OJSC
Cherkizovo Group

Independent Auditors' Report

Combined and Consolidated
Financial Statements
Years Ended December 31, 2005,
2004 and 2003

OJSC CHERKIZOVO GROUP

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the combined and consolidated financial statements of OJSC Cherkizovo Group (the "Group").

Management is responsible for the preparation of the combined and consolidated financial statements that present fairly the financial position of the Group at December 31, 2005, 2004 and 2003 and the results of its operations, cash flows and changes in equity for the years then ended, in compliance with accounting standards generally accepted in the United States of America ("US GAAP").

In preparing the combined and 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 combined and consolidated financial statements, and
- Preparing the combined and 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 combined and 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 combined and consolidated financial statements for the years ended December 31, 2005, 2004 and 2003 were approved on behalf of the Board of Directors on April 7, 2006 by:

Mr. Sergei I. Mikhailov
Chief Executive Officer

Ms. Ludmila I. Mikhailova
Chief Financial Officer

Mr. Naum A. Babaev
Director of Strategy and Development

INDEPENDENT AUDITORS' REPORT

To the Shareholders of OJSC Cherkizovo Group:

We have audited the accompanying combined and consolidated statements of financial position of OJSC Cherkizovo Group and its subsidiaries and combining companies (hereinafter referred to as "the Group"), as of December 31, 2005, 2004 and 2003 and the related combined and consolidated statements of operations, cash flows and changes in shareholders' equity and comprehensive income (loss) (hereinafter referred to as "the Financial Statements") for the years then ended. The Financial Statements are the responsibility of the Group's management. Our responsibility is to express an opinion on the 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 our audits 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 controls 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 described in Note 3 of the Financial Statements, the Group and related companies did not maintain historical cost records for property, plant and equipment acquired prior to December 31, 2001. On December 31, 2001, the Group and related companies 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 and related companies is not reasonably determinable from the accounts and records.

In our opinion, except for the effects of including property, plant and equipment based on fair values as described in the preceding paragraph, the Financial Statements referred to above present fairly, in all material respects, the combined and consolidated financial position of the Group as of December 31, 2005, 2004 and 2003 and the combined and 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.

April 7, 2006
(May 4, 2006 as to Note 34)
Moscow, Russia

OJSC CHERKIZOVO GROUP

COMBINED AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2005, 2004 AND 2003
(in thousands of US dollars)

	Notes	2005	2004	2003
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	4	5 200	2 403	2 310
Trade receivables, net	5	30 607	33 451	17 168
Trade receivables from related parties	30	1 636	438	358
Advances paid, net (including advances to related parties of $1 655, $713 and nil as of December 31, 2005, 2004 and 2003, respectively)	6	8 620	7 433	3 187
Inventory	7	43 213	42 471	34 056
Livestock	8	13 681	16 177	9 105
Short-term loans receivable (including short-term loans to related parties of $1 880, nil and nil as of December 31, 2005, 2004 and 2003, respectively)		2 743	1 554	344
Other current assets, net (including other receivables from related parties of $1 396, $191 and nil as of December 31, 2005, 2004 and 2003, respectively)	9	31 633	25 942	15 902
Deferred tax asset	28	3 674	1 804	1 793
Total current assets of continuing operations		141 007	131 673	84 223
Current assets of discontinued operations	14	-	308	340
Total current assets		141 007	131 981	84 563
NON-CURRENT ASSETS:				
Property, plant and equipment, net	10	251 608	202 496	183 430
Goodwill	11	8 725	9 050	8 526
Other intangible assets, net	12	13 969	1 297	708
Investments in affiliated companies	13	8	231	186
VAT receivable		8 108	3 117	2 442
Deferred tax asset	28	388	538	2 234
Total non-current assets of continuing operations		282 806	216 729	197 526
Non-current assets of discontinued operations	14	-	637	689
Total non-current assets		282 806	217 366	198 215
Total assets		423 813	349 347	282 778

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

OJSC CHERKIZOVO GROUP

COMBINED AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2005, 2004 AND 2003 (CONTINUED)
(in thousands of US dollars)

	Notes	2005	2004	2003
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Trade accounts payable		46 916	53 035	34 077
Trade payables to related parties	30	1 189	1 236	79
Notes payable	15	-	110	2 518
Short-term loans (including short-term loans from related parties of $494, $338 and of $802 as of December 31, 2005, 2004 and 2003, respectively)	16	71 873	58 720	58 290
Current portion of capital leases	17	1 060	1 581	368
Current portion of long-term loans from related parties	30	752	141	124
Current portion of long-term loans	18	17 717	16 432	15 455
Tax related payables	19	13 823	10 772	9 805
Other payables (including other payables to related parties of $1 978, $34 and of nil as of December 31, 2005, 2004 and 2003, respectively)	20	27 816	18 423	16 543
Total current liabilities of continuing operations		181 146	160 450	137 259
Current liabilities of discontinued operations	14	-	142	94
Total current liabilities		181 146	160 592	137 353
LONG-TERM LIABILITIES:				
Long-term notes payable	15	3 559	3 692	4 875
Long-term loans	18	138 430	95 831	55 459
Long-term loans from related parties	30	1 785	2 862	2 795
Capital leases	17	244	719	459
Deferred tax liabilities	28	19 355	15 502	16 884
Tax related payables	19	1 083	1 827	2 899
Long-term payables to shareholders	31	1 115	-	-
Other non-current liabilities		40	31	147
Total non-current liabilities of continuing operations		165 611	120 464	83 518
Non-current liabilities of discontinued operations	14	-	-	-
Total non current liabilities		165 611	120 464	83 518
Total liabilities		346 757	281 056	220 871
Minority interest	21	14 548	35 443	33 092
SHAREHOLDERS' EQUITY:				
Share capital	22	12	11	11
Additional paid-in capital		63 614	37 461	37 433
Other accumulated comprehensive loss		(13 114)	(10 465)	(14 114)
Retained earnings		11 996	5 841	5 485
Total shareholders' equity		62 508	32 848	28 815
Total liabilities and shareholders' equity		423 813	349 347	282 778

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

COMBINED AND CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

(in thousands of US dollars)

	Notes	2005	2004	2003
Sales	23	546 181	463 760	337 463
Cost of sales	24	(420 993)	(375 924)	(274 868)
GROSS PROFIT		125 188	87 836	62 595
Selling, general and administrative expenses	25	(80 704)	(74 047)	(52 246)
Other operating expenses	26	(1 113)	(1 479)	(1 068)
OPERATING INCOME		43 371	12 310	9 281
Other income and expense, net	27	(16 906)	(10 215)	(10 405)
INCOME (LOSS) BEFORE INCOME TAX, MINORITY INTEREST AND EXTRAORDINARY ITEM		26 465	2 095	(1 124)
Income tax	28	(7 901)	(4 790)	(6 268)
INCOME (LOSS) BEFORE MINORITY INTEREST AND EXTRAORDINARY ITEM		18 564	(2 695)	(7 392)
Minority interest	21	(1 485)	3 568	4 550
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EXTRAORDINARY ITEM		17 079	873	(2 842)
Loss from discontinued operations, net of income tax (benefit) expense of $(40), $(30) and $68, respectively	14	(82)	(216)	(38)
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM		16 997	657	(2 880)
Extraordinary gain on purchase of interests in consolidating entities, net of income tax	21	79	463	-
NET INCOME (LOSS)		17 076	1 120	(2 880)
Weighted average number of shares outstanding		328 216	328 216	328 216
Earnings per share – basic and diluted (Note 3):				
Income (loss) from continuing operations before extraordinary item		52.04	2.66	(8.66)
Loss from discontinued operations		(0.25)	(0.66)	(0.12)
Extraordinary gain		0.24	1.41	-
Net income (loss)		52.03	3.41	(8.78)

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

COMBINED AND CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

(in thousands of US dollars)

	2005	2004	2003
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:			
CASH FLOWS FROM (USED IN) CONTINUING OPERATING ACTIVITIES:			
Income (loss) from continuing operations before extraordinary item	17 079	873	(2 842)
Adjustments to reconcile income (loss) from continuing operations to net cash from (used in) operating activities:			
Loss from disposal of trade houses	80	426	-
Amortisation of discount on loans to third parties	129	442	-
Depreciation	20 470	20 670	12 938
Bad debt (recovery) expense	(295)	2 781	2 746
Gain from debt forgiveness	(987)	(4 311)	(150)
Loss on disposal of property, plant and equipment	646	1 479	1 068
Minority interest	1 485	(3 568)	(4 550)
Foreign exchange loss (gain)	2 219	(2 315)	(1 832)
Income from investments in affiliates	-	-	(1 439)
Deferred tax (benefit) expense	(1 967)	(450)	2 562
Other adjustments	(259)	277	(42)
Changes in operating assets and liabilities:			
Increase in inventories	(6 698)	(4 954)	(6 691)
(Increase) decrease in trade receivables	(25 849)	(17 372)	7 066
(Increase) decrease in livestock	(5 998)	(3 439)	407
Increase in other assets	(18 487)	(13 235)	(6 558)
Increase (decrease) in trade accounts payable	17 461	20 292	(9 781)
Increase (decrease) in taxes payable	7 012	(1 243)	470
Increase (decrease) in other current payables	8 069	(708)	(1 846)
Net cash from (used in) operating activities associated with continuing operations	14 110	(4 355)	(8 474)
CASH FLOWS FROM (USED IN) DISCONTINUED OPERATING ACTIVITIES:			
Loss from discontinued operations	(82)	(216)	(38)
Adjustments to reconcile loss from discontinued operations to net cash from (used in) operating activities:			
Bad debt expense	-	17	11
Minority interest in net losses of discontinued operations	(53)	(121)	(88)
Deferred tax expense (benefit)	20	30	(70)
Gain on disposal of property, plant and equipment	(32)	(7)	(10)
Net change in operating assets and liabilities	285	142	279
Net cash from (used in) operating activities associated with discontinued operations	138	(155)	84
Total net cash from (used in) operating activities	14 248	(4 510)	(8 390)
CASH FLOWS USED IN INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(76 889)	(24 534)	(13 068)
Proceeds from sale of property, plant and equipment	1 473	4 000	376
Acquisition of minority interest in combining entities	(291)	(2)	(3 778)
Repayment of long-term loans to related parties	-	-	2 025
Short-term loans granted	(6 382)	(735)	(128)
Acquisition of subsidiaries, net of cash acquired	56	49	(152)
Repayment of short-term loans	10 998	-	-
Promissory note issued	-	(1 074)	-
Net cash used in investing activities associated with continuing operations	(71 035)	(22 296)	(14 725)

COMBINED AND CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003 (CONTINUED)
(in thousands of US dollars)

	2005	2004	2003
Cash flows from (used in) discontinued investing activities:			
Purchases of property, plant and equipment	(111)	(9)	-
Proceeds from sale of property, plant and equipment	71	22	21
Net cash (used in) from investing activities associated with discontinued operations	(40)	13	21
Total net cash used in investing activities	(71 075)	(22 283)	(14 704)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from shares issued	-	-	11 938
Proceeds from long-term loans	69 929	79 410	35 519
Repayment of long-term loans	(23 142)	(42 222)	(13 383)
Proceeds from long-term loans to related parties	28	-	204
Repayment of long-term loans to related parties	(490)	(102)	(11 296)
Repayment of notes payable	-	(3 895)	(80)
Proceeds from short-term loans	118 935	123 949	120 913
Repayment of short-term loans	(100 598)	(129 372)	(118 999)
Distribution to shareholders	(4 823)	(833)	(621)
Net cash from financing activities associated with continuing operations	59 839	26 935	24 195
Total net cash from financing activities	59 839	26 935	24 195
Total cash from operating, investing and financing activities	3 012	142	1 101
Impact of exchange rate difference on cash and cash equivalents	(216)	(55)	139
NET INCREASE IN CASH AND CASH EQUIVALENTS	2 796	87	1 240
Cash and cash equivalents associated with continuing operations, at beginning of year	2 403	2 310	1 077
Cash and cash equivalents associated with discontinued operations, at beginning of year	1	7	-
Cash and cash equivalents associated with continuing operations, at end of year	5 200	2 403	2 310
Cash and cash equivalents associated with discontinued operations, at end of year	-	1	7
SUPPLEMENTAL INFORMATION:			
Income taxes paid	9 350	5 022	16 020
Interest paid	15 853	19 027	3 417
Property, plant and equipment acquired on capital lease	1 637	3 378	866
Acquisitions made for non-cash consideration	26 154	-	-

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

OJSC CHERKIZOVO GROUP

COMBINED AND CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS) FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003
(in thousands of US dollars)

	Share capital	Additional paid-in capital	Retained earnings	Other accumulated comprehensive loss	Total shareholders' equity	Total comprehensive income (loss)
Balances at December 31, 2002	11	27 523	9 076	-	36 610	
Net loss for the year	-	-	(2 880)	-	(2 880)	(2 880)
Excess of proceeds over book value of minority interest sold (Note 21)	-	9 910	-	-	9 910	
Tax effect on adjustment due to change in functional currency (Note 3)	-	-	-	(16 571)	(16 571)	(16 571)
Distribution to owners (Note 22)	-	-	(711)	-	(711)	
Translation gain	-	-	-	2 457	2 457	2 457
Balances at December 31, 2003	11	37 433	5 485	(14 114)	28 815	
For the year ended December 31, 2003						(16 994)
Net income for the year	-	-	1 120	-	1 120	1 120
Acquisition of minority interest in combining entities (Note 21)	-	28	-	-	28	
Distribution to owners (Note 22)	-	-	(764)	-	(764)	
Translation gain	-	-	-	3 649	3 649	3 649
Balances at December 31, 2004	11	37 461	5 841	(10 465)	32 848	
For the year ended December 31, 2004						4 769
Net income for the year	-	-	17 076	-	17 076	17 076
Shares issued in exchange for minority interest (Note 21)	1	26 153	-	-	26 154	
Distribution to owners (Note 22)	-	-	(1 841)	-	(1 841)	
Net distribution to shareholders through Spin-off (Note 32)	-	-	(9 080)	-	(9 080)	
Translation loss	-	-	-	(2 649)	(2 649)	(2 649)
Balances at December 31, 2005	12	63 614	11 996	(13 114)	62 508	
For the year ended December 31, 2005						14 427

No dividends were declared or paid for the years ended December 31, 2005, 2004 and 2003.
The accompanying notes are an integral part of these financial statements.

