



IMPORTANT: You must read the following before continuing. The following applies to the prospectus (the "Prospectus") following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THIS PROSPECTUS MAY ONLY BE DISTRIBUTED IN "OFFSHORE TRANSACTIONS" AS PERMITTED BY REGULATION S UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITHIN THE UNITED STATES TO QIBs (AS DEFINED BELOW) IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") OR ANOTHER EXEMPTION FROM, OR TRANSACTION NOT SUBJECT TO, REGISTRATION UNDER THE SECURITIES ACT. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "QIB"), OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

Confirmation of your Representation: In order to be eligible to view this Prospectus or make an investment decision with respect to the securities, you must be (i) a person that is outside the United States for the purposes of Regulation S under the Securities Act or (ii) a QIB that is acquiring the securities for its own account or for the account of another QIB. By accepting the e-mail and accessing this Prospectus, you shall be deemed to have represented to us that you are outside the United States for the purposes of Regulation S under the Securities Act or that you are a QIB and that you consent to delivery of such Prospectus by electronic transmission. You are reminded that this Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver this Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of OJSC Cherkizovo Group in such jurisdiction.

Under no circumstances shall this Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. This Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply to OJSC Cherkizovo Group.

This Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither Renaissance Securities (Cyprus) Limited, JSC Gazprombank (CJSC) nor URALSIB Securities Limited, any person who controls, nor any director, officer, employee nor agent of, Renaissance Securities (Cyprus) Limited, JSC Gazprombank (CJSC) nor URALSIB Securities Limited nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from Renaissance Securities (Cyprus) Limited, JSC Gazprombank (CJSC) or URALSIB Securities Limited.



OPEN JOINT STOCK COMPANY

CHERKIZOVO GROUP

109,881 Ordinary Shares

Offering of Ordinary Shares and Global Depositary Receipts at an offer price (the "Offer Price") of U.S.\$2,287.50 per Ordinary Share and U.S.\$15.25 per Global Depositary Receipt

This prospectus (the "Prospectus") relates to an offering (the "Offering") by Cherkizovsky Group Limited (the "Selling Shareholder") of 109,881 ordinary shares, with a nominal value of 1 ruble per share (the "Shares"), of OJSC Cherkizovo Group (the "Company") in a simultaneous offering of Shares and global depositary receipts representing interests in Shares ("GDRs"), with 150 GDRs representing an interest in one Share. A maximum of 99,892 Shares is being offered in the form of GDRs. The Company will not directly receive any proceeds from the sale of ordinary shares by the Selling Shareholder other than to the extent used by the Selling Shareholder to subscribe for shares to be issued by the Company. The Selling Shareholder has committed to use approximately U.S.\$146.2 million of the net proceeds of the Offering to it to subscribe for 67,427 ordinary shares to be issued by the Company (the "New Shares") at U.S.\$2,169 per share.

The Selling Shareholder has granted the underwriters, as named in the "Plan of Distribution" (the "Underwriters"), an option, exercisable within 30 days after the announcement of the Offer Price, to purchase up to 14,983 additional Shares in the form of GDRs at the Offer Price, solely to cover over-allotments, if any, in the Offering (the "Over-allotment Option"). See "Plan of Distribution."

Our Shares are listed on the Russian Trading System ("RTS") and Moscow Stock Exchange ("MSE"), but are not actively traded. Prices for Shares traded on the RTS and MSE may not reflect the underlying value of the GDRs. Prior to the Offering described herein, there has been no market for the GDRs.

This document, including the financial information appended thereto, comprises a prospectus relating to the Company prepared in accordance with the prospectus rules (the "Prospectus Rules") of the Financial Services Authority made under section 73A of the Financial Services and Markets Act 2000 (the "FSMA"). This Prospectus will be made available to the public in accordance with the Prospectus Rules.

Application has been made (i) to the U.K. Financial Services Authority, in its capacity as competent authority under FSMA (hereinafter, the U.K. Listing Authority) for up to 17,231,250 GDRs, consisting of up to 14,983,800 GDRs to be issued on or about May 12, 2006 (the "Closing Date"), up to 2,247,450 additional GDRs to be issued pursuant to the Over-allotment Option, and additional GDRs to be issued from time to time against the deposit of Shares with JPMorgan Chase Bank, National Association ("JPMorgan Chase Bank, N.A."), as depositary, to be admitted to the official list of the U.K. Listing Authority (the "Official List") and (ii) to the London Stock Exchange plc (the "London Stock Exchange") for such GDRs to be admitted to trading on the London Stock Exchange's regulated market for listed securities and in particular on the regulated market segment of the International Order Book (the "IOB"). Admission to the Official List together with admission to trading on the London Stock Exchange's regulated market for listed securities constitute admission to official listing on a stock exchange ("Admission"). Application has also been made to have the Rule 144A GDRs (as defined herein) designated as eligible for trading in The PORTAL Market of the NASDAQ Stock Market, Inc. ("PORTAL"). We expect that conditional trading through the IOB will commence on a "when and if issued" basis on or about May 11, 2006, and unconditional trading through the IOB will commence on or about May 15, 2006. All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned.

Neither the Shares nor the GDRs have been or will be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and neither the Shares nor the GDRs may be offered or sold in the United States absent registration or an exemption from registration under the Securities Act. The Offering consists of (a) an offering of GDRs (the "U.S. Offering") in the United States to certain qualified institutional buyers (each a "QIB") as defined in Rule 144A under the Securities Act ("Rule 144A") in reliance on Rule 144A and (b) an offering of GDRs outside the United States and the Russian Federation and of Shares outside the United States (the "International Offering") in reliance on Regulation S under the Securities Act ("Regulation S"). Prospective purchasers of the GDRs in the United States are hereby notified that the sellers may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Shares and the GDRs are subject to selling and transfer restrictions in certain jurisdictions. Prospective purchasers should read the restrictions described under "Plan of Distribution—Selling Restrictions" and "Plan of Distribution—Buyer's Representation."

For a discussion of certain risk factors that should be considered in connection with an investment in the Shares and GDRs, see "Risk Factors" beginning on page 10. The GDRs are of a specialist nature and should only be bought and traded by investors who are particularly knowledgeable in investment matters.

The GDRs offered hereby are offered severally by the Underwriters or through their selling agents, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. The GDRs offered and sold outside the United States (the "Regulation S GDRs") will be evidenced by a Master Regulation S Global Depositary Receipt (the "Master Regulation S GDR") issued by JPMorgan Chase Bank, N.A. and registered in the name of Chase Nominees Limited, as nominee for JPMorgan Chase Bank, N.A., as common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear system ("Euroclear") and Clearstream Banking, S.A. ("Clearstream, Luxembourg"). The GDRs offered and sold to QIBs in the United States (the "Rule 144A GDRs") will be evidenced by a Master Rule 144A Global Depositary Receipt (the "Master Rule 144A GDR") and, together with the Master Regulation S GDR, the "Master GDRs") issued by JPMorgan Chase Bank, N.A. and registered in the name of Cede & Co., as nominee for the Depositary Trust Company ("DTC") in New York. The Shares represented by the GDRs will be held by ING Bank (Eurasia) ZAO, as custodian (the "Custodian"), for and on behalf of the Depositary. Except as described herein, beneficial interests in the Master GDRs will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their direct and indirect participants. Transfers within Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant system. It is expected that delivery of the GDRs against payment therefor ("Closing") will be made on or about May 12, 2006 through Euroclear and Clearstream, Luxembourg with respect to the Regulation S GDRs and through DTC with respect to the Rule 144A GDRs.

