;
- Reviewing the findings of the external auditors, their management letters on accounting procedures and internal financial controls and audit representation letters;
- Meeting separately with the external auditors in the absence of any executives and the internal audit team;
- Reviewing the procedures under which employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control or other matters.

DIRECTORS’ REPORT

The directors present their annual report and audited financial statements for the year ended 31 December 2010.

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 seven 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 seven pig farms and a feed plant.

More information about the business is set out in the Chairman’s Statement, on pages 8 and 9, the Chief Executive Officer’s Review, on pages 10 and 11.

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 2010:

Igor E Babaev, Chairman
Sergei Mikhailov, Chief Executive Officer
Yury Dyachuk, Head of Legal Department
Evgeny Mikhailov, Head of Investments project department
Samuel B Lipman, Independent Non-executive Director
Musheg L Mamikonian, Independent Non-executive Director
Marcus Rhodes, Independent 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 MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

for the years ended 31 December 2010 and 2009

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on page 41, 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 balance sheets of the Group at 31 December 2010 and 2009 and the consolidated income statements, cash flows and changes in 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 2010 and 2009 were approved on March 25 2011 by:

Mr SERGEI I MIKHAILOV
Chief Executive Officer

Mr ARTUR M MINOSYANTS
Chief Operating Officer

Ms LUDMILA I MIKHAILOVA
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of OJSC Cherkizovo Group and its subsidiaries (together the "Group") as of 31 December 2010 and 2009 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 2010 and 2009, the stated amounts of such property, plant and equipment approximated US $43,220 thousands and US $47,670 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 2010 and 2009 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.

As discussed in Note 1 to the financial statements, the Group made acquisitions during 2010 from companies owned by the majority shareholder of the Group, resulting in a change in reporting entity. The transactions were accounted for as transactions under common control. Assets and liabilities were transferred at historical cost. The change in reporting entity was accounted for in a manner similar to a pooling of interests, which has been reflected retrospectively from the first period presented herein.

Deloitte & Touche CIS

25 March 2011
Moscow, Russia

CONSOLIDATED BALANCE SHEETS

As of 31 December 2010 and 2009

	Notes	2010 US$000	2009 US$000 (Restated – see Note 1)
ASSETS			
Current assets :			
Cash and cash equivalents	3	68,164	39,834
Trade receivables, net of allowance for doubtful accounts of 4,808 and of 5,091 as of 31 December 2010 and 2009, respectively	4	81,300	77,188
Advances paid, net of allowance for doubtful accounts of 1,820 and of 1,634 as of 31 December 2010 and 2009, respectively		42,087	30,276
Inventory	5	183,170	142,850
Short-term deposits in banks		33,796	–
Deferred tax assets	19	5,003	5,879
Other receivables, net of allowance for doubtful accounts of 1,935 and of 1,394 as of 31 December 2010 and 2009, respectively	6	12,594	17,319
Other current assets	7	41,513	31,554
Total current assets		**467,627**	**344,900**
Non-current assets:			
Property, plant and equipment, net	8	934,904	824,159
Goodwill	9	14,108	8,677
Other intangible assets, net	9	41,821	41,892
Deferred tax assets	19	3,266	2,182
Notes receivable, net	10	1,427	1,327
Other non-current receivables		8,296	5,291
VAT receivable		–	10,620
Total non-current assets		**1,003,822**	**894,148**
Total assets		**1,471,449**	**1,239,048**

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

	Notes	2010 US$000	2009 US$000 (Restated – see Note 1)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade accounts payable		73,251	65,478
Short-term debt and current portion of capital leases	11	182,467	108,993
Tax related liabilities	12	10,132	11,218
Deferred tax liabilities	19	–	28
Payroll related liability		14,159	13,883
Advances received		6,121	5,624
Payables for non-current assets		10,450	7,975
Interest payable		3,131	2,448
Other payables		6,656	5,159
Total current liabilities		**306,367**	**220,806**
Non-current liabilities:			
Long-term debt and capital leases	11	465,889	448,267
Deferred tax liabilities	19	25,728	27,436
Tax related liabilities	12	2,726	4,255
Payables to shareholders		563	632
Other liabilities		25	5
Total non-current liabilities		**494,931**	**480,595**
Commitments and contingencies	24		
Equity:			
Share capital	13	15	15
Additional paid-in capital		272,682	281,161
Treasury shares		(496)	(496)
Other accumulated comprehensive loss		(76,062)	(71,707)
Retained earnings		442,447	297,998
Total shareholders' equity		**638,586**	**506,971**
Non-controlling interests		31,565	30,676
Total equity		**670,151**	**537,647**
Total liabilities and equity		**1,471,449**	**1,239,048**

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

CONSOLIDATED INCOME STATEMENTS

For the years ended 31 December 2010 and 2009

	Notes	**2010 US$000**	2009 US$000 (Restated – see Note 1)
Sales	14	1,188,213	1,019,153
Cost of sales	15	(864,341)	(737,518)
Gross profit		**323,872**	**281,635**
Selling, general and administrative expenses	16	(155,722)	(140,683)
Other operating expense, net		(1,182)	(1,208)
Operating income		**166,968**	**139,744**
Other income, net	17	1,811	395
Financial expense, net	18	(15,936)	(19,896)
Income before income tax (expense) benefit		**152,843**	**120,243**
Income tax (expense) benefit	19	(4,145)	3,307
Net income		**148,698**	**123,550**
Less: Net income attributable to non-controlling interests		(4,249)	(4,108)
Net income attributable to Cherkizovo Group		**144,449**	**119,442**

Weighted average number of shares outstanding	43,028,022	43,028,022
Net income attributable to Cherkizovo Group per share – basic and diluted:	3.36	2.78

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

CONSOLIDATED CASH FLOW STATEMENTS

For the years ended 31 December 2010 and 2009

	2010 US$000	2009 US$000 (Restated – see Note 1)
Cash flows from (used in) operating activities:		
Net income	148,698	123,550
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortisation	50,544	41,340
Bad debt expense (including allowance for non-current loans receivable of nil and 2,413 for the years ended 31 December 2010 and 2009, respectively)	2,834	10,022
Foreign exchange loss	353	157
Deferred tax benefit	(1,960)	(4,470)
Recognition of previously unrecognized tax benefits (Note 19)	(1,491)	(2,366)
Share-based compensation expense	3,803	908
Other adjustments, net	999	81
Changes in operating assets and liabilities		
(Increase) decrease in inventories	(31,205)	1,065
Increase in trade receivables	(6,894)	(1,635)
Increase in advances paid	(11,571)	(1,619)
Decrease in non-current value added tax receivable	7,566	490
(Increase) decrease in other current assets	(5,991)	5,225
Increase in trade accounts payable	8,407	1,399
(Decrease) increase in taxes payable	(1,360)	3,172
Increase in other current payables	3,627	4,678
Cash flows from operating activities	**166,359**	**181,997**
Cash flows from (used in) investing activities:		
Purchases of long-lived assets	(170,645)	(162,374)
Proceeds from sale of property, plant and equipment	448	855
Acquisitions of subsidiaries, net of cash acquired	(9,317)	(2,140)
Sale of notes receivable	2,590	10,310
Purchases of notes receivable	–	(3,260)
Issuance of long-term loans	(43)	(891)
Repayment on long-term loans issued	–	784
Issuance of short-term loans	(36,662)	(17,950)
Repayments on short-term loans issued	687	21,100
Total net cash used in investing activities	**(212,942)**	**(153,566)**
Cash flows from (used in) financing activities:		
Proceeds from long-term loans	150,485	122,010
Repayment of long-term loans	(65,449)	(130,569)
Proceeds from long-term loans from related parties	761	7,716
Repayment of long-term loans from related parties	(8,483)	(2,514)
Proceeds from short-term loans	141,169	90,733
Repayment of short-term loans	(127,571)	(115,279)
Acquisitions of entities under common control and non-contolling interests (Notes 1, 23)	(15,408)	(8,298)
Total net cash from (used in) financing activities	**75,504**	**(36,201)**