1. BACKGROUND

OJSC Cherkizovo Group (further "the Group") traces it 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 moment 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 made up of meat processing (APK Cherkizovsky) and agricultural entities (APK Mikhailovsky).

The structure of the Group prior to 2005 was not united in the form of a legal holding. In order to show a fair presentation of the results of operations and the financial position of the Group for 2004 and 2003, management believes that it is necessary to combine the holdings of the Control Group for those years.

Management has determined which individuals should be included in the Control Group using the following principles:

1. Individuals who are members of the main shareholder's immediate family, but limited to two generations.

   (a) Generation one is defined as the main shareholder, spouse and any brothers or sisters of these two individuals,
   (b) Generation two is defined as the children of any persons in the generation one group,
   (c) Generation two individuals with deceased parents who are brothers or sisters in the generation one group are not considered to be immediate family and are not included in the Control Group.

2. Individuals with whom contemporaneous written agreement has been obtained demonstrating an obligation to act in concert with members of the Control Group.

During the formation period of the Group, management applied purchase accounting to acquisitions (including privatisations) made from individuals not determined to be members of the Control Group. As appropriate, management engaged third party specialists to appraise the fair value of assets obtained, including any potential intangible assets on acquisitions made after June 30, 2001. These values were compared to the consideration given in exchange for shares with any excess allocated on a pro-rata basis to decrease the value of certain long term assets. Any remaining excess was capitalized as a deferred credit and amortized over a period of 5 years (prior to 2001) or recognized in the results of operations as an extraordinary gain for any periods thereafter. Any excess of consideration given over the fair value is recognized as goodwill and amortized over a period not to exceed 20 years (prior to 2001) or recognized as goodwill and annually tested for impairment. As most companies that were acquired were either in significant financial distress or were acquired from the government, an excess of fair value of net assets acquired over purchase price arises in the application of purchase accounting.

Any transactions between members of the Control Group or their holdings have been accounted for at book value due to the transaction's having occurred between entities under common control.

As of December 31, 2005 the Group controls the meat processing and agricultural sub-groups through its 100% ownership in AIC Cherkizovsky Ltd. and AIC Mikhailovsky Ltd.

(in thousands of US dollars)

APK Cherkizovsky is a sub-group consisting of meat processing plants, distribution companies and other companies registered and operating in the Russian Federation. In 2005, 2004 and 2003 the following principal companies were included in the APK Cherkizovsky sub-group:

Name of company	Legal form	Nature of business	Consolidated interest % 2005	% 2004	% 2003
JSC MPP Babaevskiy	Closed Joint Stock Company	Meat processing plant	85%	85%	85%
JSC Belmiaso	Open Joint Stock Company	Meat processing plant	75%	75%	75%
JSC Biruliovsky meat processing plant (JSC BMPP)	Open Joint Stock Company	Meat processing plant	95%	95%	95%
JSC Meat and Poultry Processing Plant Penzensky (JSC MPPP Penzensky)	Open Joint Stock Company	Meat processing plant	95%	95%	95%
JSC Meat Processing Plant Ulyanovsky (JSC MPP Ulyanovsky)	Open Joint Stock Company	Meat processing plant	79%	79%	79%
JSC Cherkizovsky meat processing plant (JSC CMPP)	Open Joint Stock Company	Meat processing plant	87%	57%	57%
AIC Cherkizovsky Ltd. (CJSC Eko-Torg prior to September 1, 2004)	Limited Liability Company	Asset holding plant	100%	90%	90%
MPP Salsky Ltd.	Limited Liability Company	Meat processing plant	81%	81%	81%
TIC Cherkizovo Ltd. (Cherkizovo-2)	Limited Liability Company	Procurement company	100%	100%	100%
LLC Cherkizovo-Kashira (Cherkizovo-Kashira Ltd.)	Limited Liability Company	Meat processing plant	99%	96%	96%
JSC Trading Company of Agroindustrial Complex Cherkizovsky (JSC Trading Company of AIC Cherkizovsky)	Open Joint Stock Company	Trading company: distribution of products of APK Cherkizovsky	100%	100%	100%

As of December 31, 2004 and 2003, all companies listed above were under the control of the Control Group who owned, directly or indirectly, a majority of the voting rights in each company.

During 2005 a restructuring of APK Cherkizovsky was performed in order to establish control over all meat processing companies solely through AIC Cherkizovsky Ltd., thereby eliminating all direct ownership in such companies by the Control Group. This was primarily accomplished by contributing the shares of companies held by the Control Group to the share capital of AIC Cherkizovsky Ltd. As of December 31, 2005, all companies listed above were under the control of AIC Cherkizovsky Ltd.

(in thousands of US dollars)

APK Mikhailovsky is a sub-group of companies registered and operating in the Russian Federation engaged in the production of various types of compound feed, raising of poultry, pigs and cattle and the distribution of meat. In 2005, 2004 and 2003, the following principal companies were included in the APK Mikhailovsky sub-group:

Name of company	Legal form	Nature of business	Consolidated interest % 2005	% 2004	% 2003
CJSC Budenovets Agrifirm	Closed Joint Stock Company	Pig breeding	73%	73%	73%
CJSC Krugovskaya	Closed Joint Stock Company	Raising poultry	76%	76%	76%
CJSC Petelinskaya	Closed Joint Stock Company	Raising poultry	84%	81%	81%
JSC Vasiljevskaya	Open Joint Stock Company	Raising poultry	100%	100%	100%
LLC Ardymsky Feed Milling Plant (Ardymsky Feed Milling Plant Ltd.)	Limited Liability Company	Mixed fodder production	89%	89%	89%
LLC Penzenskaya	Limited Liability Company	Raising poultry	100%	100%	100%
LLC Petelino Trade House	Limited Liability Company	Trading company: distribution of products of APK Mikhailovsky	84%	81%	81%
CJSC Botovo	Closed Joint Stock Company	Pig breeding	76%	63%	-
LLC Petelinsky Poultry Factory	Limited Liability Company	Meat processing	84%	81%	-
LLC Trading House Petelino-Samara	Limited Liability Company	Trading company: distribution of products of APK Mikhailovsky	100%	100%	-
LLC Kuvak-Nikolskoie Poultry Factory	Limited Liability Company	Raising poultry	100%	-	-
JSC Lipetskmyasoprom	Open Joint Stock Company	Pig breeding	100%	-	-
LLC Mikhailovsky Feed Milling Plant (*)	Limited Liability Company	Mixed fodder production	100%	-	-
LLC Kuznetsovsky Kombinat (*)	Limited Liability Company	Pig breeding	100%	-	-
LLC Agro-industrial Complex Mikhailovsky (AIC Mikhailovsky Ltd.) (*)	Limited Liability Company	Holding company	100%	-	-
CJSC Glebovskaya Poultry Factory (**)	Closed Joint Stock Company	Raising poultry	-	70%	70%
CJSC Golitsinskaya Poultry Factory (**)	Closed Joint Stock Company	Raising poultry	-	89%	89%
CJSC Krasnopolyanskaya Poultry Factory (**)	Closed Joint Stock Company	Raising poultry	-	87%	87%
CJSC Kuznetsovsky Kombinat (**)	Closed Joint Stock Company	Pig breeding	-	67%	67%
OJSC APK Mikhailovsky (**)	Open Joint Stock Company	Holding company	-	100%	100%
OJSC Luninsky Elevator (**)	Open Joint Stock Company	Grain storage	-	87%	87%
OJSC Rastovtsy (***)	Open Joint Stock Company	Crop production	-	74%	74%
LLC Ardymsky Grain Company (**)	Limited Liability Company	Crop production	-	89%	89%
LLC Glebovsky Poultry Plant (**)	Limited Liability Company	Raising poultry	-	70%	70%
LLC Uspenskoe (**)	Limited Liability Company	Crop production	-	100%	100%
LLC Trading House Cherkizovsky (Kuznetsovsky) (**)	Limited Liability Company	Trading company: distribution of products of APK Mikhailovsky	-	100%	100%
LLC Agriculture Surskoe (**)	Limited Liability Company	Crop production	-	100%	-
LLC Ardymskaya Feed Mill Company (**)	Limited Liability Company	Holding company	-	89%	-
LLC RAO Penzenskaya Grain Company (**)	Limited Liability Company	Crop production	-	80%	-
CJSC Penzamyasoprom (**)	Closed Joint Stock Company	Crop production	-	80%	-

*Companies created in the process of Restructuring
**Companies disposed of in Spin-off
***Discontinued operations

As of December 31, 2004 and 2003, all companies listed above were under the common control of the Control Group who owned, directly or indirectly, a majority of the shares in each company.

During 2005, a restructuring of APK Mikhailovsky was performed in order to consolidate control over the Group's agricultural holdings whose business activities are in line with the Group's overall business strategy exclusively through AIC Mikhailovsky Ltd (the "Restructuring"). This Restructuring eliminated all direct ownership in such companies by the Control Group. This was accomplished by contributing shares of these companies held by the Control Group to the share capital of AIC Mikhailovsky Ltd., a company established on May 25, 2005. Prior to 2005, the financial statements of APK Mikhailovsky were combined and consolidated through ownership in agricultural companies held by OJSC APK Mikhailovsky and the Control Group's direct ownership in agricultural companies. During 2005, ownership in agricultural companies, whose business activities were in line with the Group's overall business strategy were transferred to AIC Mikhailovsky Ltd. by a contribution to charter capital. As of December 31, 2005, all companies listed above were under the control of AIC Mikhailovsky Ltd.

Companies whose business activities are not in line with the overall business strategy of the Group continue as holdings of OJSC APK Mikhailovsky, which is directly owned by members of the Control Group. Significant transactions occurring between these companies and other Group companies after leaving the Group are disclosed in note 30. For purposes of presentation in these financial statements, the spin-off (the "Spin-off") of companies not relating to the Group's overall business strategy has been treated as a distribution to owners (Note 32). The Group does not have any ownership interest in OJSC APK Mikhailovsky as of December 31, 2005.

Notes 13 and 21 give a more detailed description of acquisitions made during the three years ended December 31, 2005.

At December 31, 2005, 2004 and 2003, the approximate number of staff employed by the Group was 12 066, 14 720 and 14 675, respectively.

2. RUSSIAN ENVIRONMENT AND CURRENT ECONOMIC SITUATION

General

Over the past decade the Russian Federation has undergone substantial political, economic and social changes. As an emerging market, the Russian Federation does not possess a fully developed business and regulatory infrastructure that would generally exist in a more mature market economy.

The current government is attempting to address these issues, however, it has not yet fully implemented the reforms necessary to create banking, judicial and regulatory systems that usually exist in more developed markets. As a result operations in the Russian Federation involve risks that are not typically associated with those in more developed markets. Such risks persist in the current environment with results that include, but are not limited to, a currency that is not freely convertible outside of the country, various currency controls, low liquidity levels for debt and equity markets and continuing inflation. Furthermore, substantially all privatisations in the Russian Federation in the early 1990's were flawed in some manner, and even the most minor administrative flaw in the privatisation documents may be invoked as a basis for challenging the validity of the privatisation process as a whole and thus the title to assets acquired as a result of the privatisation. The environment is such that the federal and local authorities, the administration and the former owners of property and other interested parties can attempt to obstruct normal business operations of a company. Accordingly, the stability and success of the Group's business will depend upon the government's ability to institute supervisory, judicial and other regulatory reforms.