Sole Global Coordinator and Sole Bookrunner

Renaissance Capital

Co-Lead Managers

Gazprombank

URALSIB Financial Corporation

The date of this Prospectus is May 11, 2006



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IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

Each prospective investor, by accepting delivery of this Prospectus, agrees to the following. We, OJSC Cherkizovo Group, together with the Selling Shareholder are furnishing this Prospectus solely for the purpose of enabling a prospective investor to consider the purchase of the Shares or the GDRs. No representation or warranty, express or implied, is made by any Underwriter or any of their affiliates or advisors as to the accuracy or completeness of any information contained in this Prospectus, and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by any Underwriter as to the past or the future. Any reproduction or distribution of this Prospectus, in whole or in part, any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Shares or the GDRs is prohibited, except to the extent that such information is otherwise publicly available. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date hereof or that the information contained herein is correct at any time subsequent to its date.

None of the Underwriters makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Prospectus. This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Company, the Selling Shareholder or the Underwriters that any recipient of this Prospectus should subscribe for or purchase the Shares or GDRs. Each potential subscriber or purchaser of Shares or GDRs should determine for itself the relevance of the information contained in this Prospectus and its subscription for or purchase of Shares or GDRs should be based upon such investigation as it deems necessary.

This Prospectus is issued in compliance with the prospectus rules of the FSMA, which implement the provisions of the Prospectus Directive for the purpose of giving information with respect to the Company and the GDRs. The Company accepts responsibility for the information provided in this Prospectus. To the best of our knowledge, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

We have derived information in this Prospectus set forth under “Industry Overview” and “Business,” including certain estimates and approximations, from publicly available information, including industry publications, market research, press releases, filings under various securities laws and official data published by certain government and international agencies. We have relied on the accuracy of such information without carrying out an independent verification thereof. See “Risk Factors—Other risks—We have not independently verified information we have sourced from third parties.” Where information has been sourced from a third party, this information has been accurately reproduced and so far as we are aware and are able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The contents of our websites do not form any part of this Prospectus.

In making an investment decision regarding the Shares and GDRs offered hereby, prospective investors must rely on their own examination of us and the terms of the Offering, including the merits and risks involved, and should rely only on the information contained in this Prospectus. We have not, and the Selling Shareholder and the Underwriters have not, authorized any other person to provide different information. If anyone provides different or inconsistent information, prospective investors should not rely on it. The information appearing in this Prospectus is accurate as of the date on the front cover of this Prospectus only, and our business, financial condition, results of operations and the information set forth in this Prospectus may have changed since that date.

Information in this Prospectus is not investment, legal or tax advice. Prospective investors should consult their own counsel, financial, accounting and other advisors for legal, tax, business, financial and related advice regarding purchasing the Shares and GDRs. Neither we, the Selling Shareholder nor the Underwriters are making any representation to any offeree or purchaser of the Shares and GDRs regarding the legality of an investment in the Shares and GDRs by such offeree or purchaser under appropriate investment or similar laws.

Renaissance Securities (Cyprus) Limited, JSC Gazprombank (CJSC) and URALSIB Securities Limited are acting exclusively for us and the Selling Shareholder and no one else in connection with the Offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the Offering.



We may withdraw the Offering at any time, and we and the Underwriters reserve the right to reject any offer to purchase the Shares and GDRs in whole or in part and to sell to any prospective investor less than the full amount of the Shares and GDRs sought by such investor.

The distribution of this Prospectus and the offer and sale of the Shares and GDRs may be restricted by law in certain jurisdictions. Prospective investors must inform themselves about, and observe, any such restrictions. See “Terms and Conditions of the Global Depositary Receipts,” “Plan of Distribution” and “Settlement and Delivery.” Prospective investors must comply with all applicable laws and regulations in force in any jurisdiction in which they purchase, offer or sell the Shares and GDRs or possess or distribute this Prospectus and must obtain any consent, approval or permission required for the purchase, offer or sale of the Shares and GDRs under the laws and regulations in force in any jurisdiction to which it is subject or in which such purchases, offers or sales are made. We are not, and the Selling Shareholder and the Underwriters are not, making an offer to sell the Shares and GDRs or a solicitation of an offer to buy any of the Shares and GDRs to any person in any jurisdiction except where such an offer or solicitation is permitted.

NOTICE TO EUROPEAN ECONOMIC AREA INVESTORS

This Prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). The Shares and GDRs are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Shares or GDRs will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

To the extent that the offer of the GDRs is made in any European Economic Area Member State that has implemented Directive 2003/71/EC (together with any applicable implementing measures in any Member State, the “Prospectus Directive”) before the date of publication of a prospectus in relation to the GDRs which has been approved by the competent authority in that Member State in accordance with the Prospectus Directive (or, where appropriate, published in accordance with the Prospectus Directive and notified to the competent authority in that Member State in accordance with the Prospectus Directive), the offer (including any offer pursuant to this document) is only addressed to qualified investors in that Member State within the meaning of the Prospectus Directive or has been or will be made otherwise in circumstances that do not require the Company to publish a prospectus pursuant to the Prospectus Directive.

This Prospectus has been prepared on the basis that all offers of Shares or GDRs will be made pursuant to an exemption under the Prospectus Directive, as implemented in member states of the European Economic Area, from the requirement to produce a prospectus for offers of Shares or GDRs. Accordingly any person making or intending to make any offer within the European Economic Area of Shares or GDRs which are the subject of the placement contemplated in this Prospectus should only do so in circumstances in which no obligation arises for the Company, the Selling Shareholder or any of the Underwriters to produce a prospectus for such offer. Neither the Company nor the Selling Shareholder nor the Underwriters have authorized, nor do they authorize, the making of any offer of Shares or GDRs through any financial intermediary, other than offers made by the Underwriters which constitute the final placement of Shares or GDRs contemplated in this Prospectus.

NOTICE TO UNITED STATES INVESTORS

The Shares and GDRs have not been approved or disapproved by the United States Securities and Exchange Commission (the “SEC”), any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Offering of the Shares and GDRs or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offense in the United States.



NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA 421-B”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO RUSSIAN INVESTORS

This Prospectus should not be considered as a public offer or advertisement of GDRs in the Russian Federation, and is not an offer, or an invitation to make offers, to purchase any GDRs in the Russian Federation. Neither the GDRs nor any prospectus or other document relating to them have been registered with the Federal Service for the Financial Markets of the Russian Federation.