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

CONSOLIDATED
CASH FLOW STATEMENTS

For the years ended 31 December 2010 and 2009

	2010 US$000	2009 US$000 (Restated – see Note 1)
Total cash from (used in) operating, investing and financing activities	**28,921**	**(7,770)**
Impact of exchange rate difference on cash and cash equivalents	(591)	(2,064)
Net increase (decrease) in cash and cash equivalents:	**28,330**	**(9,834)**
Cash and cash at the beginning of the period	39,834	49,668
Cash and cash equivalents at the end of the period	**68,164**	**39,834**
Supplemental Information:		
Income taxes paid	7,422	4,649
Interest paid	69,229	68,572
Subsidies received	57,344	49,310
Property, plant and equipment acquired under finance leases	–	599
Property, plant and equipment acquired on account	10,450	7,975

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 2010 and 2009

	Share capital US$000	Additional paid-in capital US$000	Retained earnings US$000	Treasury shares US$000	Other accumulated comprehensive loss US$000	Total shareholders' equity US$000	Non-controlling interests US$000	Total equity US$000
Balance at 1 January 2009 (As previously reported)	**15**	**289,146**	**176,864**	**(496)**	**(64,551)**	**400,978**	**24,169**	**425,147**
Effects of acquisitions under common control (see Note 1)	–	–	1,692	–	(195)	1,497	–	1,497
Balances at 1 January 2009 (Restated – see Note 1)	**15**	**289,146**	**178,556**	**(496)**	**(64,746)**	**402,475**	**24,169**	**426,644**
Net income	–	–	119,442	–	–	119,442	4,108	123,550
Other comprehensive loss from translation adjustment	–	–	–	–	(6,961)	(6,961)	516	(6,445)
Total comprehensive income (loss)			**119,442**		**(6,961)**	**112,480**	**4,624**	**117,105**
Contribution from shareholder (Note 13)	–	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
Effect of acquisitions under common control (Notes 1)	–	(8,052)	–	–	–	(8,052)	–	(8,052)
Balances at 31 December 2009 (Restated – see Note 1)	**15**	**281,161**	**297,998**	**(496)**	**(71,707)**	**506,971**	**30,676**	**537,647**
Balances at 1 January 2010 (Restated – see Note 1)	**15**	**281,161**	**297,998**	**(496)**	**(71,707)**	**506,971**	**30,676**	**537,647**
Net income	–	–	144,449	–	–	144,449	4,249	148,698
Other comprehensive loss from translation adjustment	–	–	–	–	(4,355)	(4,355)	(234)	(4,589)
Total comprehensive income (loss)			**144,449**		**(4,355)**	**140,094**	**4,015**	**144,109**
Contribution from shareholder (Note 13)	–	3,803	–	–	–	3,803	–	3,803
Purchase of non-controlling interests (Note 23)	–	2,569	–	–	–	2,569	(3,126)	(557)
Effect of acquisitions under common control (Notes 1, 23)	–	(14,851)	–	–	–	(14,851)	–	(14,851)
Balances at 31 December 2010	**15**	**272,682**	**442,447**	**(496)**	**(76,062)**	**638,586**	**31,565**	**670,151**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2010 and 2009
(in thousand USD, unless noted otherwise)

1 BUSINESS AND ENVIRONMENT

Incorporation and History

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

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 seven meat processing plants, seven pig production complexes, four poultry production complexes and two combined fodder production plants. The Group also operates three trading houses with subsidiaries in 10 major Russian cities.

The Group's geographical reach covers Moscow, the Moscow region, the regions of Saint Petersburg, Kaliningrad, Penza, Lipetsk, Vologda, Ulyanovsk, Chelyabinsk, Tambov, Krasnodar, Ekaterinburg, Rostov-na-Donu, Briansk 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 2010 and 2009 the number of staff employed by the Group approximated 15,110 and 14,610, respectively.

During 2009, the Group was impacted by a weakened rouble, which fell further during early 2009 before beginning a gradual recovery for the rest of the year. During 2010, as a result of a summer drought in the Russian Federation grain and feed prices significantly increased adversely impacting the Group financial performance during the last quarter of 2010 and could continue to impact the Group's financial performance in the beginning of 2011. In 2010, following an easing of macroeconomic pressures, the Group continued to have access to third party financing and low-cost, government subsidised financing, the trend is expected to continue in 2011.

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

Management expects to fund its forecasted 2011 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.

Accounting for the 2010 Reorganisation

During the fourth quarter of 2010, the Group acquired LLC RAO Penzenskaya Grain Company ("PZK") and CJSC Lipetskmyaso ("Lipetskmyaso"), entities under common control. For purposes of these consolidated financial statements, all prior periods have been retrospectively restated as if the acquisition was completed in the earliest period in which the Group's majority shareholder created these legal entities. The Group's transactions with PZK and Lipetskmyaso have been eliminated upon consolidation.

PZK historically operated a grain and pork business. Prior to the Group's acquisition of PZK, the Group's majority shareholder reorganized PZK whereby all of the assets and operations of the grain business were transferred to another common control entity outside of the Cherkizovo structure. PZK's historical financial information has been retrospectively consolidated with the Group's results excluding the former grain business. PZK had a centralized cash management approach for its pork and grain business whereby the combined business' cash was used to purchase assets of both pork and grain. The resulting difference from the carve-out has been reflected as an effect of acquisition under common control in the Group's statement of changes in equity and comprehensive income.

In accordance with the Group's accounting policy for common control transactions, assets and liabilities of the acquired companies were retrospectively reflected based on the carrying values at which they were recognised by the majority shareholder. Consideration paid is recorded as a decrease in additional paid-in capital in these consolidated financial statements.

The following table presents the significant effects of this restatement:

As of 31 December 2009:	As previously reported	Entities acquired under common control	Eliminations	As restated
Total current assets	345,400	11,319	(11,819)	344,900
Property, plant and equipment, net	754,720	69,439	–	824,159
Other intangible assets, net	41,889	3	–	41,892
Other non-current assets	28,108		(11)	28,097
Total assets	**1,170,117**	**80,761**	**(11,830)**	**1,239,048**
Total current liabilities	217,072	15,564	(11,830)	220,806
Total non-current liabilities	407,640	72,955	–	480,595
Total liabilities	**624,712**	**88,519**	**(11,830)**	**701,401**
Total shareholders' equity	514,728	(7,758)	–	506,970
Non-controlling interest	30,677			30,677
Total equity	**545,405**	**(7,758)**	**–**	**537,647**
Total liabilities and equity	**1,170,117**	**80,761**	**(11,830)**	**1,239,048**

For the year ended 31 December 2009:				
Sales	1,022,457	10,234	(13,538)	1,019,153
Operating income	140,190	(446)	–	139,744
Income before tax	120,932	(689)	–	120,243
Net income	124,279	(729)	–	123,550
Net income attributable to Group Cherkizovo	120,171	(729)	–	119,442
EPS, basic and diluted ($US)	2.79			2.78

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.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Foreign Currency Translation

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

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

The following table summarizes the exchange rates of the Russian rouble to 1 US dollar at 31 December 2010 and 2009.