(in thousands of US dollars)

Currency Exchange and Control

Foreign currencies, in particular the US dollar, play a significant role in the underlying economics of many business transactions in Russia. The following table summarizes the exchange rate of the rouble to 1 US dollar at December 31, 2005, 2004 and 2003.

	Exchange rate
December 31, 2005	28.7825
December 31, 2004	27.7487
December 31, 2003	29.4545

Should the rouble depreciate against the US dollar, the Group could have difficulties in meeting its foreign currency denominated obligations. Management has not entered into any transactions designed to hedge against foreign currency risk.

The Central Bank of Russia has established strict currency control regulations designed to promote the commercial utilization of the rouble. Such regulations place restrictions on the conversion of roubles into hard currencies and establish requirements for conversion of hard currency sales to roubles.

Interest Rates

The APK Cherkizovsky sub-group's principal interest rate risks relate to the fact that interest rates on certain loans are fixed at 3% for Euro loans and in the range of 4% to 17% for rouble loans. Other USD loans carry interest rates that are variable with LIBOR and which are reset at varying intervals (Notes 16 and 18). Management has not entered into any transactions designed to hedge against such interest rate risks.

The APK Mikhailovsky sub-group's principal interest rate risks relate to the fact that interest rates on certain loans are fixed at 3% to 22% for rouble loans and 13% for US dollar loans (Notes 16 and 18). Management has not entered into transactions designed to hedge against interest rate risk.

Liquidity and Financial Resources

At December 31, 2005, 2004 and 2003, the Group had negative working capital of $40 139, $28 611 and $52 790, respectively, which largely resulted from the use of short-term financing for both capital expenditure and working capital purposes. As at December 31, 2005, the Group continued to meet its obligations to creditors from operating cash flows and debt financing. Management's future plans with respect to improvement of liquidity and the working capital position include refinancing of short-term debt on a long-term basis and potential equity issues. Notes 18 and 34 contain additional information relating to debt structure, liquidity and refinancing.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles

The Group's companies maintain their accounting books and records in Russian roubles in accordance with Russian statutory accounting regulations. The accompanying combined and consolidated financial statements have been prepared in order to present the combined and consolidated financial position and combined and consolidated results of operations and cash flows of the Group in accordance with accounting principles generally accepted in the United States of America "US GAAP" and expressed in terms of US dollars (paragraph “Translation Methodology” below). The accompanying combined and consolidated financial statements differ from the financial statements prepared for statutory purposes in Russia in that they reflect certain adjustments that are appropriate to present the financial position, results of operations and cash flows in accordance with US GAAP.

Basis of Combination and Consolidation of Subsidiaries

The combined and consolidated financial statements of the Group include companies controlled by the Control Group through direct and indirect ownership of the majority of the voting interests as described in Note 1. Prior to 2005, no formal legal structure was in place which would allow for full consolidation based on ownership; however, the companies of the Group conduct their operations as a unified business. Management believes that it is necessary to present combined financial statements of the companies under common control as of and for the years ended December 31, 2004 and 2003 in order to achieve a fair presentation of the financial position and results of operations of the Group.

Where companies owned and controlled directly by the Control Group have investments in other entities of more than 50% of a company’s voting shares and are able to govern the investee’s financial and operating policies so as to benefit from its activities, the respective subsidiaries are consolidated into their parents in these financial statements. Beginning January 1, 2005, the Group amended its consolidation policy to include any variable interest entities where management determined the Group to be the primary beneficiary. At December 31, 2005, management determined that no entities exist where the Group has a significant variable interest.

The purchase method of accounting is used for acquired businesses. Companies acquired or disposed of during the year are included in the combined and consolidated financial statements from the date of acquisition or to the date of disposal.

All significant inter-company balances and transactions are eliminated on combination and consolidation.

Investments in certain companies that are not material to the combined and consolidated financial position and results of operations are stated at cost or excluded from the combined and consolidated financial statements.

Fiscal Year

The Group’s fiscal year end is the last day of each calendar year.

Translation Methodology

The Group follows a translation policy in accordance with SFAS No. 52, “Foreign Currency Translation”. Due to a highly inflationary economy in the Russian Federation prior to 2003, the U.S. dollar (the Group’s reporting currency) was designated as the Group’s functional currency. Effective January 1, 2003, the Russian economy ceased to be considered highly inflationary for accounting purposes. Management determined that for the fiscal year beginning January 1, 2003 the functional currency of the Group is the Rouble. Accordingly, the reporting currency amounts were translated into Roubles at the exchange rate current at January 1, 2003. These amounts became the new accounting basis for non-monetary assets and liabilities and gave rise to temporary differences as compared to the related tax bases. Deferred taxes were recognized on these temporary differences against other comprehensive income on the date of change in functional currency in accordance with EITF 92-8 “Accounting for the Income Tax Effects under FASB Statement No. 109 of a Change in Functional Currency When an Economy Ceases to Be Considered Highly Inflationary”.

The Group determined the U.S. Dollar to be its reporting currency and translates its functional currency financial statements into U.S. Dollars. Assets and liabilities are translated at year-end exchange rates, equity, other than retained earnings, at the later of the rate on January 1, 2003 (date of change in functional currency due to cessation of hyperinflation) or the historical rate, while income and expense items are translated at average rates of exchange prevailing during the year. The resulting translation adjustment is recorded as a separate component of other comprehensive income (loss).

The Group's future operating cash flows will be generated in Russian roubles. Future movements in the exchange rate between the rouble and the US dollar will affect the carrying value of the Group's Rouble denominated monetary assets and liabilities and the US dollar amounts of revenues and expenses. Such changes may also affect the Group's ability to realize assets as represented in terms of US dollars in the accompanying combined and consolidated financial statements.

Management Estimates

The preparation of the combined and 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 combined and consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The principal management estimates underlying these financial statements include estimation of discounted future cash flows used in assessing the existence of impairment of goodwill, allowances for bad debts, valuation allowances for deferred tax assets and valuation of intangible assets determined to have an indefinite life.

Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand and in bank accounts and short-term 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 accounts, including the aging 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 the price paid or the consideration given to acquire the asset. Cost is determined on the basis of weighted average cost. For processed inventories, 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. Market value is the current replacement cost, whether by purchase or by reproduction, limited to the estimated selling price less any costs of completion and disposal (net realizable value) at the maximum level, and net realizable value, less an allowance for normal profit at the minimum level. Net realizable value is the selling price in the ordinary course of business, less costs to complete, market and distribute. Write downs are made for unrealizable inventory in full.

(in thousands of US dollars)

Livestock

Animals with short productive lives, such as poultry and pigs are classified as inventory on the statement of financial position as "livestock". Full cost absorption is used for determining the asset value of livestock.

Newborn cattle, pigs and 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 into main herd, years	Depreciation, years
Pigs	0.5	2
Cattle	2	7

Value Added Tax

Value Added Tax ("VAT") related to sales is payable based upon invoices issued to customers or on collection of the respective receivable. 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 on the statement of financial position, gross.

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 December 31, 2001 were determined through valuation and are stated based on estimated fair value. For companies acquired through business combinations, estimated fair value of property, plant and equipment was retrospectively applied to determine the fair value of acquired net assets. Certain fixed assets were adjusted for 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 December 31, 2001. Assets acquired subsequent to December 31, 2001 are stated at historical cost.

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

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

Impairment of Long-Lived Assets

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) were less than the carrying amount of the long-lived asset (group), the Group would then calculate impairment as the excess of the carrying value of the asset (group) over the estimate of its fair market value.

Goodwill and Other Intangible Assets

Goodwill represents the purchase price for businesses acquired in excess of the fair value of identifiable net assets acquired.

In June 2001, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 141, “Business Combinations” and No. 142, “Goodwill and Other Intangible Assets”, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives are no longer amortized but are subject to annual impairment tests in accordance with SFAS No. 142. Other intangible assets with determinable useful life are amortized over their useful lives. No impairment losses arose due to the initial application of this standard.

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 respective assets. Other intangible assets principally represent trademarks acquired.

The fair value of the Group’s trademarks is determined using a royalty rate method based on expected revenues by trademark. Goodwill is not deductible in the Russian Federation for income tax purposes.

Investments

The Group holds equity interests in certain companies, which are not readily marketable securities and are valued at cost. Management periodically assesses the ability of the Group to realise the carrying values of investments and makes valuation reserves, if required.

The equity accounting method is used when the Group has a twenty to fifty percent equity interest and the ability to exercise significant influence over the investee.

Product Guarantees

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. The Group introduced this product guarantee in the second half of 2003. Returns are accounted for as sales return allowances (Note 23). Since one month is the maximum period of time during which the goods can be returned, management has used actual data for January of the following year to estimate the sales return allowance at each year end.

Revenue Recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group, delivery has occurred or services have been rendered, the amount of the revenue can be measured reliably and the collectibility of the revenue is reasonably assured.

Sales are recognized, net of VAT and discounts, when goods are shipped to customers. At the time of shipment, in accordance with the Group's standard sales terms, title is transferred and the customer assumes the risk and rewards of ownership. This policy is consistent with the Russian Civil Code, which states that legal title transfers when a product is shipped to a customer unless specifically overridden by the sales agreement.

The Group grants discounts to customers primarily based on the volume of goods purchased. Such discounts range up to 12% of the sales amount and are graduated to increase with purchases made. Discounts are accrued against sales and accounts receivable in the month earned. Other strategically targeted discounts are immaterial.

Any consideration given to direct or indirect customers of the Group in the form of cash, such as listing fees, are included in the statement of operations as deductions from sales.

Shipping and Handling Costs

Shipping and handling costs incurred by the Group are reflected in selling and distribution expenses in the accompanying combined and consolidated statements of operations.

Marketing Expenses

Marketing costs are expensed as incurred. Marketing expenses incurred by the Group for the years ended December 31, 2005, 2004 and 2003 were $4 801, $3 045 and $291, respectively, and are reflected in selling and distribution expenses in the accompanying combined and consolidated statements of operations.

Interest Expense

In accordance with Russian legislation, enterprises engaged in agricultural activities receive subsidies to repay their interest expense. As a result, APK Mikhailovsky's weighted average interest rate for rouble loans was 5.44%. The Group has accounted for such subsidies by reducing the interest expense on associated loans by $3 729, $1 179, and $489 for the years ended December 31, 2005, 2004 and 2003, respectively.

SFAS No. 34 "Capitalization of Interest Cost" establishes standards for capitalizing interest as part of tangible fixed assets acquired. Interest capitalized in the years ended December 31, 2005, 2004 and 2003 was $1 016, $412 and $341, respectively.

Taxation

Deferred tax assets and liabilities are recognized for the expected future tax consequences of existing differences between the financial and tax reporting basis 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. Valuation allowances are recorded for deferred tax assets where it is more likely than not that such assets will not be realized.

Deferred taxes associated with the temporary differences that arose on the change in functional currency as of January 1, 2003, were posted as an adjustment to other accumulated comprehensive loss.

(in thousands of US dollars)

Earnings per Share

Earnings per share for 2005, 2004 and 2003 have been determined using the number of Group shares issued on September 22, 2005, to the members of the Control Group, as if those shares had been outstanding for all periods presented. There are no securities to consider for dilution.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and short-term notes and loans payable reported in the combined and consolidated statements of financial position approximate fair values due to the short maturity of those instruments. Management is of the opinion that the carrying value of the Group's long-term loans payable to third parties, except for certain long-term notes payable and borrowings with the Department of Science and Industrial Policy of the Moscow City Government and the Ministry of Finance, approximate fair value.

The fair values of long-term notes and loans payable that have lower then market rates were estimated by discounting future cash flows using a discount rate that reflects the estimated market borrowing rates. Market borrowing rates on locally sourced funds available to the Group at December 31, 2005, 2004 and 2003 were estimated at 14%, 19% and 22%, respectively, for rouble denominated loans and 11%, 11% and 12% respectively for US dollar and EURO denominated loans.

As of December 31, 2005	**Book value**	**Fair value**
Long-term notes payable	3 559	3 559
Long-term loans payable to the Ministry of Finance (Minfin)	3 071	2 642
Long-term loan payable to the regional treasury (Lipetsk)	5 906	3 564

As of December 31, 2004	**Book value**	**Fair value**
Long-term notes payable	3 692	3 692
Long-term loans payable to the Department of Science and Industrial Policy, Moscow City Government	1 076	1 043
Long-term loans payable to the Ministry of Finance (Minfin)	3 696	2 841

As of December 31, 2003	**Book value**	**Fair value**
Long-term notes payable	3 788	1 811
Long-term loans payable to the Department of Science and Industrial Policy, Moscow City Government	1 351	1 322
Long-term loans payable to the Ministry of Finance (Minfin)	3 824	2 455

Further disclosures of long-term notes payable and loans are contained in Notes 15 and 18, respectively.

Concentration of Credit Risk

Financial instruments that potentially expose the Group to concentration of credit risk consist primarily of cash and cash equivalents and accounts receivable. As of December 31, 2005, 2004 and 2003, all cash and cash equivalents are held in Russian financial institutions.