STABILISATION

In connection with the Offering, Renaissance Capital Limited (the “Stabilising Manager”) or any person acting for it, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot GDRs or effect transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail in the open market for a limited period after the issue date. However, there is no assurance that the Stabilising Manager (or any person acting for it) will undertake stabilising action. Such stabilising, if commenced, may be discontinued at any time, and may only be undertaken during the period beginning on the date on which adequate public disclosure of the final price of the GDRs is made and ending on the date that is 30 calendar days thereafter. Save as required by law, the Stabilising Manager does not intend to disclose the extent of any over-allotment and/or stabilisation transaction in the Offering. Any stabilisation action will be undertaken in accordance with applicable laws and regulations.

For the purposes of allowing the Stabilising Manager to cover short positions resulting from any such over-allotments and/or from sales of GDRs effected by it during the stabilising period, the Selling Shareholder has granted the Underwriters the Over-allotment Option pursuant to which the Stabilising Manager, on behalf of the Underwriters, may require the Selling Shareholder to offer additional Shares, to be issued by the Depositary as GDRs, up to a maximum of 15% of the total number of GDRs comprised in the Offering, at the Offer Price. The Over-allotment Option is exercisable in whole, upon notice by the Stabilising Manager, on behalf of the Underwriters, at any time on or before the thirtieth calendar day after the announcement of the Offer Price. Any GDRs made available pursuant to the Over-allotment Option will be issued on the same terms and conditions as the GDRs being issued in the Offering and will form a single class for all purposes with the other GDRs.

AVAILABLE INFORMATION

For so long as any Rule 144A GDRs (or the Shares represented thereby) are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, we will, during any period in which we are neither subject to Section 13 or Section 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such Rule 144A GDRs or to any prospective purchaser of such restricted Rule 144A GDRs designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act.



CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus includes forward-looking statements, which include all statements other than the statements of historical facts, including, without limitation, any statements preceded by, followed by or that include the words “targets,” “believes,” “expects,” “aims,” “intends,” “may,” “anticipates,” “would,” “could” or similar expressions or the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond our control that could cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Among the important factors that could cause our actual results, performance or achievements to differ materially from those expressed in such forward-looking statements are those under the headings “Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Business” and elsewhere in this Prospectus. These forward-looking statements speak only as at the date of this Prospectus. We expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any of such statements are based unless required to do so by the Listing Rules of the FSMA and other applicable laws.



LIMITATION ON SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

We are incorporated under the laws of the Russian Federation, and the Selling Shareholder is incorporated under the laws of Bermuda. Except for one of our non-executive directors, all of our directors and senior management named in this Prospectus reside outside the United States and the United Kingdom. All or a substantial portion of their and our assets are located outside the United States and the United Kingdom, principally in the Russian Federation. As a result, it may not be possible for investors to:

- effect service of process within the United States or the United Kingdom upon any of our directors and senior management named in this Prospectus; or
- enforce, in the United States or the United Kingdom, court judgments obtained in courts of the United States or the United Kingdom, as the case may be, against us or any of our directors and senior management named in this Prospectus in any action, including actions under the civil liability provisions of federal securities laws of the United States.

In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions located outside the United States or the United Kingdom, liabilities predicated upon U.S. or U.K. securities laws.

Judgments rendered by a court in any jurisdiction outside the Russian Federation will be recognized by courts in Russia only if an international treaty providing for recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered and/or a federal law is adopted in Russia providing for the recognition and enforcement of foreign court judgments. No such treaty exists between the United States or the United Kingdom and the Russian Federation for the reciprocal enforcement of foreign court judgments and no relevant federal law on enforcement of foreign court judgments has been adopted in the Russian Federation.

The Deposit Agreement for the GDRs provides for actions brought against us by any party to the Deposit Agreement to be settled by arbitration in London, England, in accordance with the rules of the London Court of International Arbitration. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, it may be difficult to enforce arbitral awards in the Russian Federation due to:

- the inexperience of Russian courts in international commercial transactions;
- official and unofficial political resistance to enforcement of awards against Russian companies in favor of foreign investors; and
- Russian courts' inability to enforce such orders and corruption in Russia.

We will appoint Law Debenture Corporate Services Limited as our agent for service of process in any suit, action or proceeding with respect to the GDRs. However, such appointment may not be respected by a Russian court.

PRESENTATION OF MARKET DATA AND TERMINOLOGY

In this document, the terms “we,” “us” and “our” refer to Open Joint Stock Company Cherkizovo Group and its subsidiaries and combined entities, taken as a whole, unless the context otherwise requires. The term “Company” refers to Open Joint Stock Company Cherkizovo Group (also known as OJSC Cherkizovo Group).

Market data used in this Prospectus, including without limitation under the captions “Summary,” “Industry Overview” and “Business,” have been extracted from official and industry sources and other sources we believe to be reliable. Throughout this Prospectus, we have also set forth certain statistics, including statistics in respect of product sales volumes of third parties and market shares, from industry sources and other sources that we believe to be reliable, including the Meat Union of Russia (the “Meat Union”) and The Institute of the Market Condition of the Agriculture Market, or Institut Konyunktury Agrarnovo Rynka (“IKAR”). Mr. Musheg Mamikonian, a non-executive member of our Board of Directors, has served as the president of the Meat Union since 1998 and has from time to time been a member of the Control Group (as defined under “Business—History and Development—Historical Development”). Mr. Mamikonian does not currently have any ownership interest in the Company. See “Directors and Management.” Where information has been sourced from a third party, this information has been accurately reproduced and so far as we are aware and are able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Such information, data and statistics may be approximations or estimates or use rounded numbers.



Definitions of selected terms used in this Prospectus may be found under “Glossary of Selected Terms.”

Certain figures included in this Prospectus have been subject to rounding adjustments. Accordingly, figures may vary slightly between tables and figures shown as totals in certain tables may not be arithmetic aggregations of the figures which precede them.

CURRENCIES AND EXCHANGE RATES

In this Prospectus, references to “U.S. dollars,” “U.S.\$” or “\$” are to the currency of the United States and references to “rubles” or “RR” are to the currency of the Russian Federation.

The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the U.S. dollar and the Russian ruble, based on the interbank market exchange rates quoted by the Central Bank of Russia (the “CBR”). Fluctuations in the exchange rate between the U.S. dollar and the ruble in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of our combined and consolidated financial statements and other information presented in this Prospectus.

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Average⁽¹⁾</u>	<u>Period End</u>
2006 (through May 7, 2006)	28.48	27.08	27.89	27.08
2005	29.00	27.46	28.32	28.78
2004	29.45	27.75	28.73	27.75
2003	31.88	29.25	30.61	29.45

Source: CBR

Note:

(1) The average of the exchange rates on the last business day of each month for the relevant annual period, and on each business day for any other period.

Solely for the convenience of the reader, and except as otherwise stated, this Prospectus contains translations of some ruble amounts into U.S. dollars at a conversion rate of RR28.78 to U.S.\$1.00, which was the rate published by the CBR on December 31, 2005.

No representation is made that the U.S. dollar amounts referred to in this Prospectus could have been or could be converted into any currency at the above exchange rates, at any other rate, or at all.