	Exchange rate
31 December 2010	30.4769
Average exchange rate for the year ended 31 December 2010	30.3692
31 December 2009	30.2442
Average exchange rate for the year ended 31 December 2009	31.7231

Management Estimates

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

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

Cash and Cash Equivalents

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

Accounts Receivable and Allowance for Doubtful Accounts

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

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

Inventory

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

Livestock

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

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

Value Added Tax

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

Property, plant and equipment

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

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

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

Capitalised Interest Expense

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

Business Combinations

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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. All trademarks have been determined to have an indefinite life. Management evaluates a number of factors to determine whether an indefinite life is appropriate, including product sales history, operating plans and the macroeconomic environment. Intangible assets with determinable useful lives and computer software are amortized over their useful lives.

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

The goodwill impairment analysis is a two-step process. The first step used to identify potential impairment involves comparing each reporting unit's estimated fair value to its carrying value, including goodwill. The Group uses a discounted cash flow approach to estimate the fair value of its reporting units. The assumptions used are disclosed in Note 9. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is considered to not be impaired. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment. In estimating the fair value, the Group is required to make a number of estimates and assumptions including assumptions related to including projections of future cash flows, estimated growth and discount rates. A change in these underlying assumptions could cause a change in the results of the tests and, as such, could result in an impairment in future periods.

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

Impairment of Long-Lived Assets, Except for Goodwill and Intangible Assets with Indefinite Lives

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

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 Receivable

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 19.8% for the meat processing segment and 13.7% for the poultry and pork segments. The discounts are graduated to increase when actual sales exceed target sales. Discounts are accrued against sales and accounts receivable in the month earned.

Any consideration given to direct or indirect customers of the Group in the form of cash, 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 in the year to which they relate.

Marketing Expenses

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

Government Subsidies

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

Taxation

Deferred tax assets and liabilities are recognized for the expected future tax consequences of existing differences between the financial and tax reporting bases of assets and liabilities, as well as loss carry forwards, using enacted tax rates expected to be in effect at the time these differences are realized. Under Russian tax law, the Group is precluded from filing a consolidated tax return and offseting 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.

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

Concentration of Credit Risk

Financial instruments that potentially expose the Group to concentration of credit risk consist primarily of cash and cash equivalents, short-term deposits, accounts receivable from customers and advances paid to vendors. As of 31 December 2010,81% of total cash and cash equivalents were held in a state owned bank. As of 31 December 2009, 28%, 18% and 12% of total cash and cash equivalents were held in bank accounts at three Russian financial institutions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

As of 31 December 2010, the Group placed 97% of total short-term deposits with one Russian financial institution, having a Fitch Rating of A– (rus). Available funds were deposited with the bank to finance planned future investments.

As of 31 December 2010 the Group's risk associated with customers was diversified due to a large customer base, with no single customer or customer group representing greater than 10% of accounts receivable. As of 31 December 2009, approximately 11% of the Group's net accounts receivable, were due from one customer.

As of 31 December 2010, approximately 29% of advances paid were outstanding with one third-party vendor for planned future purchases of raw materials. As of 31 December 2009, approximately 20% of advances paid were outstanding with one vendor.

The maximum amount of loss due to credit risk, based on the carrying value of trade receivables, other receivables and advances paid that the Group would incur if related parties failed to perform according to the terms of contracts, was 29,529 and 34,445 as of 31 December 2010 and 2009 respectively.

Non-Controlling Interest

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

Non-controlling interest that resulted from acquisitions completed after 1 January 2009 are accounted for at fair value as of the date when control over a subsidiary is 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 2% to 20% of the annual gross remuneration of each employee. Starting from 1 January 2010 the regressive rate was increased up to 26% and from 1 January 2011 up to 34% of the annual gross remuneration of each employee. The Group does not have any additional obligations other than said contributions.

Fair Value of Financial Instruments

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

- Level One: Quoted prices for identical instruments in active markets that are observable.
- Level Two: 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 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 20). Other similar debt was determined based on rates available for similar facilities in the Russian Federation at 31 December 2010. Non-performance risk was estimated based on spreads between debt obtained by the Group and average interest rates in the Russian Federation on other similar debt at the reporting date. Additionally, the Group has various loans and notes receivable classified as held to maturity. Solely for the purpose of presentation, the Group has estimated fair value based on expected discounted cash flows incorporating the Group's weighted average cost of capital (Note 20).

Effect of Accounting Pronouncements Adopted

In January 2010, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2010-06, "Improving Disclosures about Fair Value Measurements," which requires reporting entities to make new disclosures about recurring or nonrecurring fair-value measurements including significant transfers into and out of Level 1 and Level 2 fair-value measurements and information about purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements. This ASU also clarifies existing fair-value measurement disclosure guidance about the level of disaggregation, inputs, and valuation techniques. ASU No. 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009. The Group adopted the requirements of ASU No. 2010-06 on January 1, 2010. The adoption of the standard did not have an impact on the consolidated financial statements.

In December 2009, the FASB issued ASU No. 2009-17, "Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities," which amends the guidance on variable interest entities ("VIE") in ASC No. 810. This ASU changes the approach to determining VIE primary beneficiary from a quantitative assessment to a qualitative assessment designed to identify a controlling financial interest, and increases the frequency of required reassessments to determine whether an entity is the primary beneficiary of a VIE. ASU No. 2009-17 also clarifies, but does not significantly change, the characteristics that identify a VIE. The Group adopted the requirements of ASU No. 2009-17 on January 1, 2010. This adoption did not have an impact on the Group's results of operations, financial position or cash flows.

In August 2009, the FASB issued ASU No. 2009-05, "Fair Value Measurements and Disclosures (Topic 820): Measuring Liabilities at Fair Value that amends Subtopic 820-10, "Fair value measurements and disclosures – Overall" of Topic 820, of the FASB Codification. ASU No. 2009-05 provides clarification that in circumstances in which a quoted price in active market is not available, a reporting entity is required to use one or more of the following valuation techniques: valuation based on quoted price of identical liability when traded as an asset; quoted prices of similar liabilities or similar liabilities when traded as an assets, or any other technique consistent with the principles of Topic 820, such as present value technique. ASU No. 2009-05 also clarifies that a reporting entity is not required to include a separate input to existence of restriction that prevents the transfer of the liability. ASU No. 2009-05 is effective for the first reporting period (including interim periods) beginning after issuance. Early application is permitted if financial statements for prior period have not been issued. The Group adopted ASU No. 2009-05 on January 1, 2010. This adoption did not have an impact on the Group's results of operations, financial position or cash flows.

New Accounting Pronouncements

In December 2010, the FASB issued ASU No. 2010-29, "Disclosure of Supplementary Pro Forma Information for Business Combinations." This ASU requires that the pro forma information be presented as if the business combination occurred at the beginning of the prior annual reporting period for purposes of calculating both the current reporting period and the prior reporting period pro forma financial information. The ASU also requires that this disclosure be accompanied by a narrative description of the amount and nature of material nonrecurring pro forma adjustments. ASU No. 2010-29 is effective prospectively for business combinations occurred on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Group will adopt ASU No. 2010-29 for business combinations occurred on or after January 1, 2011. The Group does not anticipate an impact on the consolidated financial statements resulting from the adoption of this guidance, apart from disclosure.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

those years, beginning after December 15, 2010. Early adoption is not permitted. The Group will adopt ASU No. 2010-28 from January 1, 2011. The Group does not anticipate an impact on the consolidated financial statements resulting from the adoption of this new guidance.