As of December 31, 2005, 2004 and 2003, the Group's credit risk is concentrated in accounts receivable from external customers and affiliated companies. Risk associated with external customers is diversified due to a large customer base. The maximum amount of loss due to credit risk, based on the fair value of the financial instruments that the Group would incur if affiliated companies failed to perform according to the terms of the contracts, is $6 575, $1 573 and $544, respectively.

Minority Interest

Minority interest is accounted for at historical value, which is the minority's share in the book value of a subsidiary's net assets at the date control over a subsidiary was established. If control over a subsidiary is lost and subsequently re-established, the minority interest is accounted for at the historical value determined at the time the company was first consolidated.

New Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (the FASB) issued Interpretation No. 46 *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51* (the "Interpretation"). The Interpretation requires the consolidation of variable interest entities (VIE) in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interest in the entity. Previously, companies were generally consolidated by an enterprise that had a controlling financial interest through ownership of a majority voting interest in the entity. In December 2003, the FASB issued a revision of the Interpretation (Revised Interpretation 46). Revised Interpretation 46 codifies both the proposed modifications and other decisions previously issued through certain FASB Staff Positions and supersedes the original Interpretation to include 1) deferring the effective date of the Interpretation's provisions for certain variable interests, 2) providing additional scope exceptions for certain other variable interests, 3) clarifying the impact of troubled debt restructurings on the requirement to reconsider a) whether an entity is a VIE or b) which party is the primary beneficiary of a VIE, and 4) revising the original Interpretation to provide additional guidance on what constitutes a variable interest. Under the new guidance, application of Revised Interpretation 46 is required immediately in financial statements of non-public companies for variable interest entities created after December 31, 2003 and in relation to all other variable interest entities, in financial statements for the first fiscal period ending after December 15, 2004. The Group's adoption in 2004 of Revised Interpretation 46 did not have a material impact on its combined and consolidated financial statements.

In March 2004, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings per Share*. This issue involves the computation of earnings per share for companies that have multiple classes of ordinary stock or have issued securities other than ordinary stock that participate in dividends with ordinary stock (participating securities). The EITF concluded that companies having participating securities are required to apply the two-class method to compute earnings per share. The two-class method is an earnings allocation method under which earnings per share is calculated for each class of ordinary stock and participating security considering both dividends declared (or accumulated) and participation rights in undistributed earnings as if all such earnings had been distributed during the period. Management has determined that this EITF has no impact on its combined and consolidated financial statements.

In December 2004, the FASB issued Statement 123(Revised 2004) *Share Based Payment*. FASB 123(R) will require compensation costs related to share-based payment transactions to be recognized in the financial statements. With limited exceptions, the amount of compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. In addition, liability awards will be remeasured each reporting period. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. The standard is effective for private companies for fiscal years beginning after December 15, 2005. Management believe that the adoption of this standard will not have a material impact on its combined and consolidated financial statements.

In December 2004, the FASB issued SFAS No. 151 *Inventory Costs*. SFAS 151 requires abnormal amounts of inventory costs related to idle facility, freight handling and wasted material expenses to be recognized as current period charges. Additionally, SFAS 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The standard is effective for fiscal years beginning after June 15, 2005. Management believes that the adoption of SFAS No. 151 will not have a material impact on its combined and consolidated financial statements.

In December 2004, the FASB issued Statement 153 *Exchanges of Nonmonetary Assets*. FASB 153 replaces the exception for non-monetary exchanges of similar productive assets in APB Opinion No. 29 *Accounting for Nonmonetary Transactions* with a more general exception from fair value measurement for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange is determined by the standard to have commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The statement is effective for non-monetary exchanges occurring in fiscal periods beginning after June 15, 2005. Management believe that the adoption of SFAS 153 will not have a material impact on its combined and consolidated financial statements.

In June 2005, the EITF reached a consensus on EITF Issue No. 05-6, “Determining the Amortization Period for Leasehold Improvements.” As part of a business combination, the acquiring entity will often assume existing lease agreements of the acquired entity and acquire the related leasehold improvements. The issues are whether the “lease term” should be re-evaluated at consummation of a purchase business combination and whether the amortization period for acquired leasehold improvements should be re-evaluated by the acquiring entity in a business combination. The consensus reached by EITF No. 05-6 is effective for leasehold improvements that are purchased or acquired in reporting periods beginning June 29, 2005. Management believes that the adoption of EITF No. 05-6 will not have a material impact on the Group’s financial position and results of operations.

In March 2005, the FASB issued Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143.” This Interpretation clarifies that the term “conditional asset retirement obligation” as used in FASB Statement No. 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity, in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists to make a reasonable estimate of the fair value of the obligation. Interpretation 47 is effective for the Group beginning January 1, 2006. The Group is currently in the process of assessing the effects of Interpretation 47 on its consolidated financial position and results of operations.

In May 2005, the FASB issued SFAS No. 154, “Accounting Changes and Error Corrections”, which replaces APB Opinion No. 20, “Accounting Changes” and SFAS No. 3, “Reporting Accounting Changes in Interim Financial Statements”. SFAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle and is applicable to all voluntary changes and to changes required by an accounting pronouncement if such pronouncement does not specify transition provisions. SFAS No. 154 requires retrospective application to the prior periods’ financial statements of changes in accounting principle. In cases when it is impracticable to determine the period-specific or cumulative effects of an accounting change, the statement provides that the new accounting principle should be applied as of the earliest period for which retrospective application is practicable or, if impracticable to determine the effect of a change to all prior periods, prospectively from the earliest date practicable. This Statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

In September 2005, the EITF reached a consensus on EITF 04-13 "Accounting for Purchases and Sales of Inventory with the Same Counterparty." The EITF concluded that companies that enter into inventory purchase and sales transactions with the same counterparty, in contemplation of one another, should combine the transactions and treat them as non-monetary exchanges involving inventory. The EITF abstract also includes indicators that should be considered in making the determination as to whether transactions were entered into in contemplation of one another. Nonmonetary exchanges of finished goods for raw material and finished goods for work-in-process in the same line of business should be recorded at fair value. All other inventory-for-inventory exchange transactions within the same line of business do not culminate the earnings process and therefore should be recognized at carrying value. The guidance is effective for new inventory arrangements entered into, or modifications or renewals of existing inventory arrangements occurring, in interim or annual reporting periods beginning after March 15, 2006. Management believes that the adoption of EITF 04-13 will not have a material impact on its combined and consolidated financial statements.

Segment Reporting

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

(in thousands of US dollars)

Segment information at December 31, 2005 and for the year then ended comprised:

	Meat processing	Poultry	Pork	Corporate asset expenditure	Inter-segment	Combined
Total sales	419 085	126 818	25 148	-	-	571 051
Intersegment sales	(6 518)	(12 889)	(5 463)	-	-	(24 870)
Sales to external customers	412 567	113 929	19 685	-	-	546 181
Cost of sales	(338 576)	(66 115)	(16 302)	-	-	(420 993)
Gross profit	73 991	47 814	3 383	-		125 188
Operating expenses	(52 939)	(25 229)	(3 609)	(92)	52	(81 817)
Operating income	21 052	22 585	(226)	(92)	52	43 371
Financial income and expenses, net excluding interest expenses	(1 257)	(20)	(18)	-	-	(1 295)
Interest expenses	(8 437)	(6 757)	(417)	-	-	(15 611)
Segment profit (loss)	11 358	15 808	(661)	(92)	52	26 465
Expenditure on plant and equipment	(8 530)	(37 205)	(40 157)	-	-	(85 892)
Segment assets	240 727	126 569	61 832	198	(5 513)	423 813
Supplemental information						
Depreciation expense	13 373	4 944	2 153			20 470
Income tax expense	7 251	429	221			7 901

Reconciliation between segment profit and consolidated and combined income from continuing operations before extraordinary item	
Total segment profit	26 465
Minority interest	(1 485)
Income taxes	(7 901)
Consolidated and combined income from continuing operations before extraordinary item	17 079
Reconciliation between combined segment assets and total assets per statement of financial position	
Combined segment assets	423 813
Assets of discontinued operations	-
Total assets per statement of financial position	423 813

(in thousands of US dollars)

Segment information at December 31, 2004 and for the year then ended comprised:

	Meat processing	Poultry	Pork	Corporate asset expenditure	Inter-segment	Combined
Total sales	352 155	101 822	18 868	-	-	472 845
Intersegment sales	(1 717)	(3 197)	(4 171)	-	-	(9 085)
Sales to external customers	350 438	98 625	14 697	-	-	463 760
Cost of sales	(293 606)	(68 841)	(13 477)	-	-	(375 924)
Gross profit	56 832	29 784	1 220	-	-	87 836
Operating expenses	(53 903)	(19 855)	(1 690)	(78)	-	(75 526)
Operating income	2 929	9 929	(470)	(78)	-	12 310
Financial income and expenses, net excluding interest expenses	3 235	2 056	345	35	-	5 671
Interest expenses	(10 488)	(4 755)	(643)	-	-	(15 886)
Segment (loss) profit	(4 324)	7 230	(768)	(43)	-	2 095
Expenditure on plant and equipment	(10 118)	(15 547)	(2 218)	-	-	(27 883)
Segment assets	221 255	101 878	30 687	136	(5 554)	348 402
Supplemental information						
Depreciation expense	15 342	3 803	1 525			20 670
Income tax expense (benefit)	5 447	(569)	(88)			4 790

Reconciliation between segment profit and consolidated and combined income from continuing operations before extraordinary item	
Total segment profit	2 095
Income taxes	(4 790)
Minority interest	3 568
Consolidated and combined income from continuing operations before extraordinary item	873

Reconciliation between combined segment assets and total assets per statement of financial position	
Combined segment assets	348 402
Assets of discontinued operations	945
Total assets per statement of financial position	349 347

(in thousands of US dollars)

Segment information at December 31, 2003 and for the year then ended comprised:

	Meat processing	Poultry	Pork	Corporate asset expenditure	Inter-segment	Combined
Total sales	261 324	71 857	9 996	-	-	343 177
Intersegment sales	(1 287)	(1 790)	(2 637)	-	-	(5 714)
Sales to external customers	260 037	70 067	7 359	-	-	337 463
Cost of sales	(211 730)	(54 633)	(8 505)	-	-	(274 868)
Gross profit	48 307	15 434	(1 146)	-	-	62 595
Operating expenses	(38 893)	(12 953)	(1 446)	(22)	-	(53 314)
Operating income	9 414	2 481	(2 592)	(22)	-	9 281
Financial income and expenses, net excluding interest expenses	1 168	350	(23)	42	-	1 537
Interest expenses	(8 227)	(4 648)	(506)	-	-	(13 381)
Income from investments in associates	1 439	-	-	-	-	1 439
Segment profit (loss)	3 794	(1 817)	(3 121)	20	-	(1 124)
Expenditure on plant and equipment	(5 179)	(7 308)	(785)	-	-	(13 272)
Segment assets	204 599	63 346	16 102	133	(2 431)	281 749
Supplemental information						
Depreciation expense	9 941	1 941	1 056			12 938
Income tax expense	4 818	1 304	146			6 268

Reconciliation between segment profit and consolidated and combined income from continuing operations before extraordinary item	
Total segment loss	(1 124)
Minority interest	4 550
Income taxes	(6 268)
Consolidated and combined income from continuing operations before extraordinary item	(2 842)
Reconciliation between combined segment assets and total assets per statement of financial position	
Combined segment assets	281 749
Assets of discontinued operations	1 029
Total assets per statement of financial position	282 778

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Group evaluates performance based on profit or loss from operations before income taxes. The Group attempts to account for inter-segment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices.

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

(in thousands of US dollars)

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

All three segments are involved in other business activities, including dairy, crop cultivation and related services, which are non-core business activities and which are immaterial to the overall figures reported.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2005, 2004 and 2003 comprised:

	2005	2004	2003
Rouble bank accounts	4 946	1 998	2 160
Rouble cash	254	405	150
	5 200	2 403	2 310

5. TRADE RECEIVABLES, NET

Trade receivables as of December 31, 2005, 2004 and 2003 comprised:

	2005	2004	2003
Trade receivables	33 819	38 374	20 186
Allowance for doubtful accounts	(3 212)	(4 923)	(3 018)
	30 607	33 451	17 168

6. ADVANCES PAID, NET

Advances paid at December 31, 2005, 2004 and 2003 comprised:

	2005	2004	2003
Advances to 3rd party suppliers	7 734	8 125	4 317
Advances to related parties	1 655	713	-
Allowance for doubtful advances	(769)	(1 405)	(1 130)
	8 620	7 433	3 187

(in thousands of US dollars)

7. INVENTORY

Inventory as of December 31, 2005, 2004 and 2003 comprised:

	2005	2004	2003
Raw materials	29 970	28 087	23 254
Finished goods	7 300	6 413	5 181
Work in process	5 742	6 954	5 160
Goods for resale	201	1 017	461
	43 213	42 471	34 056

Finished goods intended for use by other Group companies are classified as raw materials. Inventory pledged under loan agreements totalled (Notes 16 and 18) $8 882, $7 127 and $2 122 as of December 31, 2005, 2004 and 2003, respectively. In 2005 the pledged amount consisted of raw materials in the amount of $5 709, finished goods of $1 759 and other inventory of $1 414.