SUMMARY

This summary must be read as an introduction to this Prospectus and any decision to invest in the GDRs or Shares should be based on consideration of the Prospectus as a whole. Following the implementation of the relevant provisions of the Prospectus Directive (Directive 2003/71/EC) in each Member State of the European Economic Area no civil liability will attach to the Responsible Persons in any such Member State solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with other parts of this Prospectus. Where a claim relating to the information contained in the Prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated.

Overview

We are one of the leading integrated diversified meat producers in the Russian Federation. According to IKAR, in 2004, we had the largest market share by volume among manufacturers of sausage products in Russia; we are the leading seller of chilled poultry products in Moscow and the Moscow region and are among the leaders nationally; and we are one of the leaders in the highly-fragmented Russian pork industry. We sold 161,973 tonnes of meat products, 50,955 slaughter-weight tonnes of poultry and 11,142 live-weight tonnes of pork in 2005. Our sales for the year ended December 31, 2005 amounted to U.S.\$546.2 million, compared to U.S.\$463.8 million for the year ended December 31, 2004. Our total assets as of December 31, 2005 were U.S.\$423.8 million. Our principal operations are:

- *Meat processing.* Our meat processing operations consist of the production and sale of processed meat products primarily in European Russia under the Cherkizovsky, Biruliovsky, Imperiya Vkusa, Popurri and Myasnaya Guberniya national brands and a number of regional brands produced at eight meat-processing plants, three of which are located in Moscow and the Moscow region.
- *Poultry.* Our poultry operations consist of breeding, raising and processing of chickens and the sale of chilled and frozen poultry products from facilities in the Moscow and Penza regions.
- *Pork.* Our pork operations consist of breeding and raising of pigs at facilities located in the Moscow region and in other regions of Russia and, in February 2006, we started operations at a new pig farm in Lipetsk, Russia.

We also conduct sales, trading and distribution operations and produce feed that is consumed in our poultry and pork operations.

See “Presentation of Market Data and Terminology” and “Glossary of Selected Terms” for definitions of certain key terms as used in this Prospectus.

Key Strengths

Our main strengths are the following:

- a leading meat producer;
- well-positioned in high-growth markets;
- attractive profitability profile;
- vertically-integrated business;
- portfolio of strong brands;
- extensive sales and distribution network;
- proven track record of acquisitions and start-ups;
- state support for the agriculture industry; and
- modern production facilities.



Business Strategy

Our long-term objective is to become the leading producer of meat and meat products in Russia, focused on the production, sale and distribution of processed meat products, poultry and pork in key regions of Russia. We seek to promote our image as a “single source of protein” throughout our distribution chain. We intend to achieve this objective by pursuing the following strategies:

- increase market share across our core businesses;
- continue investment into our brands;
- launch new innovative products;
- increase our share of direct distribution and penetration into modern retail channels;
- enhance operating efficiency;
- drive group synergies and knowledge sharing; and
- attract and retain top management and employees.

Risk Factors

An investment in the Shares or GDRs is subject to risks relating to our business and industry, economic, political, social and legal risks associated with the Russian Federation and risks arising from the nature of the shares and GDRs and the markets upon which they are expected to be traded, including, among others, risks associated with the following matters:

- the impact on our business of fluctuations and changes in consumer preferences;
- the impact on our business of outbreaks of diseases affecting our poultry and pig stocks;
- the benefits we receive as a result of trade policy, subsidies and other state support programs;
- our capital expenditure plans and our ability to obtain adequate financing;
- the competitive nature of the industries in which we operate;
- our reliance on independent retailers and independent distributors for the distribution of our products;
- potential economic or political instability in Russia;
- the risk of arbitrary government action;
- weaknesses in the Russian legal system;
- the ability of holders of GDRs to exercise the rights attached to the underlying shares;
- failure of the offering to result in a liquid or active market for the Shares or GDRs; and
- the ability to deposit shares into the GDR program in order to receive GDRs.

See “Risk Factors.”

Results of Operations

Our sales revenues grew by nearly 18% in 2005. Our meat processing and poultry segments were primarily responsible for the increases in our sales, growing at 18% and 16% in 2005, respectively. The primary factors affecting our results of operations in these periods are increases in sales volumes and average selling prices and fluctuations in the price of our raw meat inputs in our meat processing segment.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

The Company

Our business was established in 1993 with the privatization of a controlling stake in what is now our largest meat processing plant, OJSC Cherkizovsky Meat Processing Plant (“CMPP”). Since then, Mr. Igor Babaev, the Chairman of our Board of Directors, together with members of Mr. Babaev’s immediate family, have acquired controlling interest in other enterprises. In 2005, Mr. Babaev and his immediate family consolidated their



interests in their meat processing, poultry and pork operations into the Company. Mr. Babaev and his immediate family had an 89.68% beneficial interest in the Company prior to the Offering and hold three of the seven seats on our Board of Directors. Mr. Babaev's son serves as our Chief Executive Officer and other persons related to Mr. Babaev serve as our Chief Financial Officer and Head of Business and Strategy Development.

Summary of the Offering

The Selling Shareholder is offering up to 109,881 Shares in a simultaneous international offering of Shares and GDRs, with 150 GDRs representing an interest in one Share. A maximum of 99,892 Shares is being offered in the form of GDRs. The GDRs are being offered (a) in the United States to QIBs in reliance on Rule 144A in the form of Rule 144A GDRs and (b) outside the United States and the Russian Federation to certain persons in offshore transactions in reliance on Regulation S, in the form of the Regulation S GDRs. The Shares are being offered outside the United States to certain persons in reliance on Regulation S.

Use of Proceeds

Net proceeds to the Selling Shareholder of the Offering, after deducting underwriting commissions, fees and expenses incurred in connection with the Offering, will be approximately U.S.\$243.4 million, assuming no exercise of the Over-allotment Option, or U.S.\$276.8 million, assuming that the Over-allotment Option is exercised in full. The Selling Shareholder has committed to use U.S.\$146.2 million from the net proceeds of the Offering to it to subscribe for 67,427 New Shares. The Selling Shareholder will subscribe for the New Shares at an offer price of U.S.\$2,169 per New Share (the Offer Price per Share after deduction of the total estimated underwriting commissions, taxes, fees and expenses payable in connection with the Offering, assuming that the Over-allotment Option is exercised in full). We intend to use the proceeds from the sale of the New Shares to the Selling Shareholder to finance potential acquisitions of meat processing and poultry assets, to repay indebtedness and to invest in the development of our pork business. We will not receive any proceeds from the sale of shares by the Selling Shareholder other than to the extent used to subscribe for the New Shares.



Summary Combined and Consolidated Financial Information

The selected combined and consolidated financial information set forth below shows our historical combined and consolidated financial information and other operating information as of December 31, 2005, 2004 and 2003 and for the years then ended. The combined and consolidated financial information as of December 31, 2005, 2004 and 2003 and for the years then ended has been extracted without material adjustment from, and should be read in conjunction with, the audited combined and consolidated financial statements included elsewhere in this Prospectus (the "Combined and Consolidated Financial Statements"). The combined and consolidated financial information should also be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" below. Our combined and consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP").