In July 2010, the FASB issued ASU No. 2010-20, "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses," which amends Accounting Standards Codification ("ASC") No. 310, "Receivables." This ASU provides financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables and requires entities provide disclosures that facilitate financial statement users' evaluation of the following: 1) the nature of credit risk inherent in the entity's portfolio of financing receivables; 2) how that risk is analyzed and assessed in arriving at the allowance for credit losses; 3) the changes and reasons for those changes in the allowance for credit losses. ASU No. 2010-20 also introduces a new terminology, in particular, the term financial receivables. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. Issued in January 2011 ASU No. 2011-01 deferred effective date for other disclosure requirement. The Group will adopt ASU No. 2010-20 effective requirements from January 1, 2011. The Group does not anticipate an impact on the consolidated financial statements resulting from the adoption of this new guidance.

3 CASH AND CASH EQUIVALENTS

Cash as of 31 December 2010 and 2009 comprised:

	2010 US$000	2009 US$000
Cash in hand	327	279
Bank accounts	67,837	39,555
Total cash and cash equivalents	**68,164**	**39,834**

Cash in bank accounts includes short-term, redeemable on-demand deposits of 43,990 and 14,215 as of 31 December 2010 and 2009, respectively.

4 ALLOWANCE FOR DOUBTFUL TRADE RECEIVABLES

The following table summarized the changes in the allowance for doubtful trade receivables for the years ended 31 December 2010 and 2009:

	2010 US$000	2009 US$000
Balance at beginning of the year	**5,091**	**3,259**
Additional allowance, recognized during the year	1,276	2,704
Trade receivables written off during the year	(1,521)	(869)
Translation difference	(38)	(3)
Balance at end of the year	**4,808**	**5,091**

5 INVENTORY

Inventory as of 31 December 2010 and 2009 comprised:

	2010 US$000	2009 US$000
Raw materials and goods for resale	97,130	70,037
Livestock	71,844	63,468
Work in-process	7,715	4,283
Finished goods	6,481	5,062
Total inventory	**183,170**	**142,850**

6 OTHER RECEIVABLES, NET

Other receivables, net, as of 31 December 2010 and 2009 comprised:

	2010 US$000	2009 US$000
Subsidies receivable for interest expense reimbursement	4,830	9,723
Subsidies receivable for purchase of fodder	358	361
Subsidies receivable for meat produced	845	228
Other receivables	8,496	8,401
Allowance for other receivables	(1,935)	(1,394)
Total other receivables, net	**12,594**	**17,319**

7 OTHER CURRENT ASSETS

Other current assets as of 31 December 2010 and 2009 comprised:

	2010 US$000	2009 US$000
VAT and other taxes receivable	28,464	15,873
Spare parts	5,215	4,330
Loans receivable	4,618	5,199
Prepaid expenses	3,214	3,560
Notes receivable (effective annual interest rate of 9.5% as of 31 December 2009)	–	2,590
Other assets	2	2
Total other current assets	**41,513**	**31,554**

8 PROPERTY, PLANT AND EQUIPMENT, NET

The carrying amounts of property, plant and equipment as of 31 December 2010 and 2009 comprised:

	2010 US$000	2009 US$000
Land	7,652	3,832
Buildings, infrastructure and leasehold improvements	521,179	467,538
Machinery and equipment	180,533	166,956
Vehicles	27,761	27,268
Cattle	–	190
Sows	15,093	15,253
Advances paid for property, plant and equipment	42,004	52,765
Construction in-progress and equipment for installation	138,880	89,170
Other	1,802	1,187
Total property, plant and equipment, net	**934,904**	**824,159**

Accumulated depreciation amounted to 230,666 and 184,356 as of 31 December 2010 and 2009, respectively. Depreciation expense amounted to 49,921 and 40,901 for the years ended 31 December 2010 and 2009, respectively, which includes depreciation of leased equipment.

Net book values of vehicles and machinery and equipment include 6,141 and 11,812 of leased equipment as of 31 December 2010 and 2009, respectively. Net book values of buildings, infrastructure and leasehold improvements include 10,179 and 11,814 of leased buildings and constructions as of 31 December 2010 and 2009, respectively. Accumulated depreciation on leased property and equipment amounted to 7,504 and 6,520 as of 31 December 2010 and 2009, respectively.

Loss on disposal of property, plant and equipment of 1,182 and 1,208 was recognized in the other operating expenses, net line item in the consolidated income statement for the year ended 31 December 2010 and 2009, respectively.

9 GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Goodwill and other intangible assets as of 31 December 2010 and 2009 comprised:

	2010 US$000	2009 US$000
Goodwill	14,108	8,677
Other intangible assets	41,821	41,892
Total goodwill and other intangible assets, net	**55,929**	**50,569**

Goodwill

The changes in the carrying amount of goodwill for 2010 and 2009 were as follows:

Balance at 31 December 2008 US$000	**8,548**
Additions	313
Translation loss	(184)
Balance at 31 December 2009 US$000	**8,677**
Additions	5,497
Translation loss	(66)
Balance at 31 December 2010 US$000	**14,108**

As of 31 December 2008, the Group had recorded goodwill of 8,548, net of translation loss of 990 from the purchase of its controlling stake in JSC BMPP (which is included in the meat processing reporting unit).

In March 2009, the Group purchased Penzensky Kombinat Hleboproductov. Goodwill in the amount of 313 arose on the purchase.

In September 2010 the Group acquired LLC PKO Otechestvenny Product (Otechestvenny Product) and LLC Zarechnaya Poultry Factory (Zarechnaya) (see Note 23). Goodwill in the amount of 5,497 arose on these purchases. For these acquisitions, the purchase price allocation is preliminary and consequently, the value of goodwill will be revised as fair values are determined.

As of 31 December 2010, 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 13% and 5% during 2011 and 2012 respectively, with an annual increase of nil in 2013 and 2014 and 3% thereafter,
- Prices are forecast to increase by 12% and 9% in 2011 and 2012 respectively, and an increase at an average of 8% per annum thereafter,
- Operating costs are forecast to increase by 29% and 15% in 2011 and 2012, respectively, and an increase of 12% in 2013 and 2014 and 8% per annum thereafter,
- After-tax discount rate of 16.9%.

Management has assessed the inputs used in the fair value analysis and believes that the most sensitive input is operating expenses. Management believes that a 2.2% increase in future planned operating expenses over the amounts used in the cash flow projections, which is a key variable in determination of cash flows, would result in the carrying value of the meat processing reporting unit exceeding its fair value by 2,515, thereby indicating potential impairment.

Other Intangible Assets

Other intangible assets as of 31 December 2010 and 2009 comprised:

			2010 US$000			2009 US$000
	Gross carrying amount	Accumulated amortisation	Net carrying amount	Gross carrying amount	Accumulated amortisation	Net carrying amount
Computer software	4,484	(490)	3,994	4,002	(229)	3,773
Indefinite life trademarks	37,827	–	37,827	38,119		38,119
Other intangible assets, net	**42,311**	**(490)**	**41,821**	**42,121**	**(229)**	**41,892**

Computer software

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

Kurinoe Tsarstvo ("Куриное Царство") Trademark

The carrying value of the Kurinoe Tsarstvo trademark was 23,530 and 23,711 as of 31 December 2010 and 2009, respectively.

As of 31 December 2010 and 2009, management tested the Kurinoe Tsarstvo trademark for impairment and determined that the trademark is not impaired.

The following significant unobservable inputs were used in the impairment test:

- Sales volumes of Kurinoe Tsarstvo branded products increase by 40%, 55% and 1% during 2011, 2012 and 2013, respectively, based on currently approved capital expenditure projects related to the brand and remain stable thereafter (this represents a change from 2009 assumptions of 33%, 31% and 16% during 2010, 2011 and 2012, respectively, and is based on changes made during the year in projects directed at increasing production capacity),
- Prices are forecast to increase by 7% in 2011 and grow steadily by 8% a year thereafter, based on historical trends and a shift to more expensive product types,
- After-tax discount rate of 21.9% (26.9% in 2009).