8. LIVESTOCK

Livestock as of December 31, 2005, 2004 and 2003 comprised:

	2005	2004	2003
Pigs	7 949	7 691	3 152
Chicken	4 582	3 316	3 887
Cattle	1 150	5 170	2 066
	13 681	16 177	9 105

In 2003, the value of pigs at CJSC Kuznetsovsky Kombinat was written down by $1 219. This write down was largely due to a decision to improve the genetic composition of the herd. These pigs were slaughtered in 2004.

Livestock pledged under loan agreements (Notes 16 and 18) totalled $8 674, $7 186 and $6 786 as of December 31, 2005, 2004 and 2003, respectively.

9. OTHER CURRENT ASSETS, NET

Other current assets as of December 31, 2005, 2004 and 2003 comprised:

	2005	2004	2003
VAT and other taxes receivable	21 743	15 438	10 898
Other receivables, net of allowance of $522, $437 and $233 for the years ended December 31, 2005, 2004 and 2003, respectively	4 885	3 634	2 216
Prepaid expenses	2 576	3 109	1 181
Spare parts	2 264	2 311	1 607
Promissory notes receivable	165	1 450	-
	31 633	25 942	15 902

(in thousands of US dollars)

10. PROPERTY, PLANT AND EQUIPMENT, NET

The carrying amounts of property, plant and equipment at December 31, 2005, 2004 and 2003 comprised:

	2005	2004	2003
Buildings and infrastructure	105 265	100 114	89 301
Machinery and equipment	62 827	70 006	71 447
Vehicles	6 885	3 156	3 084
Pigs	2 462	1 105	-
Cattle	592	2 478	1 857
Other	1 751	850	1 100
Advances paid for property, plant and equipment	8 045	4 630	849
Construction in progress and equipment for installation	63 781	20 157	15 792
	251 608	202 496	183 430

Accumulated depreciation amounted to $68 818, $61 216 and $39 699 as of December 31, 2005, 2004 and 2003, respectively.

Machinery and equipment included $4 814, $3 783 and $1 118 of leased equipment as of December 31, 2005, 2004 and 2003. Accumulated depreciation of leased equipment amounted to $814, $441 and $92 as of December 31, 2005, 2004 and 2003, respectively. Notes 16 and 18 disclose fixed assets pledged as collateral against loans.

11. GOODWILL

The movement in goodwill for the years ended December 31, 2005, 2004 and 2003 comprised:

Balance at December 31, 2002	7 901
Translation gain	625
Balance at December 31, 2003	8 526
Translation gain	524
Balance at December 31, 2004	9 050
Translation loss	(325)
Balance at December 31, 2005	8 725

Goodwill arose on the purchase by the Group of its controlling stake in JSC BMPP and relates to the meat processing segment of the business. Management does not believe that this goodwill is impaired based on a comparison of the estimated fair value of net assets of the plant to their carrying value as of December 31, 2005.

(in thousands of US dollars)

12. OTHER INTANGIBLE ASSETS, NET

Management hired an independent valuation expert whose work was used in assessing the fair value of trademarks related to the meat processing segment for purposes of applying purchase accounting. Management has determined that the trademarks have indefinite useful lives and are, therefore, not subject to amortization. Software is amortized over its useful life of 2 years.

The value of other intangible assets as of December 31, 2005, 2004 and 2003 comprised:

	2005	2004	2003
Trademark "Cherkizovsky"	13 117	632	596
Computer software	447	597	48
Trademark "Biruliovsky"	405	68	64
	13 969	1 297	708

13. INVESTMENTS IN AFFILIATED COMPANIES

At December 31, 2005, 2004 and 2003, investments comprised equity investments and loans receivable.

An additional purchase of 8% of JSC CMPP shares outstanding was made by the Group as of June 30, 2003, giving the Group a controlling interest in the company. The aggregate purchase price paid in cash was $3 746.

The following table summarizes the purchase price allocation of the assets acquired and liabilities assumed of JSC CMPP:

Current assets	2 160
Property plant and equipment	4 133
Intangible assets	1 502
Other	478
Total assets acquired	8 273
Current liabilities	(3 823)
Long term debt	(704)
Total liabilities assumed	(4 527)
Purchase price	3 746

The excess of the fair value of acquired net assets over cost was allocated as a pro-rata reduction to intangible assets and property, plant and equipment.

(in thousands of US dollars)

The following pro forma financial information presents the combined and consolidated statement of operations as if the acquisition of JSC CMPP had occurred at the beginning of the respective period:

UNAUDITED PRO-FORMA INFORMATION	**For the year ended December 31, 2003**
Sales	411 559
Cost of sales	(333 640)
Gross profit	77 919
Selling, general and administrative expenses	(60 530)
Loss on disposal of property, plant and equipment	(1 103)
Operating income	16 286
Other income and expense, net	(12 361)
Income before income tax and minority interest	3 925
Income tax	(9 677)
Loss before minority interest	(5 752)
Minority interest in net loss	3 254
Loss from continuing operations	(2 498)
Loss from discontinued operations, net of income tax expense of $68	(38)
Net Loss	(2 536)

These pro forma results have been prepared for comparison purposes only and contain certain adjustments including a reduction in depreciation expense resulting from the application of excess of fair value of net assets acquired over purchase price arising upon acquisition to depreciable tangible assets. The pro forma results are not necessarily indicative of the results of operations that actually would have resulted had the acquisition been in effect at the beginning of the respective period.

14. DISCONTINUED OPERATIONS

Discontinued operations represent the disposal of OJSC Rastovtsy in October 2005 as a part of the Group's Spin-off of companies whose activities were considered non-core to the Group. The original date of acquisition of this company was June 1, 1996. The consideration paid for a 74% ownership interest at that date was $6. OJSC Rastovtsy produces different types of crops and is not involved in the Group's production process. During 2005, 2004 and 2003, OJSC Rastovtsy had immaterial transactions with other Group entities.

At the date of disposal, net liabilities of discontinued operations were $149.

(in thousands of US dollars)

Revenues and losses from discontinued operations were as follows:

	2005	2004	2003
Sales	139	180	196
Loss before provision for income taxes and minority interest	(95)	(307)	(194)
Provision for income taxes	(40)	(30)	68
Minority interest in net loss	53	121	88
Loss from discontinued operations	(82)	(216)	(38)

15. NOTES PAYABLE

Notes payable as of December 31, 2005 comprised:

	2005		Weighted
Issuer	**Short-term**	**Long-term**	**average interest rate**
Rouble denominated			
LLC Cherkizovo-Kashira	-	3 559	12%
	-	**3 559**	

Notes payable as of December 31, 2004 comprised:

	2004		Weighted
Issuer	**Short-term**	**Long-term**	**average interest rate**
Rouble denominated			
LLC Ardymsky Feed Milling Plant	110	-	0%
LLC Cherkizovo-Kashira	-	3 692	12%
	110	**3 692**	

Notes payable as of December 31, 2003 comprised:

	2003		Weighted
Issuer	**Short-term**	**Long-term**	**average interest rate**
Rouble denominated			
LLC Ardymsky Feed Milling Plant	104	-	0%
LLC Cherkizovo-Kashira	-	3 788	12%
US dollar denominated			
JSC CMPP	-	1 087	0%
JSC BMPP	1 860	-	0%
JSC BMPP	554	-	9%
	2 518	**4 875**	

(in thousands of US dollars)

The interest free notes were issued by JSC BMPP and LLC Cherkizovo-Kashira in 1999.

In April 2003, US dollar denominated notes issued by LLC Cherkizovo-Kashira of $1 829 and rouble denominated notes of $1 394 were exchanged for rouble denominated notes of $3 788 bearing interest at 12% and maturing in 2010 and 2011.

The aggregate contractual maturity of long-term notes outstanding at December 31, 2005 was:

2010	1 737
2011	1 822
	3 559

16. SHORT-TERM LOANS

Short-term loans at December 31, 2005, 2004 and 2003 comprised:

	2005		2004		2003	
	Principal amount	Weighted average interest rate	Principal amount	Weighted average interest rate	Principal amount	Weighted average interest rate
US dollar denominated:						
AKB Vozrozhdenie	-	0.00%	6 300	14.00%	5 354	14.00%
First Mutual Credit Bank	-	0.00%	-	0.00%	4 300	14.00%
Tamarisk	-	0.00%	-	0.00%	2 000	14.00%
Sautfols	-	0.00%	-	0.00%	3 000	9.00%
Breserton	-	0.00%	-	0.00%	800	14.00%
Total US dollar denominated	-		6 300		15 454	
Rouble denominated:						
Savings Bank of Russia	29 606	13.16%	25 784	15.31%	20 148	16.73%
Department of Food Supply of the City of Moscow	19 317	3.91%	17 413	4.20%	10 661	5.34%
Gazprombank	12 160	12.01%	505	13.00%	-	0.00%
Other	3 504	13.26%	2 076	8.97%	1 950	17.95%
OJSC Bank Zenith	3 127	12.50%	2 162	15.00%	-	0.00%
Vneshtorgbank	2 971	13.78%	1 391	15.23%	-	0.00%
Loans from affiliated companies	428	0.00%	-	0.00%	-	0.00%
OJSC Rostpromstroybank	347	16.00%	661	16.00%	-	0.00%
AKB Vozrozhdenie	347	14.00%	-	0.00%	-	0.00%
Individuals (members of the Control Group)	66	0.00%	338	0.00%	802	0.00%
VBRR	-	0.00%	1 622	15.00%	1 585	24.00%
Bank of Moscow	-	0.00%	360	19.40%	-	0.00%
OJSC KB Center-Invest	-	0.00%	108	14.00%	-	0.00%
Bank Petrocommerz	-	0.00%	-	0.00%	6 790	21.00%
OJSC Promstroibank	-	0.00%	-	0.00%	900	15.00%
Total Rouble denominated	71 873		52 420		42 836	
	71 873		58 720		58 290	

2005

Savings Bank of Russia
The seven loans, thirty loan facilities (with a total limit of $22 681) and four overdraft agreements bear a weighted average interest at 13.16% per annum (ranging from 10.00% to 15.00%). Property, plant and equipment of $1 806 and inventory and livestock of $8 043 is pledged as collateral under these agreements. Two of the loans are guaranteed by JSC Vasiljevskaya and a member of the Control Group.

Department of Food Supply of the City of Moscow
The three loans bear a weighted average interest of 3.91% per annum (ranging from 3.00% to 4.33%). 44% of the outstanding shares of JSC BMPP (90 516 shares) and 51% of the capital of LLC Cherkizovo-Kashira are pledged as collateral. One of the loans is guaranteed by TIC Cherkizovo Ltd. (Cherkizovo-2).

Gazprombank
The three loans and one loan facility (with a total limit of $10 420) bear a weighted average interest of 12.01% per annum (ranging from 10.00% to 13.00%). Property, plant and equipment of $391 and inventory of $2 221 are pledged as collateral.

OJSC Bank Zenith
The unsecured loan bears interest at 12.50% per annum.

Vneshtorgbank
The four loans and one overdraft agreement bear weighted average interest of 13.78% per annum (ranging from 13.00% to 15.00%). Property, plant and equipment of $1 271 and inventory and livestock of $2 214 were pledged as collateral under the agreements. Two of the loans are guaranteed by JSC Vasiljevskaya.

2004

AKB Vozrozhdenie
These two U.S. dollar denominated loans with a total limit of $10 300 were repaid in January-February 2005.

Savings Bank of Russia
The eleven loan and three overdraft agreements bear a weighted average interest of 15.30% per annum (ranging from 10% to 23%).

Department of Food Supply of the City of Moscow
This loan by the Department of Food Supply of the City of Moscow bears interest of 4.20% per annum.

Other
Other loans represent agreements with banks and different governmental bodies. Interest rates range from 4% (governmental bodies) to 20% for banks.

Vneshtorgbank
The four loans and two overdrafts bear 15% interest per annum.

(in thousands of US dollars)

2003

Borrowings with AKB Vozrozhdenie
The two U.S. dollar denominated loans were repaid in 2004.

First Mutual Credit Bank
The loan of $4 300 was repaid in February 2004.

Tamarisk
The loan of $2 000 was repaid in 2004.

Soutfols
The loan of $3 000 was repaid in 2004.

Savings Bank of Russia
The amount consisting of thirty six loans, two overdraft agreements and one loan facility was repaid in full in 2004.

Department of Food Supply of the City of Moscow
The loans were repaid in full in 2004.