	Year ended December 31,		
	2005	2004	2003
(thousands of U.S. dollars, except per share data and as noted)			
COMBINED AND CONSOLIDATED STATEMENT OF OPERATIONS DATA			
Sales	546,181	463,760	337,463
Cost of sales	(420,993)	(375,924)	(274,868)
Gross profit	125,188	87,836	62,595
Selling, general and administrative expenses	(80,704)	(74,047)	(52,246)
Other operating expenses	(1,113)	(1,479)	(1,068)
Operating income	43,371	12,310	9,281
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:			
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)
Meat processing segment income statement data			
Total sales	419,085	352,155	261,324
Intersegment sales	(6,518)	(1,717)	(1,287)
Sales to external customers	412,567	350,438	260,037
Cost of sales	(338,576)	(293,606)	(211,730)
Gross profit	73,991	56,832	48,307
Operating expenses	(52,939)	(53,903)	(38,893)
Operating income	21,052	2,929	9,414
Segment profit (loss)	11,358	(4,324)	3,794
Poultry segment income statement data			
Total sales	126,818	101,822	71,857
Intersegment sales	(12,889)	(3,197)	(1,790)
Sales to external customers	113,929	98,625	70,067
Cost of sales	(66,115)	(68,841)	(54,633)
Gross profit	47,814	29,784	15,434
Operating expenses	(25,229)	(19,855)	(12,953)
Operating income	22,585	9,929	2,481
Segment profit (loss)	15,808	7,230	(1,817)
Pork segment income statement data			
Total sales	25,148	18,868	9,996
Intersegment sales	(5,463)	(4,171)	(2,637)
Sales to external customers	19,685	14,697	7,359
Cost of sales	(16,302)	(13,477)	(8,505)
Gross profit	3,383	1,220	(1,146)
Operating expenses	(3,609)	(1,690)	(1,446)
Operating income	(226)	(470)	(2,592)
Segment profit (loss)	(661)	(768)	(3,121)



	Year ended December 31,		
	2005	2004	2003
(thousands of U.S. dollars, except per share data and as noted)			
COMBINED AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DATA (at year end)			
Total assets	423,813	349,347	282,778
Total shareholders' equity	62,508	32,848	28,815
Minority interests	14,548	35,443	33,092
Long-term loans and notes payable, net of current portion ⁽¹⁾	143,774	102,385	63,129
COMBINED AND CONSOLIDATED CASH FLOWS DATA⁽²⁾			
Total net cash from (used in) operating activities	14,248	(4,510)	(8,390)
Total net cash used in investing activities	(71,075)	(22,283)	(14,704)
Total net cash from financing activities	59,839	26,935	24,195
OTHER MEASURES			
Combined and consolidated Adjusted EBITDA ⁽³⁾	66,116	34,919	23,336
Meat processing segment Adjusted EBITDA ⁽³⁾	34,425	18,271	19,355
Poultry segment Adjusted EBITDA ⁽³⁾	27,529	13,732	4,422
Pork segment Adjusted EBITDA ⁽³⁾	1,927	1,055	(1,536)

Notes:

- (1) Includes loans from related parties.
- (2) Includes cash flows from (used in) discontinued operations.
- (3) Combined and consolidated Adjusted EBITDA represents operating income plus depreciation expense, loss on disposal of property, plant and equipment, unusual loss related to the privatization of a subsidiary and other items, which are expenses primarily related to financing and restructuring activities. Segment Adjusted EBITDA represents segment operating income plus depreciation expense. Adjusted EBITDA is not a measure of financial performance under U.S. GAAP, and it should not be considered as an alternative to net profit as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Our calculation of Adjusted EBITDA may be different from the calculation used by other companies and therefore comparability may be limited.

Reconciliation of Adjusted EBITDA to operating income is as follows:

	Year ended December 31,		
	2005	2004	2003
(thousands of U.S. dollars)			
Combined and consolidated Adjusted EBITDA reconciliation			
Operating income	43,371	12,310	9,281
Add:			
Depreciation expense	20,470	20,670	12,938
Loss on disposal of property, plant & equipment	646	1,479	1,068
Unusual loss related to privatization of a subsidiary	467	—	—
Other items	1,162	460	49
Combined and consolidated Adjusted EBITDA	66,116	34,919	23,336
Meat processing segment Adjusted EBITDA reconciliation			
Operating income	21,052	2,929	9,414
Add:			
Depreciation expense	13,373	15,342	9,941
Meat segment Adjusted EBITDA	34,425	18,271	19,355
Poultry segment Adjusted EBITDA reconciliation			
Operating income	22,585	9,929	2,481
Add:			
Depreciation expense	4,944	3,803	1,941
Poultry segment Adjusted EBITDA	27,529	13,732	4,422
Pork segment Adjusted EBITDA reconciliation			
Operating income	(226)	(470)	(2,592)
Add:			
Depreciation expense	2,153	1,525	1,056
Pork segment Adjusted EBITDA	1,927	1,055	(1,536)



Documents on Display

Copies of this Prospectus, the combined and consolidated financial statements for the three years ended December 31, 2005, the auditors' report thereon, the Company's charter, and the Deposit Agreement will be on display for 14 days from the date of this Prospectus, during normal business hours on any weekday, at the offices of Cleary Gottlieb Steen & Hamilton LLP, City Place House, 55 Basinghall Street, London EC2V 5EH, United Kingdom.



THE OFFERING

The Company	.....	OJSC Cherkizovo Group
The Selling Shareholder	.....	Cherkizovsky Group Limited
The Offering	.....	The Selling Shareholder is offering up to 109,881 Shares in a simultaneous international offering of Shares and GDRs, with 150 GDRs representing one Share. A maximum of 99,892 Shares is being offered in the form of GDRs. The GDRs are being offered (i) in the United States to QIBs in reliance on Rule 144A in the form of Rule 144A GDRs and (ii) outside the United States and the Russian Federation to certain persons in offshore transactions in reliance on Regulation S, in the form of the Regulation S GDRs. The Shares are being offered outside the United States to certain persons in reliance on Regulation S.
The Shares	.....	Our share capital consists of 328,216 ordinary shares, each with a nominal value of 1 ruble, which are fully paid, issued and outstanding. In addition, we are authorized by our charter to issue an additional 218,810 ordinary shares, including the New Shares. Our shares have the rights described under “Description of Capital Stock and Certain Requirements of Russian Legislation.”
The New Shares	.....	Immediately following the completion of the Offering, the Selling Shareholder has committed to use approximately U.S.\$146.2 million of the net proceeds of the Offering to it to subscribe for 67,427 New Shares to be issued by the Company at a price of U.S.\$2,169 per New Share. When issued, the New Shares will be identical to, and fully fungible with, our currently issued and outstanding shares.
The GDRs	.....	150 GDRs will represent one share on deposit with the Custodian (as defined below). The GDRs will be issued by the Depositary pursuant to a deposit agreement (the “Deposit Agreement”) between the Company and the Depositary. The Regulation S GDRs will be evidenced initially by a Master Regulation S GDR and the Rule 144A GDRs will be evidenced initially by a Master Rule 144A GDR, each to be issued by the Depositary pursuant to the Deposit Agreement. The Master Regulation S GDR and the Master Rule 144A GDR are herein collectively referred to as the Master GDRs. Pursuant to the Deposit Agreement, the Shares represented by the GDRs will be held in Russia by ING Bank (Eurasia) ZAO, as Custodian, for the benefit of the Depositary and for the further benefit of the holders and beneficial owners of GDRs.
		Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDRs. Subject to the terms of the Deposit Agreement, interests in the Master Regulation S GDR may be exchanged for interests in the corresponding number of GDRs represented by the Master Rule 144A GDR, and vice versa.
Offer Price	.....	U.S.\$2,287.50 per Share; U.S.\$15.25 per GDR.
Over-Allotment Option	.....	The Selling Shareholder has granted to the Underwriters an option, exercisable within 30 days after the announcement of the Offer Price, to purchase up to 14,983 additional Shares in the form of GDRs, solely to cover over-allotments, if any, in the Offering.
Lock-up	.....	We, the Selling Shareholder, and certain of our major shareholders have agreed, subject to certain exceptions, as part of the Underwriting Agreement, not to issue, offer, sell, contract to sell, pledge, charge,