Management has assessed the inputs used in the fair value analysis and believes that the more sensitive inputs are discount rate and future planned trademark revenues. A 5% increase in the discount rate would lead to an impairment loss of 1,704; a 20% decrease in future planned trademark revenues would lead to an impairment loss of 314.

Cherkizovsky ("Черкизовский") Trademark

The carrying value of the Cherkizovsky trademark was 14,297 and 14,408 as of 31 December 2010 and 2009, respectively.

As of 31 December 2010 and 2009, management tested the Cherkizovsky trademark for impairment and determined that the trademark was not impaired.

For the impairment analysis as of 31 December 2010, the Group used cash flow projections based on actual operating results and business plans approved by management.

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 at 6%, based on historical trends.
- After-tax discount rate of 21.9% (26.9% in 2009).

Management has assessed the inputs used in the fair value analysis and believes that the more of the inputs are discount rate and future planned trademark revenues. A 18% increase in the discount rate would lead to an impairment loss of 912; a 55% decrease in future planned trademark revenues would lead to an impairment loss of 638.

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.

10 LONG-TERM NOTES RECEIVABLE

As of 31 December 2010, the balance comprised:

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

As of 31 December 2009, the balance comprised:

	Book Value US$000	Discount US$000	Face Value US$000	Effective %
Gazprombank notes receivable with maturity in June 2014	1,327	(577)	1,904	8.36%

11 BORROWINGS

Borrowings of the Group as of 31 December 2010 and 2009 comprised:

				2010 US$000		2009 US$000	
	Interest rates	WAIR*	EIR**	Current	Non-current	Current	Non-current
Finance leases	8.30% – 17.52%	15.26%	15.26%	717	4,610	2,372	5,367
Bonds	8.25% – 12.75%	9.04%	9.04%	10,479	49,218	–	10,560
Bank loans	8.10% – 12.00%	11.03%	0.28%	328	984	1,152	6,943
Credit lines	7.52% – 15.00%	11.38%	1.62%	168,267	409,746	90,885	400,751
Loans from government	0.00% – 5.50%	4.00%	4.00%	1,815	–	12,178	16,935
Other borrowings	0.00% – 16.00%	1.49%	1.49%	861	1,331	2,406	7,711
				182,467	**465,889**	**108,993**	**448,267**
Total borrowings					**648,356**		**557,260**

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

** EIR represents the effective rate on borrowings at year end, adjusted by government subsidies for certain qualifying debt. Since approvals for subsidies are submitted annually by the Group as required by law, the existence of such subsidies in any given year is not necessarily indicative of their existence in future periods. See Note 18 for further disclosure of government subsidies related to interest on borrowings.

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

Maturity of non-current borrowings	2011 US$000	2012 US$000	2013 US$000	2014 US$000	2015 US$000	2016 US$000	>2016 US$000	**Total US$000**
Total borrowings	93,834	110,361	172,225	64,062	49,034	48,136	17,461	555,113

As of 31 December 2010, the Group's borrowings are denominated in the following currencies: 642,982 in Russian roubles, 615 in Euro and 4,759 in USD. As of 31 December 2009, the Group's borrowings were denominated in the following currencies: 550,986 in Russian roubles, 713 in Euro and 5,561 in USD.

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

Capital Leases

As of 31 December 2010 and 2009, 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:

		2010 US$000		2009 US$000
Payments falling due	Total minimum lease payments US$000	Portion related to interest US$000	Total minimum lease payments US$000	Portion related to interest US$000
Within one year	1,427	710	3,304	932
In year two	884	654	1,437	715
In year three	827	624	892	659
In year four	827	593	833	629
In year five	827	557	833	597
After year five	5,994	2,321	6,873	2,901
	10,786	**5,459**	**14,172**	**6,433**

Bonds

Bonds due in June 2011

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

Bonds due in November 2013

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

Bank Loans

Gazprombank

Borrowings from Gazprombank consist of one long-term rouble denominated loan with interest rate 12% per annum. Notes receivable with a carrying value of 1,427 were pledged as collateral under this loan. Principal payment is due on maturity in 2014. Amount outstanding was 984 and 5,952 as of 31 December 2010 and 31 December 2009, respectively.

Savings Bank of Russia

Borrowings from Savings Bank of Russia consist of one short-term rouble denominated loan with interest rate 8.1% per annum. Amount outstanding was 328 and 876 as of 31 December 2010 and 31 December 2009, respectively.

Lines of Credit

Savings Bank of Russia

Borrowings from the Savings Bank of Russia consist of fifty rouble denominated lines of credit with interest ranging from 7.52% to 14.25% per annum. Several of these instruments are guaranteed by related parties. Principal payments are due from 2011 to 2018. Amount outstanding was 306,070 and 231,743 as of 31 December 2010 and 31 December 2009, respectively.

Gazprombank

Borrowings from Gazprombank consist of four rouble denominated lines of credit with an interest ranging from 8% to 13.0% per annum. Some of these facilities are guaranteed by related parties. Principal payments are due from 2011 to 2016. Amount outstanding was 126,093 and 122,999 as of 31 December 2010 and 31 December 2009, respectively.

Bank Zenith

Borrowings from Bank Zenith consist of four rouble denominated lines of credit with an interest rate 13% per annum. Some of these facilities are guaranteed by related parties. Principal payment is due on maturity in 2013 and 2014. Amount outstanding was 77,108 and 77,701 as of 31 December 2010 and 31 December 2009, respectively.

11 BORROWINGS CONTINUED

Raiffeisenbank

Borrowings from Raiffeisenbank consist of three rouble denominated loan facilities bearing interest at the rate on the date of tranche issuance which ranged from 7.52% to 11.59% per annum. Amount outstanding was 17,037 and 16,541 as of 31 December 2010 and 31 December 2009, respectively.

Rosselhozbank

Borrowings from Rosselhozbank consist of four rouble denominated lines of credit with interest ranging from 13.23% to 15.0% per annum. Some of these facilities are guaranteed by related parties. Principal payment is due on maturity in 2017 and 2018. Amount outstanding was 43,503 and 42,556 as of 31 December 2010 and 31 December 2009, respectively.

The total amount of unused credit on lines of credit as of 31 December 2010 is 77,332. The unused credit can be utilized from 2011 to 2015 with expiration of available amounts varying as follows: 61,576 expires by 31 December 2011 and 15,756 by the year 2015.

Loans from Governmental Agencies

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 one rouble denominated long-term loans with an interest rate of 5.5% per annum. Principal payments are due through 2011. The amount outstanding was 984 and 4,034 as of 31 December 2010 and 31 December 2009, respectively.

Other loans from government agencies are individually insignificant and will be repaid in 2011.

Other Borrowings

Other borrowings primarily represent unsecured loans from shareholders and contractors with interest rates ranging from 0% to 16.00% per annum. Principal payments are due from 2011 to 2020.

Collateral Under Borrowings

Shares of and participating interests in the following Group companies are pledged as collateral under certain borrowings as of 31 December 2010:

- JSC Vasiljevskaya – 51%;
- CJSC Petelinskaya – 51%;
- JSC Lipetskmyasoprom – 99%;
- LLC Budenovets Agrofirm – 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%;
- LLC Tambovmyasoprom – 51%;
- LLC Kurinoe Tsarstvo – Bryansk – 99%;
- CJSC Agroresurs-Voronezh – 100%;
- LLC Resurs (Tambov) – 100%;
- LLC RAO PZK – 100%;
- CJSC LipetskMyaso – 100%.