Bank Petrokommertz
The two loans and a credit line limited to 50 million Russian roubles were repaid in 2004.

17. CAPITAL LEASES

As of December 31, 2005, 2004 and 2003, the Group acquired certain fixed assets under leasing contracts that qualified for treatment as capital leases. The lower of the incremental borrowing and the rate implicit in the lease agreement was used in capitalizing the leases. These rates range from 14% to 33% for rouble denominated leases and from 8% to 20% for US dollar and EURO denominated leases. Most lease agreements contain a bargain purchase option.

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

	2005		2004		2003	
Payments falling due	**Total minimum lease payments**	**Portion related to interest**	**Total minimum lease payments**	**Portion related to interest**	**Total minimum lease payments**	**Portion related to interest**
Within one year	1 140	80	1 801	220	430	62
In year two	230	13	681	48	524	65
In year three	27	-	91	5	-	-
	1 397	93	2 573	273	954	127

(in thousands of US dollars)

18. LONG-TERM LOANS

Long-term loans as of December 31, 2005, 2004 and 2003 comprised:

	2005		2004		2003	
	Long-term portion	Short-term portion	Long-term portion	Short-term portion	Long-term portion	Short-term portion
US dollar denominated:						
EBRD	48 000	3 000	52 000	1 200	1 965	-
Raiffeisen	9 412	588	10 000	-	-	-
Other	322	-	-	-	-	-
Gazprombank	-	-	-	-	9 050	-
AKB Vozrozhdenie	-	-	-	-	5 716	-
CJSC Ineka	-	-	1 337	2 057	2 300	200
Canadian Imperial Bank of Commerce	-	-	-	-	-	602
Syndicated loan: First Mutual Credit Bank, AKB Zoloto-Platina Bank and KB Konnekagroprom Bank	-	-	-	-	-	340
Total US dollar denominated	57 734	3 588	63 337	3 257	19 031	1 142
Euro denominated:						
Minfin	2 085	986	4 488	-	4 854	-
Total Euro denominated	2 085	986	4 488	-	4 854	-
Rouble denominated:						
Gazprombank	47 412	-	10 811	1 802	1 137	-
Savings Bank of Russia	24 268	12 683	16 690	9 805	25 943	12 930
Other	6 236	460	425	24	86	-
Individuals (members of the Control Group)	1 663	752	2 862	121	2 795	124
OJSC Rostpromstroybank	695	-	-	-	-	698
Loans from affiliated companies	122	-	-	20	-	-
Department of Science and Industrial Policy, Moscow City Government	-	-	-	1 076	1 351	-
Committee of Finance and Fiscal Policy of Moscow Region Administration	-	-	80	468	273	244
OJSC Bank Zenith	-	-	-	-	2 784	441
Total Rouble denominated	80 396	13 895	30 868	13 316	34 369	14 437
	140 215	18 469	98 693	16 573	58 254	15 579

2005

EBRD
The loan is made up of three tranches:

- Tranche One B in the amount of U.S.$5 million and bearing interest at LIBOR + 4.5%;
- Tranche Two A in the amount of U.S.$35.9 million and bearing interest at LIBOR + 5.5%;
- Tranche Two B in the amount of U.S.$10.1 million and bearing interest at LIBOR + 5%.

Property, plant and equipment of $70 211 is pledged as collateral under this loan agreement.

Shares of and participating interests in the following Group companies are pledged as collateral under the loan agreement:

- AIC Cherkizovsky Ltd. (CJSC Eko-Torg prior to September 1, 2004) – 25%;
- OJSC Cherkizovsky meat processing plant (JSC CMPP) – 25% plus one share;
- JSC Biruliovsky Meat Processing Plant – 25% plus one share;
- JSC MPP Ulyanovsky – 25%;
- JSC MPPP Penzensky – 25% plus one share;
- JSC Belmiaso – 25% plus one share;
- LLC Cherkizovo-Kashira – 25%.

The following Group companies are guarantors of the loan under the loan agreement:

- JSC CMPP;
- JSC Biruliovsky Meat Processing Plant;
- JSC MPP Babaevskiy;
- JSC MPPP Penzensky;
- JSC MPP Ulyanovsky;
- JSC Belmiaso;
- MPP Salsky Ltd.;
- LLC Cherkizovo-Kashira;
- JSC Trading Company of AIC Cherkizovsky;
- AIC Cherkizovsky Ltd.;
- LLC Cherkizovo-Ural.

The terms of the loan also include a negative covenant regarding dividends and related party payments. This covenant states that certain key companies of APK Cherkizovsky may not pay dividends or make any distributions of share capital, or purchase, redeem or otherwise acquire any of their shares or any options over the same. The covenant further stipulates that this restriction is lifted after 75% repayment of the loan providing that the borrower complies with certain financial ratios (as disclosed below) and that the payment is no more than 50% of the net profit of the meat segment of the Group for the previous financial year based on consolidated financial statements prepared in accordance with US GAAP.

(in thousands of US dollars)

Financial covenant ratios effective from 2006 and applicable to the meat segment of the business are as follows:

- Financial Debt to EBITDA: 2.75 until April 1, 2006; 2.6 from April 2, 2006 to October 1, 2006; and 2.4 from October 2, 2006 going forward;
- Financial Debt to Capitalisation: 0.55 from January 1, 2006;
- Debt Service Coverage Ratio: 1.4 for 2006 (measured at January 1, 2007) and 1.5 from 2007 onwards;
- Current ratio: 0.9 until and including October 1, 2006; 1.0 on January 1, 2007; and 1.3 in 2007;

Additionally, a cap exists on capital expenditures for the meat processing segment of the Group amounting to $8 600 for 2006 and $5 000 for years thereafter.

Raiffeisen
The loan was bearing interest of LIBOR + 4.5% per annum as of December 31, 2005, and is payable in 2006–2011. Property, plant and equipment of $16 986 is pledged as collateral under this loan agreement.

The same financial ratio covenants as noted above for the EBRD loan apply to this loan.

Minfin
The loan bears interest at 3% per annum and is repayable in equal instalments in 2006, 2008 and 2011. Property, plant and equipment of $5 221 is pledged as collateral under this loan agreement.

Gazprombank
These three loan facilities (with a total limit of $81 716) bear a weighted average interest of 14.11% per annum (ranging from 14% to 14.2%) and are payable between 2007 and 2009.
At December 31, 2005, $34 304 was available for drawdown on these facilities. Property, plant and equipment of $7 725 is pledged as collateral. 51% of the shares of AIC Mikhailovsky Ltd. and 100% of the outstanding shares of JSC Lipetskmyasoprom are also pledged as collateral. The facilities are guaranteed by a member of the Control Group and by a number of Group companies.

Savings Bank of Russia
These nine loan facilities (with a total limit of $50 990) bearing a weighted average interest of 14.05% per annum (ranging from 12% to 22%) and are payable between 2006 and 2010.
At December 31, 2005, $3 120 was available for drawdown on these facilities. Property, plant and equipment of $21 387 and inventory and livestock of $1 880 is pledged as collateral.

Maturity of long-term loans
The aggregate maturity of long-term loans (including long-term loans payable to affiliated companies) outstanding at December 31, 2005 is:

Overdue	274
2006	18 195
2007	35 003
2008	48 497
2009	31 218
2010	16 025
2011	8 601
2012	871
	158 684

As of December 31, 2004, the Group was not in compliance with certain financial covenants related to its EBRD and Raiffeisen loans. The banks waived non-compliance with such financial covenants for the financial year ended December 31, 2004. Additionally, the Group signed amendments to the original loan agreements with the banks on April 6, 2006, establishing the financial covenants shown in the disclosure above. Amendments to the covenants contained in this agreement were applied retrospectively to 2005 and the first quarter of 2006 by the banks. Should any of the financial covenants disclosed above not be met in the future, the banks could choose to view such non-compliance as technical default and demand immediate repayment of the loans under the terms of the loan agreements.

2004

EBRD
The first loan of $1 200 bears floating interest at 2% + LIBOR per annum and is due in July 2005. Property, Plant and Equipment valued at $1 233 was pledged as collateral.

The second loan of $52 000 bears an average interest at 7.9% per annum and is due from November 2005 to May 2011. Property, plant and equipment valued at $82 104 were pledged as collateral.

Shares of and participating interests in the same Group companies as disclosed above for 2005 are pledged as collateral under the loan agreement.

The same Group companies as disclosed above for 2005 are guarantors of the loan as per the loan agreement.

Raiffeisen
This loan of $10 000 bears an average interest rate of 6.86% per annum and is due in May 2007. Property, plant and equipment valued at $17 142 was pledged as collateral under the loan agreement.

Minfin
The loan bears interest of 3% per annum and matures in March 2011. Property, plant and equipment of $4 242 was pledged as collateral.

Gazprombank
These two loan facilities have a limit of $32 432 and bear interest at 14%. No assets were pledged under these loan agreements. The loans are payable in 2005-2008.

Savings Bank of Russia
These four loans have a total limit of $34 464 and bear interest ranging from 15.5%-22% per annum and are repayable starting June 2004 through to August 2007 in equal monthly instalments. Property, plant and equipment of $13 074 and inventory and livestock of $6 004 were pledged as collateral.

2003

CJSC Ineka
This amount represents a promissory note, which bears interest of 11%, payable between 2004 and 2006.

Savings Bank of Russia
These seven loans bear an average interest rate of 21.61% per annum and are repayable starting January 2004 through August 2007. Interest ranges from 15.5% to 24% per annum.

Property, plant and equipment of $16 203 and inventory and livestock of $5 309 were pledged as collateral.

(in thousands of US dollars)

Members of the Control Group
These are interest-free unsecured loans to members of the Control Group and are repayable starting 2004 through 2007.

Committee of Finance and Fiscal Policy of Moscow Region Administration
These nine loans are provided for replenishment of working capital and bear interest at 10% per annum.

Management believes that the fair market value of most long-term debt approximates their carrying value. Refer to Note 3 for disclosure of the fair market value of loans where fair value differs significantly from carrying value.

19. TAX RELATED PAYABLES

Taxes payable as of December 31, 2005, 2004 and 2003 comprised:

	2005	2004	2003
Short-term tax related payables			
VAT	9 547	6 531	5 396
Corporate income tax	1 290	683	739
Payroll related taxes	1 070	1 360	1 429
Property tax payable	797	302	366
Personal income tax	760	923	1 078
Road user tax	38	87	80
Other taxes	321	886	717
	13 823	10 772	9 805

	2005	2004	2003
Long-term tax related payables			
VAT	602	945	1 119
Payroll related taxes	366	602	1 466
Other taxes	115	280	314
	1 083	1 827	2 899

In 2001, CJSC Kuznetsovsky Kombinat, CJSC Glebovskaya Poultry Factory, CJSC Krugovskaya and LLC Ardymsky Feed Milling Plant signed tax restructuring agreements with the regional tax authorities regarding VAT, payroll related taxes and taxes other than income for $1 440 and related fines and penalties of $2 128. In accordance with these agreements, payment of the taxes and related penalties and fines was extended up to 2014.

In 2005, CJSC Budenovets Agrifirm signed a tax restructuring agreement with the regional tax authorities regarding VAT, payroll related taxes and taxes other than income tax for $225 and related fines and penalties of $177. In accordance with these agreements, payment of the taxes and related penalties and fines was extended up to 2014.

(in thousands of US dollars)

The schedule of tax repayment comprises:

2008	326
2010	157
2011	150
2012	150
2013	150
2014	150
	1 083

As a result of adhering to the 2001 tax restructuring agreement, the Group was forgiven all related fines and penalties of $2 043 in 2004. In 2005 LLC Ardymsky Feed Milling Plant failed to fulfil the terms of the restructuring agreement and its restructured tax liability of $129 was transferred to current tax payables.

The Group has accrued for tax contingencies based on management's best estimates of whether risks associated with uncertainties in the tax code are more likely than not to result in a liability as a result of inspection of the uncertainty by the tax authorities.