grant options over or otherwise dispose of, directly or indirectly, any shares in us or securities convertible or exchangeable into or exercisable for any shares in us or warrants or other rights to purchase such shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or GDRs representing the right to receive any such securities or publicly announce any intention to do any of the foregoing, for a period of 180 days from the date of the Underwriting Agreement (as defined in “Plan of Distribution”), without the prior written consent of the Underwriters. See “Plan of Distribution.”

Transfer Restrictions The Shares and GDRs will be subject to certain restrictions on transfer as described under “Description of Share Capital and Certain Requirements of Russian Legislation” and “Terms and Conditions of the Global Depositary Receipts,” respectively.

Dividend Policy Holders of Shares, including the Depositary, will be entitled to receive amounts (if any) paid by us as dividends on the Shares. See “Dividend Policy.” We do not expect to declare or pay any dividends for the foreseeable future.

Listing and Market for the Shares and GDRs Application has been made to (i) the Financial Services Authority for a listing of up to 17,231,250 GDRs, consisting of up to 14,983,800 GDRs to be issued on the Closing Date, up to 2,247,450 additional GDRs issued pursuant to the Over-allotment Option, as described herein, and additional GDRs to be issued from time to time against the deposit of Shares with the Depositary, to be admitted to the Official List and (ii) the London Stock Exchange for such GDRs to be admitted to trading on the London Stock Exchange’s regulated market for listed securities and in particular on the regulated market segment of the IOB. Application has also been made to have the Rule 144A GDRs designated eligible for trading in PORTAL. Our shares are listed on the RTS and the MSE. Prior to the Offering, there has been no market for the GDRs. Trading in the GDRs on the London Stock Exchange, and in particular on the IOB, is expected to commence on a when and if issued basis on or about May 11, 2006. Admission to the Official List of the U.K. Listing Authority and closing and settlement are expected to take place on or about May 12, 2006, and unconditional trading on the London Stock Exchange’s regulated market for listed securities, is expected to take place on or about May 15, 2006.

Additional Shares may be deposited, subject to the provisions set forth under “Terms and Conditions of the Global Depositary Receipts” and in the Deposit Agreement, with the Custodian against which the Depositary shall issue GDRs representing such Shares up to the maximum aggregate number of 17,231,250 GDRs. See “Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—The number of shares that can be deposited into the GDR program is limited.”

Settlement Procedures Payment for the GDRs is expected to be made in U.S. dollars in same-day funds through the facilities of DTC, Euroclear and Clearstream. The Depositary has applied to DTC to have the Rule 144A GDRs accepted into DTC’s book-entry settlement system. Upon acceptance by DTC, a single Master Rule 144A GDR will be held in book-entry form and will be issued to DTC and registered in the name of Cede & Co., as nominee for DTC. The Master Regulation S GDR will be registered in the name of Chase Nominees Limited, as nominee for JPMorgan Chase Bank, N.A., as common depositary for Euroclear and Clearstream, Luxembourg. Euroclear and Clearstream,



Luxembourg are expected to accept the Regulation S GDRs for settlement in their respective book-entry settlement systems. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the corresponding Master GDR only through DTC, Euroclear or Clearstream, Luxembourg, as applicable.

Transfers within DTC, Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant system. See "Settlement and Delivery."

Each purchaser of the Shares in the Offering is required to pay for any Shares in same-day funds and the Shares will be delivered to such purchasers on or about May 17, 2006. In order to take delivery of the Shares, potential purchasers may be required to have a depo account at one or more depositories designated by us. Upon taking delivery of the Shares, purchasers may choose to hold the Shares through a direct account with our share registrar; however, directly-held shares are ineligible for trading on the MSE or the RTS. In addition, in order for holders of Shares to trade those Shares on the MSE or the RTS, they may be required to further transfer the Shares to an account at a different depository.

Voting The Deposit Agreement does not allow for the voting of fractional entitlements. Thus, holders of GDRs will need 150 GDRs to be entitled to one vote. Holders of shares are generally entitled to one vote per share at a shareholders' meeting. See "Description of Capital Stock and Certain Requirements of Russian Legislation—General Meetings of Shareholders."

Use of Proceeds Net proceeds to the Selling Shareholder of the Offering will be approximately U.S.\$243.4 million, assuming no exercise of the Over-allotment Option, or approximately U.S.\$276.8 million, assuming that the Over-allotment Option is exercised in full. The Selling Shareholder has committed to use U.S.\$146.2 million from the net proceeds of the Offering to it to subscribe for 67,427 New Shares. The Selling Shareholder will subscribe for the New Shares at an offer price of U.S.\$2,169 per New Share (the Offer Price per Share after deduction of the total estimated underwriting commissions, taxes, fees and expenses payable in connection with the Offering, assuming that the Over-allotment Option is exercised in full). We intend to use these proceeds from the sale of the New Shares to the Selling Shareholder to finance potential acquisitions of meat processing and poultry assets, to repay indebtedness and to invest in the development of our pork business. We will not receive any proceeds from the sale of shares by the Selling Shareholder other than to the extent used to subscribe for the New Shares.

General Information *Shares*
ISIN: RU000A0JL4R1
RTS trading symbol: GCHEG (in rubles)
MSE trading symbol: CHGR (in rubles)
Regulation S GDRs
CUSIP: 68371H209
ISIN: US68371H2094
Common Code: 025277171
Rule 144A GDRs
CUSIP: 68371H100
ISIN: US68371H1005
Common Code: 025277112
London Stock Exchange GDR trading symbol: CHE
PORTAL Rule 144A GDR trading symbol: OJSCY



RISK FACTORS

An investment in the GDRs or Shares involves a high degree of risk. Prospective investors in the GDRs or Shares should carefully consider the risks described below and the other information contained in this Prospectus before making a decision to invest in the Shares. Any of the following risks, individually or together, could adversely affect our business, financial condition, results of operations or prospects, which could result in a decline in the value of the Shares and GDRs and the loss of all or part of an investment in the Shares or GDRs. While we have described the risks and uncertainties that our management believes are material, these risks and uncertainties may not be the only ones we face. Additional risks and uncertainties, including those we currently are not aware of or deem immaterial, may also have any or all of the effects set forth above.