Inventory with a carrying value of 52,113 and 25,687 was pledged under certain borrowings as of 31 December 2010 and 31 December 2009, respectively.

Property, plant and equipment with a carrying value of 331,849 and 238,023 was pledged under loan agreements as of 31 December 2010 and 31 December 2009, respectively.

Certain significant loan agreements with Gazprombank and Savings Bank of Russia contain financial covenants requiring the maintenance of minimum revenue turnover through accounts at the respective banks as well as maintenance of specific debt to EBITDA ratios. The Group believes that it is in compliance with these covenants as of 31 December 2010.

12 TAX RELATED LIABILITIES

Short-term tax related liabilities as of 31 December 2010 and 2009 comprised:

	2010 US$000	2009 US$000
Value added tax	3,670	5,982
Property tax payable	2,309	1,872
Payroll related taxes	1,687	1,296
Personal income tax withheld	1,374	1,157
Corporate income tax	812	617
Transportation tax	83	102
Other taxes	197	192
Total short-term tax related liabilities	**10,132**	**11,218**

Long-term tax related liabilities as of 31 December 2010 and 2009 comprised:

	2010 US$000	2009 US$000
Corporate income tax	2,692	4,212
Payroll related taxes	23	33
Value added tax	11	10
Total long-term tax related liabilities	**2,726**	**4,255**

13 SHAREHOLDERS' EQUITY

Share Capital

As of 31 December 2010, 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 43,069,355 and 43,028,022, respectively.

All issued and outstanding shares have equal voting rights. As of 31 December 2010, MB Capital Partners Ltd. (formerly part of the Control Group) owned 50.1% of the outstanding share capital of OJSC Cherkizovo Group. The Group is authorized to issue preferred shares not exceeding 25% of its ordinary share capital. No such shares are currently issued.

In accordance with Russian legislation, earnings available for dividends are limited to retained earnings of OJSC Cherkizovo Group, calculated in accordance with statutory rules in local currency. No dividends were declared or paid for the years ended 31 December 2010 and 2009.

Shares Granted to Employees

In previous years the controlling shareholder of the Group has entered into two share compensation agreements directly with members of management relating to shares that it owned and controlled. The total amount of shares covered by the option agreements was 400,000 (600,000 GDR's) with multiple service / derived service periods ranging through May 2014 as follows:

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

Management used the lattice model in estimating the fair value of the share options at their grant date. Volatility of share prices was based on actual market prices of GDR's of the 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%.

13 SHAREHOLDERS' EQUITY CONTINUED

The portion of the awards containing a cash payment option at the choice of the shareholder was exercised by granting of shares subsequent to 31 December 2010. The 200,000 shares containing market conditions fully vested during 2010 due to having met the requisite conditions. This resulted in all share based options granted to employees in previous years being vested as of 31 December 2010. Management remuneration expense of 3,803 was accordingly recognized during the period.

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

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

Earnings Per Share

Earnings per share for the years ended 31 December 2010 and 2009 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 did not have any dilutive impact as outstanding shares held by the majority shareholder were used in granting these awards.

14 SALES

Sales for the years ended 31 December 2010 and 2009 comprised:

	2010 US$000	2009 US$000
Produced goods and goods for resale	1,233,602	1,053,860
Other sales	8,125	10,543
Sales volume discounts	(41,212)	(35,406)
Sales returns	(12,302)	(9,844)
Total sales	**1,188,213**	**1,019,153**

15 COST OF SALES

Cost of sales for the years ended 31 December 2010 and 2009 comprised:

	2010 US$000	2009 US$000
Raw materials and goods for resale	667,335	577,992
Personnel (excluding pension costs)	78,387	66,974
Depreciation	46,438	37,185
Utilities	42,718	29,288
Pension costs	11,827	9,758
Other	17,636	16,321
Total cost of sales	**864,341**	**737,518**

Raw materials and goods for resale are offset by subsidies received from local governments in the amount of 1,098 and 1,055 for the years ended 31 December 2010 and 2009, respectively. These targeted subsidies are received based on the amount of meat produced.

16 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended 31 December 2010 and 2009 comprised:

	2010 US$000	2009 US$000
Personnel (excluding pension costs)	61,830	51,640
Transportation	17,932	16,797
Taxes (other than income tax)	12,387	7,590
Materials and supplies	10,418	9,674
Security services	8,088	7,067
Pension costs	7,420	6,427
Audit, consulting and legal fees	4,926	4,222
Depreciation and amortization	4,106	4,068
Bad debt expense	2,834	7,609
Utilities	2,523	2,160
Repairs and maintenance	2,122	2,071
Veterinary services	2,009	1,841
Bank charges	1,672	1,988
Information technology and communication services	1,264	1,235
Advertising and marketing	1,226	2,992
Insurance	965	932
Other	14,000	12,370
Total selling, general and administrative expenses	**155,722**	**140,683**

17 OTHER INCOME, NET

Other income, net for the years ended 31 December 2010 and 2009 comprised:

	2010 US$000	2009 US$000
Interest income	(1,220)	(1,123)
Foreign exchange loss	353	157
Gain on early retirement of bonds	–	(1,123)
Reserve on loans receivable	–	2,413
Other financial income	(944)	(719)
Total other income, net	**(1,811)**	**(395)**

18 FINANCIAL EXPENSE, NET

Financial expense, net for the years ended 31 December 2010 and 2009 comprised:

	2010 US$000	2009 US$000
Interest expense, net	15,004	18,544
Finance lease expenses	928	1,345
Amortization of discount	4	7
Total financial expenses, net	**15,936**	**19,896**

In accordance with Russian legislation, enterprises engaged in agricultural activities and enterprises involved in purchasing of meat receive subsidies on certain qualifying loans. The Group has accounted for such subsidies by reducing the interest expense on associated loans by 42,653 and 31,894 for the years ended 31 December 2010 and 2009, respectively.

Interest (net of subsidies) capitalized in the years ended 31 December 2010 and 2009 was 2,586 and 3,851, respectively.

19 INCOME TAX

The income tax expense for the years ended 31 December 2010 and 2009 comprised:

	2010 US$000	2009 US$000
Current provision	6,105	1,163
Deferred tax expense (benefit)	(1,960)	(4,470)
Income tax expense (benefit)	**4,145**	**(3,307)**

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

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

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 2010 and 2009 is:

	2010 US$000	2009 US$000
Income before income tax	152,843	120,243
Income before income tax of entities taxed at agricultural rates	139,690	129,471
Income (loss) before income tax of generally taxed entities	13,153	(9,228)
Statutory tax rate (General)	20%	20%
Statutory tax rate (Agricultural)	0%	0%
Theoretical income tax expense (benefit) at statutory rate	2,631	(1,846)
Impact from agricultural temporary differences calculated at enacted future tax rates	(208)	(1,378)
Expenses not deductible for Russian statutory taxation purposes, net	2,971	2,063
Impact from recognition of previously unrecognized tax benefits, net of penalties accrued	(1,491)	(2,366)
Other permanent differences	(216)	(304)
Change in valuation allowance	458	524
Actual income tax provision	**4,145**	**(3,307)**

Deferred tax assets/(liabilities) arising from tax effect of temporary differences:	**2010 US$000**	2009 US$000
Property, plant and equipment	(22,848)	(24,930)
Construction in-process	755	786
Intangibles	(2,884)	(2,930)
Long-term loans	286	292
Other non-current liability	838	939
Trade receivables	1,971	1,852
Advances	164	201
Inventory	1,030	1,229
Payroll accruals	771	866
Other current liabilities	88	361
Other current assets	981	1,342
Loss carry forward	4,143	2,904
Valuation allowance	(2,754)	(2,315)
Net deferred tax liability	**(17,459)**	**(19,403)**

At 31 December 2010 and 2009, temporary differences associated with undistributed earnings of subsidiaries were not recognized in these consolidated financial statements, because the Group is in a position to control the timing of the reversal of such temporary differences and it is probable that such differences will not reverse in the foreseeable future.