20. OTHER PAYABLES

Other payables as of December 31, 2005, 2004 and 2003 comprised:

	2005	**2004**	**2003**
Payables for non-current assets	10 455	1 972	832
Payroll related liabilities	7 687	5 428	4 984
Interest payable	3 339	3 029	5 188
Advances received	2 080	2 745	2 964
Settlements with shareholders	131	281	553
Other payables	4 124	4 968	2 022
	27 816	18 423	16 543

(in thousands of US dollars)

21. MINORITY INTEREST

The movements in minority interest for the years ended December 31, 2005, 2004 and 2003 comprised:

Balance at December 31, 2002	21 994
Effect of change in functional currency to the opening balance	247
Minority interest on consolidation of JSC CMPP	16 778
Acquisitions by the Control Group of minority interests in JSC BMPP	(3 014)
Other acquisitions by the Control Group of minority interests in combining entities	(365)
Other acquisitions by the control group of control interests in new combining entities	62
Minority share in net losses from continuing operations	(4 550)
Minority share in net losses from discontinued operations	(88)
Minority interest recognised on issue of new shares	2 028
Balance at December 31, 2003	33 092
Other acquisitions by the Control Group of minority interests in combining entities	(2)
Minority interest on consolidation of CJSC Botovo	6 042
Minority share in net losses from continuing operations	(3 568)
Minority share in net losses from discontinued operations	(121)
Balance at December 31, 2004	35 443
Purchase of minority in exchange of shares issued by the Group	(11 928)
Other acquisitions by the Control Group of minority interests in combining entities	(1 978)
Minority share in net income from continuing operations	1 485
Minority share in net losses from discontinued operations	(53)
Minority interest in entities distributed to shareholders (Note 32)	(8 421)
Balance at December 31, 2005	14 548

During April-June 2003, CJSC Eko-Torg issued 1 666 813 ordinary shares with a par value of 10 RUR. The shares were sold for a cash consideration of 7.162 USD per share to Pacific Agro Ltd. The total excess of the consideration paid over the carrying value of net assets disposed of this transaction was recognized as additional paid-in capital of $9 910. Pacific Agro Ltd. subsequently exchanged its shares for ordinary stock in the Group.

The Group purchased an additional stake of 20% in JSC BMPP during 2003 from the Russian government at a price resulting in an excess of fair value of purchased assets over the purchase price. Group management has determined that all assets and liabilities assumed as a result of the acquisition have been identified and recognized. In addition, management has determined that the assets acquired and liabilities assumed have been fairly valued by an independent appraiser. The aggregate purchase price paid in cash for the 20% stake was $758.

The total excess of the fair value of net assets acquired over the consideration paid for these transactions was recognized as a pro-rata reduction of property, plant and equipment of $6 660 and trademarks of $1 174.

(in thousands of US dollars)

The following table summarizes the purchase price allocation of the assets acquired and liabilities assumed of JSC BMPP:

Current assets	2 999
Property, plant and equipment	3 882
Intangible assets	198
Total assets acquired	7 079
Current liabilities	(4 472)
Long-term debt	(1 849)
Total liabilities assumed	(6 321)
Purchase price	758

In July 2004, a member of the Control Group acquired 62.92% in CJSC Botovo for a total cash consideration of $28. The results of CJSC Botovo's operations have been included in the combined and consolidated financial statements since that date. Net assets of the acquired entity were $10 596 as of the purchase date. An excess of fair value of net assets acquired over purchase price of $6 639 arose at the purchase date. The extraordinary gain arising from the transaction of $463 is reflected in the 2004 statement of operations. At this same time, the Group established CJSC Penzamyasoprom with an effective Group ownership of 80%. These transactions increased minority interest in the Group by $6 042.

The following table summarizes the purchase price allocation of the assets acquired and liabilities assumed of CJSC Botovo:

Current assets	2 950
Deferred tax asset	440
Total assets acquired	3 390
Current liabilities	(2 441)
Long term debt	(458)
Total liabilities assumed	(2 899)
Purchase price	491

In January 2005, the Group acquired an additional stake of 12.61% in CJSC Botovo for a total cash consideration of $17. An excess of fair value of net assets acquired over purchase price of $1 315 arises at the purchase date. The total amount of extraordinary gain from this transaction of $79 is reflected in the statement of operations.

In April 2005, the Group purchased an additional stake of 3.25% in CJSC Petelinskaya for a total cash consideration of $274. An excess of fair value of net assets acquired over purchase price of $13 144 arises at the purchase date.

At the end of August 2005, one of the Group's minority shareholders (Morgan Stanley Bank Aktiengesellschaft) exchanged its 15.09% share in JSC CMPP for 0.7% of the ordinary stock in the Group. This transaction was accounted for using the purchase method and the consideration was determined as the fair market value of the net assets received of $9 854.

(in thousands of US dollars)

At the same time as the previous transaction, another of the Group's minority shareholders (Pacific Agro Ltd.) exchanged its 15.09% share in JSC CMPP and its 9.95% share in AIC Cherkizovsky Ltd. for 0.798% of the ordinary stock in the Group. This transaction was accounted for using the purchase method and the consideration was determined as the fair market value of the net assets received of $16 300.

The following table summarizes the purchase price allocation of the assets acquired and liabilities acquired from minority shareholders during 2005:

Current assets	14 783
Property plant and equipment	31 078
Trademarks	13 086
Other assets	7 551
Total assets acquired	66 498
Current liabilities	(16 373)
Long term debt	(23 971)
Total liabilities assumed	(40 344)
Purchase price	26 154

22. SHARE CAPITAL

During 2005 all direct ownership in Group companies was contributed by the Control Group into the share capital of OJSC Cherkizovo Group (except entities distributed to shareholders in the Spin-off described in Note 32). As of December 31, 2005, 91.4% of share capital was owned by Cherkizovsky Group Ltd.

As of December 31, 2005, 547 026 shares of ordinary stock were authorized of which 328 216 were issued and outstanding with a par value of 1 rouble. The Group is authorized to issue preferred shares not exceeding 25% of its ordinary stock. No such shares are currently issued or outstanding.

In accordance with Russian legislation, earnings available for dividends are limited to retained profits calculated in accordance with statutory rules in local currency.

The Group distributed $1 841, $764 and $711 during 2005, 2004 and 2003 respectively in the form of remuneration to members of the Control Group not functioning in management roles.

All preferred shares authorized and outstanding at JSC MPPP Penzensky and CJSC Salsky Meat Processing Plant as of December 31, 2003 and 2004 were non-cumulative shares. In accordance with the foundation documents, should no announcement of dividends to preferred shareholders be made at the respective annual shareholders' meetings, these shareholders receive the same voting rights as common shareholders beginning from the next general meeting. Upon payment of dividends, holders of these preferred shares are only entitled to vote on matters related to the reorganization or liquidation of the entity or on changes to the foundation documents of the entity that impact the rights of such shareholders. Due to the fact that dividends were not paid in either 2003 or 2004, these shareholders have been included in the determination of the voting power in each entity by the Control Group in both years.

(in thousands of US dollars)

23. SALES

Sales for 2005, 2004 and 2003 comprised:

	2005	2004	2003
Produced goods	539 576	460 741	307 185
Goods for resale	9 821	5 431	27 880
Other sales	4 417	4 418	4 472
Sales volume discounts	(3 378)	(2 525)	(694)
Sales returns	(4 255)	(4 305)	(1 380)
	546 181	463 760	337 463

In 2005, 2004 and 2003, the Group's sales to related parties comprised:

	2005	2004	2004
Produced goods	2 081	-	10
Other sales	142	5	1
Total sales to related parties	2 223	5	11

24. COST OF SALES

Cost of sales for 2005, 2004 and 2003 comprised:

	2005	2004	2003
Raw materials	335 684	305 641	201 375
Personnel (excluding pension costs)	33 553	29 721	21 458
Depreciation	17 326	16 478	10 879
Cost of goods for resale	10 815	3 911	26 254
Utilities	10 038	9 934	6 225
Pension costs	6 050	6 479	4 355
Other	7 527	3 760	4 322
	420 993	375 924	274 868

(in thousands of US dollars)

25. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for 2005, 2004 and 2003 comprised:

	2005	2004	2003
Personnel (excluding pension costs)	33 967	29 284	23 616
Shipping and handling	6 048	4 587	2 784
Materials and supplies	5 685	4 657	3 160
Taxes (other than income tax)	4 939	4 262	2 302
Marketing	4 801	3 045	291
Pension costs	5 042	6 462	4 271
Depreciation	3 144	4 192	2 059
Audit, consulting and legal fees	2 792	1 609	519
Security services	2 621	733	502
Bank charges	1 665	1 135	839
Utilities	982	904	887
Insurance	886	310	650
Information technology and communication services	667	1 397	784
Bad debt (recovery) expense	(295)	2 781	2 746
Charity	178	671	-
Other	7 582	8 018	6 836
	80 704	74 047	52 246

26. OTHER OPERATING EXPENSES

Other operating expenses for 2005, 2004 and 2003 comprised:

	2005	2004	2003
Loss on disposal of property, plant and equipment	646	1 479	1 068
Unusual loss related to privatisation of subsidiary	467	-	-
	1 113	1 479	1 068

In April 2004 LLC Ardymsky Feed Milling Plant entered into litigation related to the privatisation of the company and legal title to certain property, plant and equipment. In 2005, according to the court's decision, legal title on some of the assets in dispute was transferred to the plaintiff. However LLC Ardymsky Feed Milling Plant was able to reach an out-of-court settlement with the plaintiff for $467. As a result, the plaintiff waived all rights to the assets in question and LLC Ardymsky Feed Milling Plant became their lawful owner. This amount has been included above as an unusual loss related to privatisation of the subsidiary.

(in thousands of US dollars)

27. OTHER INCOME AND EXPENSE, NET

Other income and expense for 2005, 2004 and 2003 comprised:

	2005	2004	2003
Interest expense	15 611	15 886	13 381
Foreign exchange loss (gain)	2 219	(2 315)	(1 832)
Gain from debt forgiveness	(987)	(4 311)	(150)
Other financial income and expenses, net	63	955	445
Income from investments in affiliated companies	-	-	(1 439)
	16 906	10 215	10 405

28. INCOME TAX

The charge for income tax for the years ended December 31, 2005, 2004 and 2003 comprised:

	2005	2004	2003
Current expense	9 868	5 240	3 706
Deferred tax (benefit) expense	(1 967)	(450)	2 562
Income tax charge	7 901	4 790	6 268

The statutory income tax rates for the meat processing and agricultural sub-groups for the years presented are 24% and 0%, respectively, under Russian legislation.

The agricultural sub-groups will be subject to income tax starting January 1, 2006 as follows:

Years	Income tax rate
2006-2008	6%
2009-2011	12%
2012-2014	18%
Thereafter	24%

Deferred tax assets and liabilities are recorded for temporary differences between the book bases of assets and liabilities at December 31, 2005, 2004 and 2003 and their bases for income tax purposes.

(in thousands of US dollars)

The income tax charge reconciled to the theoretical tax provision at the statutory rate for the years ended December 31, 2005, 2004 and 2003 is:

	2005	2004	2003
Total income before provision for income taxes	26 465	2 095	(1 124)
Income (loss) before provision for income taxes of entities taxed at agricultural rates	14 754	8 157	(6 321)
Income (loss) before provision for income taxes of generally taxed entities	11 711	(6 062)	5 197
Statutory tax rate (agricultural)	0%	0%	0%
Statutory tax rate (general)	24%	24%	24%
Theoretical income tax expense (benefit) at statutory rates	2 811	(1 455)	1 247
Expenses not deductible for Russian statutory taxation purposes, net	4 881	2 718	3 106
Non-taxable remuneration of employees	(312)	(36)	(39)
Equity in earnings of affiliated companies	-	-	(354)
Loss on disposal of consolidated entities	80	211	-
Other permanent differences	368	1 474	1 503
Change in valuation allowance	73	1 878	805
Income tax	7 901	4 790	6 268

	2005	2004	2003
Deferred tax assets (liabilities) arising from the tax effect of temporary differences:			
Intangible assets	(3 185)	(435)	(410)
Property, plant and equipment	(15 762)	(14 539)	(16 155)
Construction in progress	339	318	146
Trade receivables and advances paid	1 093	1 520	1 128
Inventory	628	(163)	145
Payroll accruals	593	289	233
Other	513	(681)	229
Loss carry forward	1 389	4 730	3 937
Valuation allowance	(901)	(4 199)	(2 110)
Net deferred tax liability	(15 293)	(13 160)	(12 857)
Analyzed to:			
Deferred tax asset – long-term portion	388	538	2 234
Deferred tax liability – long-term portion	(19 355)	(15 502)	(16 884)
Long-term deferred tax liability, net	(18 967)	(14 964)	(14 650)
Deferred tax asset – current	3 674	1 804	1 793
Deferred tax liability – current	-	-	-
Current deferred tax asset, net	3 674	1 804	1 793
Total deferred tax liability, net	(15 293)	(13 160)	(12 857)

(in thousands of US dollars)

The movements in net deferred tax liability for the year ended December 31, 2005 comprised:

Net deferred tax liability for the year ended December 31, 2004	(13 160)
Impact of translation loss on beginning balance	121
Deferred tax benefit	1 967
Deferred tax in distributed entities	(252)
Deferred tax liabilities on acquisition of new consolidated entities	(23)
Deferred tax liabilities on acquisition of minority interest in new consolidated entities	(3 946)
Net deferred tax liability as of December 31, 2005	(15 293)

As of December 31, 2005, 2004 and 2003, the Group had net operating losses carried forward for statutory income tax purposes of approximately $5 788, $19 708 and $16 404. A valuation allowance has been established for the associated deferred tax asset amounting to $901, $4 199 and $2 110 as of December 31, 2005, 2004 and 2003 respectively, due to management's estimate of the future benefits of these losses that are more likely than not to be realized.