Risks Relating to Our Business and Industry

Economic fluctuations and changes in consumer preferences could adversely affect our business, financial condition and results of operations.

Demand for our meat, poultry and pork products depends primarily on the general condition of the economy and consumer confidence as well as demographic factors and consumer preferences. In periods of economic uncertainty and decline, consumers tend to decrease their overall consumption of meat products, including processed meat products, poultry and pork. For example, according to the Meat Union, total meat consumption in Russia in 2005, including beef, pork, poultry and lamb, was 8.8 million tonnes, compared to an average of 11.2 million tonnes from 1988 through 1990 and as little as 5.9 million tonnes in 1999.

Our products also compete with other sources of protein, such as beef, and other foods, which may be viewed by consumers as substitutes for our products, and increases in the prices of our products relative to these products may cause consumers to shift their consumption in favor of these other products. As income has increased in Russia, consumers have exhibited a tendency to increase their consumption of premium-grade processed meat products, chilled poultry and pork, on which we generally earn higher margins. Conversely, during periods of economic uncertainty and decline, consumers tend to change the composition of their consumption in favor of lower-priced brands and decrease their purchases of more premium products and brands.

Health, dietary and other considerations may also result in changes to consumer preferences, which may in turn result in reduced demand for our products. The demand for our products may also be adversely affected by public concern about the ingredients, breeding conditions and other factors such as the use of genetically modified products in meat products and animal feed and the provision of hormones to animals. For example, prices for poultry products in Russia, declined over the second half of 2005 and into 2006, attributable in part to concerns about avian influenza. See also “—Outbreaks of disease could adversely affect our business, financial condition and results of operations” and “Business—Health, Safety and Environment—Avian Influenza.”

Reduced demand for our products, changes in the composition of consumption in any of our key product markets or reduced prices for our products as a result of these or other considerations could materially adversely affect our business, financial condition and results of operations.

Outbreaks of disease could adversely affect our business, financial condition and results of operations.

The outbreak of disease among our livestock or in regions in which we operate could significantly restrict our ability to conduct our operations. The productivity and profitability of any agricultural operation depends, to a great extent, on its ability to maintain animal health and control disease. Disease can reduce the number or productivity of our poultry and pig breedstock, and hamper the growth of offspring to maturity. Disease can be spread from other infected animals, in feed, in trucks, by rodents or birds, by people visiting the farms or through the air. While we take precautions to limit the susceptibility of our livestock to diseases and to limit the spread of any diseases to which they become subject, as described under “Business—Production Facilities” and “Business—Health, Safety and Environment,” there can be no assurance that such precautions will be effective, and we may experience additional severe outbreaks of these or other diseases in the future. In addition, if our livestock were to be infected, we would likely be required to destroy all of the stock that were infected or likely to become infected. While we carry insurance covering a part of the value of our poultry and pig stock, this insurance does not cover lost profits resulting from any interruption to our operations, for example resulting from the destruction and loss of our stock.

Among the diseases to which our livestock may be subject are highly contagious diseases that may spread rapidly between countries and regions. For example, avian influenza is a highly contagious viral disease that affects poultry and that has since 2005 spread rapidly from Asia into Europe and Africa. Poultry in the affected



regions in Russia has been placed under quarantine by orders of the respective regional administrative bodies. Though we do not have production facilities in any of the currently affected regions, there can be no assurance that avian influenza will not spread to other regions of Russia, including the regions in which our production facilities are located.

While the incidence of avian influenza in Europe has largely been limited to wild fowl and household poultry with only limited occurrences in commercial poultry, there can be no assurance that it will not spread further among commercial flocks in Russia or elsewhere. If our poultry flocks were to be infected, we would likely be required to destroy all of our flocks that were infected or likely to become infected. See “Business—Health, Safety and Environment—Avian Influenza” for a discussion of efforts we have undertaken to limit the spread of avian influenza among our poultry.

Our pig herds may also be subject to outbreaks of diseases, such as foot and mouth disease. Past outbreaks of such diseases have resulted in the destruction of thousands of animals in affected countries and regions.

An outbreak of a livestock disease could also result in the imposition of governmental restrictions on sale or distribution of our products, even if our livestock is not infected with such diseases. Such measures could increase our costs of production, create adverse publicity with respect to our business or result in a loss of consumer confidence in the protein products affected by the particular disease and adverse publicity, resulting in declining demand for such products. In addition, outbreaks of a livestock disease may impact demand and pricing for the relevant products even in regions in which an outbreak has not occurred. For example, in 2005 and into 2006, global poultry prices have declined, in part because of the global spread of avian influenza. This trend has resulted in increased imports of frozen poultry into Russia, placing downward pressure on prices for both frozen and chilled poultry products, including our products.

As a result of these and other factors, any outbreak of disease, or the possibility of an outbreak of disease, could have a material adverse effect on our business, financial condition and results of operations.

We benefit from tariffs, duties, quotas and other limitations on meat, poultry and pork products that are imported into Russia and that may be eliminated in the future.

Russia has in place import quotas and tariffs on poultry, pork, beef and other meat products imported from the United States, European Union and other major producing countries. These measures generally increase prices for poultry and pork sold in Russia. While they result in higher prices for the raw materials that we use in producing our meat products, these quotas also limit the competition we face in the sale of poultry and pork products in Russia and generally result in increased prices for poultry and pork products sold in Russia. These protective measures may be reduced or eliminated in the future, which could materially adversely affect our results of operations and prospects.

In addition, meat exporters may limit their exports to Russia, or the Russian government may ban imports of such products into Russia, as a result of health or other considerations. For example, in November 2005, Russia banned all meat imports from Poland as a result of alleged veterinary code violations, and in December 2005, Russia announced a ban on imports of beef produced in nine states of Brazil as a result of outbreaks of foot and mouth disease. During 2002, Russia banned poultry imports from the United States due to alleged health concerns, and in 2004 Russia temporarily banned imports of poultry produced in certain regions of Sweden and Finland as a result of outbreaks of Newcastle disease. In March 2006, Argentina, which reportedly supplied over 25% of Russia’s total beef imports in 2005, announced that it was suspending exports of beef for six months in order to limit domestic price growth. On April 27, 2006, the Russian government cancelled existing poultry import licenses on veterinary grounds, halting imports of poultry products into Russia until the licenses are reissued. These and other measures that reduce the supply of imported meat available on global markets, or the supply available in Russia, may cause prices for our raw meat inputs to increase, thereby increasing our costs. To the extent that we are not able to increase the price of our processed meat products and to adjust the input mix to compensate for higher raw material costs and that such price increases for meat raw materials are not offset by higher selling prices for our sales of poultry and pork products, the imposition or continuation of such measures could materially adversely affect our financial condition, results of operations and prospects.

Russia is also currently conducting negotiations on joining the World Trade Organization (“WTO”), and according to published press reports, may complete this process in late 2006 or 2007. Russia’s accession to the WTO could result in Russia being required to lower or remove tariffs and duties on meat products, including poultry and pork products, resulting in increased competition in the Russian food products market from foreign producers. Reduction in the levels of tariffs, duties and quotas or the removal of other limitations on imports of meat products into Russia could materially adversely affect our business, financial condition and results of operations.