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

The Group's recognized tax loss 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	2020 US$000	Total US$000
Tax loss carry forwards	76	–	368	1,743	1,737	1,546	3,331	3,316	8,599	**20,716**

Total unrecognized tax loss carry forwards equalled 13,770 as of 31 December 2010.

	2010 US$000	2009 US$000
Deferred tax asset – long-term portion	3,266	2,182
Deferred tax liability – long-term portion	(25,728)	(27,436)
Long-term deferred tax liability, net	**(22,462)**	**(25,254)**
Deferred tax asset – current	5,003	5,879
Deferred tax liability – current	–	(28)
Current deferred tax asset, net	**5,003**	**5,851**
Total deferred tax asset (liability), net	**(17,459)**	**(19,403)**

The movements in net deferred tax liability for the years ended 31 December 2010 and 2009 comprised:

Net deferred tax liability, beginning of the year	**(19,403)**	**(23,749)**
Impact of translation loss on beginning balance	(16)	850
Deferred tax benefit	1,960	4,470
Deferred tax acquired on acquisition of new consolidated entities	–	(974)
Net deferred tax liability, end of the year	**(17,459)**	**(19,403)**

Unrecognized Income Tax Benefits

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

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).

19 INCOME TAX CONTINUED

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

	2010 US$000	2009 US$000
Balance at 1 January	**2,890**	**4,933**
Translation loss	(18)	(229)
Additions based on tax positions related to the current year	673	704
Reductions of tax positions from prior years	(1,716)	(2,518)
Balance at 31 December	**1,829**	**2,890**

As of 31 December 2010, it is estimated that the entire amount of unrecognized tax benefits will affect future effective tax rates.

The Group considers it reasonably possible that approximately 557 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 2010 and 2009, the Group recognized approximately 146 and 578 in penalties, respectively.

As of 31 December 2010, the tax years ended 31 December 2008, 2009 and 2010 remained subject to examination by the Russian tax authorities.

20 FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values and fair values of the Group's loans and notes receivable and borrowings with the exception of finance leases, as of 31 December 2010 and 2009 are as follows:

	2010 US$000		2009 US$000	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Loans receivable*	5,003	4,532	5,344	4,954
Notes receivable, net (Note 10)	1,427	902	1,327	736
Borrowings other than finance leases ** (Note 11)	643,029	624,937	549,521	513,591

* Loans receivable include both the long-term loans to affiliates and short-term loans receivable
** Cost of debt of 13.39% was applied, which did not include the effect of subsidies for interest expense

21 RELATED PARTIES

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

Trading Transactions

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

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

Financing Transactions

As of 31 December 2010, shareholders have guaranteed certain bank loans and lines of credit for an amount totalling 284,293.

As of 31 December 2010 and 2009, and for the years then ended, balances and transactions with related parties are summarized as follows:

	2010 US$000	2009 US$000
Balances		
Short-term loan receivable	3,909	4,390
Trade receivables	13,540	10,787
Other non-current receivables	2,593	2,584
Advances paid	6,170	15,784
Other receivables	3,188	776
Long-term loans receivable	129	124
Trade payables	4,447	2,215
Short-term loans	521	794
Other payables	421	400
Current portion of long-term loans payable	39	5
Long-term loans payable	1,232	8,524
Long-term payables to shareholders related to lease agreements	563	632

	2010 US$000	2009 US$000
Transactions		
Sales	8,430	12,928
Rent income	439	174
Purchases of goods and services	29,948	33,496
Purchases of property, plant and equipment	868	2,364
Purchases of security services	27	1,074
Purchases of IT services	14	25

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 segment managers responsible for the segments' operations. The chief operating decision maker (the Chief Executive Officer) is the individual responsible for allocating resources to and assessing the performance of each segment of the business.

The meat processing segment is involved in the production of a wide range of meat products, including sausages, ham and raw meat. Pork and poultry segments produce and offer distinctive products, such as semi-finished poultry products, raw meat, eggs and other poultry meat products in the poultry segment and raw pork meat in the pork segment. 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 income before income tax (expense) benefit. 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 issues, and loans to Group companies.

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

22 SEGMENT REPORTING CONTINUED

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

	Meat-Processing US$000	Poultry US$000	Pork US$000	Corporate US$000	Intersegment US$000	Combined US$000
Total Sales	529,354	500,961	222,239	4,856	(69,197)	1,188,213
including other sales	2,670	61,410	14,436	–	–	78,516
including sales volume discounts	(21,308)	(19,904)	–	–	–	(41,212)
Intersegment Sales	(616)	(35,962)	(27,773)	(4,846)	69,197	–
Sales to external customers	528,738	464,999	194,466	10	–	1,188,213
Cost of Sales	(441,725)	(354,805)	(132,198)	(10)	64,397	(864,341)
Gross profit	**87,629**	**146,156**	**90,041**	**4,846**	**(4,800)**	**323,872**
Operating expenses	(61,805)	(64,742)	(15,614)	(19,543)	4,800	(156,904)
Operating income	**25,824**	**81,414**	**74,427**	**(14,697)**	**–**	**166,968**
Other income and expenses, net	1,081	(399)	422	7,669	(6,962)	1,811
Financial expense, net	(8,473)	(6,436)	(5,438)	(2,551)	6,962	(15,936)
Segment profit	**18,432**	**74,579**	**69,411**	**(9,579)**	**–**	**152,843**
Supplemental information						
Expenditure for segment property, plant and equipment	4,764	85,242	79,751	3,921	–	173,678
Depreciation expense	10,994	23,799	15,521	230	–	50,544
Income Tax expense (benefit)	6,584	(1,972)	60	(527)	–	4,145

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

	Meat-Processing US$000	Poultry US$000	Pork US$000	Corporate US$000	Intersegment US$000	Combined US$000
Total Sales	460,158	470,058	142,746	2,438	(56,247)	1,019,153
including other sales	3,693	55,816	11,186	–	–	70,695
including sales volume discounts	(17,862)	(17,544)	–	–	–	(35,406)
Intersegment Sales	(307)	(28,104)	(25,402)	(2,434)	56,247	–
Sales to external customers	459,851	441,954	117,344	4	–	1,019,153
Cost of Sales	(392,603)	(307,352)	(91,138)	(2)	53,577	(737,518)
Gross profit	**67,555**	**162,706**	**51,608**	**2,436**	**(2,670)**	**281,635**
Operating expenses	(59,393)	(62,366)	(9,160)	(13,642)	2,670	(141,891)
Operating income	**8,162**	**100,340**	**42,448**	**(11,206)**	**–**	**139,744**
Other income and expenses, net	(141)	(1,888)	(187)	14,793	(12,182)	395
Financial expense, net	(11,841)	(9,682)	(5,131)	(5,424)	12,182	(19,896)
Segment profit	**(3,820)**	**88,770**	**37,130**	**(1,837)**	**–**	**120,243**
Supplemental information						
Expenditure for segment property, plant and equipment	5,906	72,092	85,247	343	–	163,588
Depreciation expense	10,966	20,585	9,683	106	–	41,340
Income Tax expense (benefit)	973	(5,560)	1,756	(476)	–	(3,307)