Tax loss carry-forwards of $453 were utilized during 2005. Deferred tax assets on losses carried forward for statutory income tax purposes amounting to $3 276 expired during 2005. Valuation allowances had previously been recognized on these tax loss carryforwards. The utilization of tax loss carry forwards is limited to a maximum of 30% of the statutory taxable profit in 2005, 50% in 2006 and 100% thereafter and expire in 2012 ($1 004) and in 2015 ($4 784).

29. PENSION COSTS

Prior to 2002 the combining entities contributed to the Russian Federation state pension scheme ("Pension fund") in respect of their employees. The pension scheme contribution amounted to 28% of each employee's gross salary. Starting January 1, 2002 through December 31, 2004 all social contributions (including contributions to the Pension fund) were substituted with a unified social tax ("UST") calculated by the application of a regressive rate from 35.6% to 5% of the annual gross remuneration of each employee. UST is allocated to three social funds (including the Pension fund), where the rate of contributions to the Pension fund varies from 28% to 5%, respectively, depending on the annual gross salary of each employee. The Russian Federation state pension scheme contributions are expensed as incurred. The combining entities have no other pension obligations.

Starting January 1, 2005, all social contributions are calculated by the application of a regressive rate from 26% to 2% of the annual gross remuneration of each employee. UST is allocated to three social funds (including the Pension fund), where the rate of contributions to the Pension fund varies from 20% to 2%, respectively, depending on the annual gross salary of each employee.

(in thousands of US dollars)

30. RELATED PARTIES

Control Group
In 2005, 2004 and 2003, members of the Control Group provided debt financing to the Group and served as guarantors for certain third party debts.

Entities disposed of to shareholders
Transactions with entities disposed of to shareholders comprise mostly of purchases of raw materials during the fourth quarter of 2005 from CJSC Penzamyasoprom, LLC RAO Penzenskaya Grain Company and sale of mixed fodder to CJSC Penzamyasoprom. Additionally, the Group has purchased from disposed companies some of their fixed assets and made lease payments for leased property, plant and equipment (Note 31). Settlements between related entities are generally made in cash. These related parties are under common ownership and the existence of that control could result in operating results or financial position of the Group significantly different from those that would have been obtained were the enterprises autonomous. Such transactions are expected to continue to play a role in the operations of the Group in the future.

Other related parties
Other related party purchases in 2005, 2004 and 2003 are mostly represented by purchases of IT technology and security services.

As of and for the year ended December 31, 2005 balances and transactions with related parties are summarized as follows:

	Entities disposed of to shareholders	Control group	Other related parties	Total
Balances				
Short-term loans receivable	1 613	-	267	1 880
Trade receivables	1 464	-	172	1 636
Advances	1 655	-	-	1 655
Other receivables	1 381	-	15	1 396
Long-term loans receivable	-	-	8	8
Trade payables	1 101	-	88	1 189
Short-term loans	428	66	-	494
Other payables	1 894	-	84	1 978
Current portion of long-term loans payable	-	752	-	752
Long-term notes payable	-	3 559	-	3 559
Long-term loans payable	122	1 663	-	1 785
Long-term payables to shareholders related to lease agreements	-	1 115	-	1 115
Activities				
Sales	2 170	1	52	2 223
Rent income from related party	209	-	24	233
Purchase of IT services	-	-	391	391
Purchase of security services	-	-	712	712
Purchase of goods and services	4 042	-	-	4 042
Purchase of property plant and equipment	652	-	-	652

(in thousands of US dollars)

As of and for the year ended December 31, 2004 balances and transactions with related parties are summarized as follows:

	Entities disposed of to shareholders	Control group	Other related parties	Total
Balances				
Trade receivables	-	-	438	438
Advances	-	-	713	713
Other receivables	-	-	191	191
Long-term loans receivable	-	231	-	231
Trade payables	-	-	1 236	1 236
Short-term loans	-	338	-	338
Other payables	-	34	-	34
Current portion of long-term loans payable	-	121	20	141
Long-term notes payable	-	3 692	-	3 692
Long-term loans payable	-	2 862	-	2 862
Activities				
Sales	-	-	5	5
Rent income from related party	-	-	4	4
Purchase of IT Services	-	-	4 662	4 662
Purchase of security services	-	-	44	44

As of and for the year ended December 31, 2003 balances and transactions with related parties are summarized as follows:

	Entities Disposed of to shareholders	Control group	Other related parties	Total
Balances				
Trade receivables	-	-	358	358
Long-term loans receivable	-	186	-	186
Trade payables	-	-	79	79
Short-term loans	-	802	-	802
Current portion of long-term loans payable	-	105	19	124
Long-term notes payable	-	3 788	-	3 788
Long-term loans payable	-	2 795	-	2 795
Activities				
Sales	-	-	11	11
Purchase of IT services	-	-	476	476
Purchase of security services	-	-	330	330
Other purchases	-	-	10	10

(in thousands of US dollars)

31. LONG-TERM PAYABLES TO SHAREHOLDERS

During 2005 certain Group companies were spun-off of as a part of the Restructuring transaction. Some property, plant and equipment that remained in distributed entities were necessary for the continuing operations of the Group. This equipment was partly transferred to the companies remaining in the Group. The equipment that was not possible to transfer due to timing issues was leased by the distributed companies on bargain terms. The lease terms include bargain options for the Group to continue the agreement over the life of the underlying equipment. For the purposes of calculating the lease term, the Group used the remaining useful life of the underlying assets. Property, plant and equipment leased at lease inception was $4 137 and the related deferred tax asset was $229.

Payables to shareholders for leased property, plant and equipment as of December 31, 2005 comprise:

Settlements with shareholders for leased property, plant and equipment, long-term portion	1 115
Settlements with shareholders for leased property, plant and equipment, current portion	32
Total	1 147

Movements in the liability for the year ended December 31, 2005 were:

Liability incurred to shareholders for lease of property, plant and equipment as of the lease inception	1 174
Interest accrued at 14% on lease liability	41
Repayment of liability to shareholders	(48)
Translation gain	(20)
Liability incurred to shareholders for lease of property, plant and equipment as of December 31, 2005	1 147

32. DISTRIBUTIONS TO SHAREHOLDERS

Distribution to shareholders resulting from the Restructuring and Spin-off transaction in 2005 comprises:

Distribution to shareholders in the process of Restructuring in cash	(1 871)
Distribution to shareholders through Spin-off in the form of net liabilities of distributed companies	11 856
Non-repayable loans from distributed companies	(17 891)
Distribution to shareholders in the form of liability on leasing agreements (Note 31)	(1 174)
Net distribution to shareholders	(9 080)

During 2005 a restructuring of the Group was performed (Note 1) in order to consolidate all ownership of Group companies through OJSC Cherkizovo Group. Some direct equity interests in consolidated companies were sold to the Group for $1 871 and accounted for as a distribution to shareholders.

Another purpose of the Restructuring was to spin-off non-core assets through distribution to shareholders. To retain the use of assets necessary for the Group's business in companies distributed to shareholders, the Group entered into leasing agreements with these entities (Note 31). These assets were accounted for at their historical book value and the liability incurred on origination of the lease agreements was accounted for as a distribution to shareholders.

(in thousands of US dollars)

The following entities were distributed to owners during the 2005 Spin-off transaction:

Name of company	Legal form	Nature of business
CJSC Glebovskaya Poultry Factory	Closed Joint Stock Company	Raising poultry
CJSC Golitsinskaya Poultry Factory	Closed Joint Stock Company	Raising poultry
CJSC Krasnopolyanskaya Poultry Factory	Closed Joint Stock Company	Raising poultry
CJSC Kuznetsovsky Kombinat	Closed Joint Stock Company	Pig breeding
OJSC APK Mikhailovsky	Open Joint Stock Company	Holding company
OJSC Luninsky Elevator	Open Joint Stock Company	Mixed fodder production
OJSC Rastovtsy	Open Joint Stock Company	Crop production
LLC Ardymsky Grain Company	Limited Liability Company	Holding Company
LLC Ardymsky Feed Milling Company	Limited Liability Company	Holding company
LLC Glebovsky Poultry Plant	Limited Liability Company	Raising poultry
LLC Agriculture Surskoe	Limited Liability Company	Crop production
LLC Uspenskoe	Limited Liability Company	Crop production
LLC Trading House Cherkizovsky (Kuznetsovsky)	Limited Liability Company	Trading company: distribution of products of APK Mikhailovsky
LCC RAO Penzenskaya Grain Company	Limited Liability Company	Crop production
CJSC Penzamyasoprom	Closed Joint Stock Company	Pig breeding

Of the companies listed above, only OJSC Rastovtsy is classified as discontinued operations due to the fact that all other companies are expected to have continuing significant direct cash flows with the Group.

Net liabilities (at book value) of companies spun-off to shareholders comprise:

	At Spin-off date
ASSETS	
Cash and cash equivalents	872
Trade receivables, net	23 391
Livestock	4 872
Property, plant and equipment at appraised value, net	15 407
Other assets	21 160
Total assets of continuing operations	65 702
Total assets of discontinued operations	1 142
Total assets	66 844
LIABILITIES	
Trade accounts payable	(17 924)
Short-term loans	(30 086)
Other liabilities	(21 282)
Total liabilities of continuing operations	(69 292)
Total liabilities of discontinued operations	(987)
Total liabilities	(70 279)
Minority interest	(8 421)
Net liabilities	(11 856)

(in thousands of US dollars)

Revenues and losses from companies spun-off to shareholders were:

	2005	2004	2003
Sales	39 138	48 697	40 604
Loss before provision for income taxes and minority interest	(1 586)	(1 729)	(6 041)
Income tax benefit (expense)	321	(524)	(244)
Minority interest in net loss (income)	901	(46)	3 009
Loss from discontinued operations	(82)	(216)	(38)
Net loss from spun-off companies	(446)	(2 515)	(3 314)

33. COMMITMENTS AND CONTINGENCIES

Legal

As of December 31, 2005, 2004 and 2003, several consolidating and or combining 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 joint stock company reporting negative net assets. Management believes that it is remote that the liquidation process will be initiated against those companies.

According to Russian legislation, a participant in a limited liability company (LLC) is given the option to withdraw from the LLC at any time with compensation calculated as the book value of his share of the net assets of the LLC. The maximum potential liability at December 31, 2005 that would arise should all minority participants in LLC companies of the Group withdraw their portion of net assets is $9 919.

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.

Insurance

As of December 31, 2005, the consolidating entities had partial insurance coverage for their major plant facilities at the meat segment totalling approximately 80% of the net book value of property, plant and equipment at that date. The Group had also taken out business interruption insurance for this segment. As of December 31, 2005, the Group had no third party liability insurance in respect of environmental damage and limited or no insurance coverage for losses that could occur related to the other segments of the business including loss resulting from any occurrence of avian flu at the Group's poultry farms. Until the Group obtains comprehensive insurance coverage exceeding the book value of property, plant and equipment, as well as inventory, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Taxation

The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. As a result, laws and regulations affecting businesses continue to change rapidly. These changes are characterized by poor drafting, different interpretations and arbitrary application by the authorities. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances review 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.

(in thousands of US dollars)

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 December 31, 2005, 2004 and 2003.

Capital Commitments
At December 31, 2005, the Group had a large capital project in progress at JSC Lipetskmyasoprom. As part of this project, commitments had been made to contractors of approximately $59 150 for completion of the project.

34. SUBSEQUENT EVENTS

On March 16, 2006, the Group entered into an agreement for the implementation of and a license to use an integrated management planning and accounting system related to the meat processing segment of the business. The total amounts of these contracts approximated $2 375.

On March 27, 2006 the Group entered into an agreement with CJSC AB Gazprombank to place a total of 5 billion roubles ($173 717 at the December 31, 2005 exchange rate) in bonds that bear interest of 9.25% per annum. The bonds are to be placed in two instalments: 2 billion roubles ($69 487 at the December 31, 2005 exchange rate) by June 30, 2006 and 3 billion roubles ($104 230 at the December 31, 2005 exchange rate) within one year from the registration date of the first instalment. The bonds will have a five year maturity with interest paid every 182 days. The agreement requires the Group to meet certain covenants.

For the period beginning from January 1, 2006 and ending May 4, 2006, the Group made repayments on short-term and long-term debt of approximately $50 561. The Group also entered into additional agreements or received additional funds under existing short and long-term loan agreements over the same period totalling approximately $94 455.

On April 6, 2006, the Group signed amendments to its EBRD and Raiffeisen Bank loan agreements. Details of these amendments are disclosed in Note 18.

Effective April 17, 2006, a new law (No. 39-FZ) came into effect, which impacted the future income tax rates applicable to agricultural enterprises in the Russian Federation. In accordance with this new law, future income tax rates for agricultural enterprises are as follows:

Years	**Income tax rate**
2006-2007	0%
2008-2009	6%
2010-2011	12%
2012-2014	18%
Thereafter	24%