The reconciliation between segment assets and total assets per the consolidated balance sheets as of 31 December 2010 and 2009 is as follows:

	2010 US$000	2009 US$000
Meat processing	256,658	262,151
Poultry	578,594	490,410
Pork	532,579	447,090
Corporate assets	274,716	228,633
Intersegment	(171,098)	(189,236)
Total assets	**1,471,449**	**1,239,048**

23 SUBSIDIARIES, ACQUISITIONS, DIVESTITURES

Subsidiaries

As of 31 December 2010 and 2009, the Company controlled all meat processing and agricultural companies through its 100% ownership in AIC Cherkizovsky Ltd., 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 2010 and 2009, the following principal companies were included in AIC Cherkizovsky Ltd.:

Name of company	Legal form	Nature of business	% **31.12.2010**	% 31.12.2009
JSC MPP Babaevskiy	Closed Joint Stock Company	Meat processing plant	**85%**	85%
JSC Biruliovsky meat processing plant (JSC BMPP)	Open Joint Stock Company	Meat processing plant	**89%**	89%
JSC Meat and Poultry Processing Plant Penzensky (JSC MPPP Penzensky)	Open Joint Stock Company	Meat processing plant	**95%**	95%
JSC Meat Processing Plant Ulyanovsky (JSC MPP Ulyanovsky)	Open Joint Stock Company	Meat processing plant	**85%**	85%
JSC Cherkizovsky meat processing plant (JSC CMPP)	Open Joint Stock Company	Meat processing plant	**87%**	87%
LLC MPP Salsky	Limited Liability Company	Meat processing plant	**81%**	81%
TIC Cherkizovo Ltd. (Cherkizovo-2)	Limited Liability Company	Procurement company	**100%**	100%
LLC Cherkizovo-Kashira (Cherkizovo-Kashira Ltd.)	Limited Liability Company	Meat processing plant	**99%**	99%
LLC Cherkizovsky (Saint Petersburg)	Limited Liability Company	Trading company	**100%**	100%
JSC Trading Company of Agroindustrial Complex Cherkizovsky (JSC Trading Company of AIC Cherkizovsky)	Open Joint Stock Company	Trading company: distribution of 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 2010 and 2009, the following principal companies were included in AIC Mikhailovsky Ltd.:

Name of company	Legal form	Nature of business	% **31.12.2010**	% 31.12.2009
CJSC Petelinskaya	Closed Joint Stock Company	Raising poultry	**88%**	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%
CJSC Lipetskmyaso	Closed Joint Stock Company	Pig breeding	**100%**	100%
LLC RAO Penzenskaya Grain Company (PZK)	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.

23 SUBSIDIARIES, ACQUISITIONS, DIVESTITURES CONTINUED

Acquisition of Entities Under Common Control

PZK and Lipetskmyaso

In the fourth quarter of 2010, the Group acquired 100% of the share capital of the companies PZK and Lipetskmyaso, pork farms in the Lipetsk and Penza regions of Russia, from NAPKo, a related party under common control. These acquisitions have been accounted for as common control transactions at carrying amount. Consideration paid of 325,009 roubles (10,686 as of the date of the transaction) and has been recorded as a decrease in additional paid-in capital of the Group (see Note 1 for a full discussion).

Additional acquisitions

Additional acquisitions under common control were made during the year for total cash consideration of 660. Both companies acquired represent greenfield pork farms at an early construction stage. The accounting impacts on previous periods are included in the disclosures in Note 1.

Acquisition of Entities from Third Parties

Otechestvenny Product

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

Zarechnaya

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

The results of Otechestvenny product and Zarechnaya operations have been included in the consolidated financial statements from their respective acquisition dates. In the consolidated financial statements for the year ended 31 December 2010 the acquisitions were accounted for using historical book values as provisional fair values based on the assumption that the historical book values were equivalent to fair value at the date of acquisition since there was no other information available at that time. The Group is in the process of obtaining a third party valuation report on the fair value of the assets and liabilities acquired including obtaining third-party valuation of the property, plant and equipment and accordingly, these amounts will change.

The following table summarizes the consideration paid for Otechestvenny Product and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date (at provisional values):

Consideration paid for Otechestvenny Product	**4,106**
Other current assets	46
Property, plant and equipment	3,176
Goodwill	884

The following table summarizes the consideration paid for Zarechnaya and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date (at provisional values):

Consideration paid for Zarechnaya	**5,211**
Other current assets	100
Property, plant and equipment	539
Goodwill	4,572

The following unaudited pro forma financial information presents consolidated income statements as if the acquisitions of Otechestvenny Product and Zarechnaya occurred at the beginning of the respective period:

Pro forma Information	**For the year ended 31 December 2010 (UNAUDITED) US$000**	For the year ended 31 December 2009 (UNAUDITED) US$000
Sales	1,188,213	1,019,171
Net income	147,882	122,995
Net income attributable to Group Cherkizovo	143,633	118,887

These unaudited pro forma results have been prepared for comparative purposes only. The unaudited pro forma information does not purport to represent what the Group's financial position or results of operations would actually have been if these transactions had occurred at the beginning of the period or to project the Group's future results of operations.

The actual results of operations of Otechestvenny Product and Zarechnaya are included in the consolidated financial statements of the Group only from the date of acquisition and were:

Sales	3
Operating loss	(249)
Net loss attributable to Group Cherkizovo	(241)

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.

23 SUBSIDIARIES, ACQUISITIONS, DIVESTITURES CONTINUED

Other Acquisitions and Divestitures

During the first quarter of 2010, the Group acquired a further 4.47% interest in OJSC Petelinskaya for cash consideration of 557. The purchase was accounted for as an equity transaction. The carrying amount of the non-controlling interest was adjusted to reflect the change in its ownership interest in OJSC Petelinskaya. The difference between the fair value of the consideration paid and the amount of the adjustment to the non-controlling interest was recognized in equity attributable to the Group.

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.

Subsequent to the acquisition of 57.29% of Penzensky Kombinat Hleboproductov the Group acquired a further 4.91% of it 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.

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

24 COMMITMENTS AND CONTINGENCIES

Legal

As of 31 December 2010 and 2009, several Group companies reported negative net assets in their statutory financial statements. In accordance with the Civil Code of the Russian Federation, a liquidation process may be initiated against a company reporting negative net assets. Management believes that it is remote that the liquidation process will be initiated against those companies.

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

Taxation

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

Environmental Remediation Costs

The Group's management believes that it is in compliance with applicable legislation and is not aware of any potential environmental claims; therefore, no liabilities associated with such costs are recorded as of 31 December 2010.

Capital Commitments

At 31 December 2010, the Group had large capital projects in progress at JSC Lipetskmyasoprom, LLC Tambovmyasoprom, LLC Kurinoe Tsarstvo – Bryansk, JSC Vasiljevskaya, CJSC Petelinskaya, LLC Resurs (Tambov), LLC Agroresurs (Voronezh) and CJSC Lipetskmyaso. As part of these projects, commitments had been made to contractors of approximately 130,929 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 1,919 towards completion of the project.

Operating lease commitments

At 31 December 2010, the Group had the following obligations under non-cancellable operating lease agreements:

	2011 US$000	2012 US$000	2013 US$000	2014 US$000	2015 US$000	>2015 US$000	Total US$000
Total commitments	2,117	2,746	2,802	2,860	2,919	12,706	**26,150**

25 SUBSEQUENT EVENTS

The Group obtained 36,045 and repaid 31,732 on lines of credit, bank loans and other loans for the period from 1 January through 25 March 2011.

The Group has evaluated subsequent events through 25 March 2011, the date on which the financial statements are available to be issued.

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