We benefit from state subsidies and benefits that may be eliminated in the future.

Enterprises engaged in agricultural production operations in Russia, including our poultry and pig production facilities, receive various forms of support from the Government of the Russian Federation (the “Government”) and regional administrations, including reduced rates of profit tax, interest rate subsidies on certain borrowings and direct budgetary support. Agricultural production enterprises are subject to profit tax at a rate of 0% for 2004 through 2007, and will be taxed at a rate of 6% from 2008 to 2009, as compared to the general 24% corporate profit tax rate in Russia. These favorable tax rates lowered effective tax rates in the relevant periods. This tax benefit for agricultural production is being phased out, and the profit tax rate is scheduled to increase to 12% for 2010 to 2011, 18% for 2012 to 2014 and 24% from 2015. In addition, enterprises engaged in agricultural production operations in Russia currently are entitled to receive subsidies from the Russian federal budget equivalent to up to two-thirds of the interest that they pay on their indebtedness and up to an additional one-third from sub-federal budgets, subject to a total maximum subsidy at the level of the CBR’s refinancing rate (currently 12%). As of December 31, 2005, these subsidies applied to approximately 27% of the aggregate principal amount of our short and long-term loans. We also receive direct subsidies per tonne of pork produced at Lipetskmyasoprom, and intend to seek similar support from other regional administrations at other new facilities that we may construct. See also “Certain Regulatory Matters—State Support Programs” for a description of these programs. There can be no assurance that these benefits and subsidies will continue to be available on the same terms or at all, and any reduction or termination of these benefits or subsidies may have a material adverse effect on our business, financial condition and results of operations.

Our business development strategy depends on our ability to expand our poultry and pork production operations and to develop new brands, products and product categories.

Our business expansion strategy contemplates our entry into new product categories, such as chilled pork products, development of new products and marketing new brands in existing product lines. This strategy is intended to increase our market share and revenues by increasing consumer demand in our existing markets and entering into new market segments. The success of this strategy depends, in part, on our ability to anticipate the tastes and dietary habits of consumers and to offer products that appeal to their preferences. In addition, the food industry’s growth is constrained by the overall population size, and Russia’s population has been declining since the end of the Soviet Union, as a result of which the growth of each of our business segments depends in part on our ability to expand our business and increase our market share even against declining populations in our core markets. We also plan to make significant capital expenditures in connection with this strategy, particularly in our pork segment, and we may not be able to obtain sufficient financing or financing on satisfactory terms in order to finance these programs. See “—If we are unable to obtain adequate financing or fail to comply with the requirement of our existing financing arrangements, we may be required to limit our operations substantially, which may materially adversely affect our business, financial condition or results of operations.” Our failure to anticipate, identify or react to changes in consumer preferences and a consequent failure successfully to develop new brands, products and product categories could materially adversely affect our business, financial condition and results of operations.

We operate in a competitive industry and market segments and an inability to compete successfully may adversely affect our results of operations.

We operate in a competitive industry and market segments, and we believe that our competitive position is based on, among other factors, the strength of our brand names and our ability to produce high-quality products at competitive prices. The market for meat products in Russia is highly fragmented among producers, and there can be intense price competition. In addition, many market participants focus solely on specific regions, and may seek to compete based on considerations that differ from those affecting the industry nationally. If we cannot maintain our reputation for producing and marketing quality products based in part on the strength of our brand names and at competitive prices, we may not be able to sell our products at competitive prices or to maintain or increase our market share. In particular, price increases for raw materials, primarily meat used by our meat processing operations and feed used in our poultry and pork operations, could increase our production costs. Increases in the prices of our processed meat, poultry or pork products implemented to offset increased raw material and production costs could result in consumers reducing the consumption of our products in favor of other, relatively less expensive, meat, poultry and pork products. Any such changes could materially adversely affect our business, financial condition and results of operations.

Our reliance on independent retailers and independent distributors for the distribution of our products could adversely affect our business, financial condition and results of operations.

We sell our products either directly to retailers, including supermarkets, grocery shops and restaurants, or to independent distributors for resale to retail outlets. While we have sought to develop our own trading and



distribution network, and we make an increasing share of our sales of poultry directly to retailers, sales to independent distributors continue to account for a significant portion of our total sales of meat products. Additionally, the Russian grocery retail market is highly competitive, with both “hypermarket” and more traditional supermarket formats increasingly replacing traditional markets, and we expect that the presence of these retailers will increase price competition and competition for shelf space. Our operations and distribution costs could be adversely affected by the increasing consolidation of the Russian retail market, particularly as these customers become more sophisticated and attempt to force lower pricing, price discounts and increased promotional programs. For example, the sales volume discounts that we deduct when calculating our net sales have increased from U.S.\$694,000 in 2003 to U.S.\$2.5 million in 2004 and U.S.\$3.4 million in 2005, reflecting largely the increasing importance of modern retail outlets in our distribution chain. While we currently believe that these discounts are more than offset by the greater margins we earn on sales that we make directly to retailers and the increased volumes resulting from sales to larger retail chains, there can be no assurance that these trends will continue in the future.

We also compete with other brands for shelf space in retail stores and marketing focus by independent distributors and retailers. If retailers give higher priority to other brands, purchase less of, or even refuse to buy, our products, seek substantial discounts, or devote inadequate promotional support to our brands, our business, financial condition and results of operations could be materially adversely affected.

We may be subject to product liability claims and adverse publicity.

The production, packaging, marketing, distribution and sale of food products, as well as production of foods under private labels, may result in product liability, product recall and subsequent adverse publicity. Though we have not to date been subject to any material product liability claims, there can be no assurance that such claims will not be asserted against us or that we will not be obligated to perform such a recall in the future. We also do not carry product liability insurance. As a result, product liability claims relating to defective products could have a material adverse effect on our ability to successfully market our products and on our business, financial condition and results of operations.

In addition, we may voluntarily determine, or government regulators may require us, to recall products that are, or are believed to have been produced from, diseased, contaminated or otherwise substandard products. While we have implemented tracing systems to track our processed meat and fodder products and the sources of their raw material components, these systems are in many cases less sophisticated and advanced than those commonly in use, for example, in western Europe and the United States. Moreover, even if a product liability claim is not successful or we do not recall our products, we may be subject to negative publicity resulting from assertions that our products caused illness or injury, may potentially cause illness or injury, or are made from diseased, contaminated or substandard products.

Product liability claims, the possibility of such claims, recalls of our products or any other claims associated with the safety or reliability of our products could have a material adverse effect on our reputation, including the strength of our brand names, and relationships with existing and potential customers, and therefore, on our business, financial condition and results of operations.

Our insurance coverage may be inadequate, as a result of which the loss or destruction of our assets could have a material adverse effect on our financial condition and results of operations.

We do not carry insurance comparable to that of major companies that operate in western Europe or other jurisdictions with more developed insurance markets. As of December 31, 2005, we had property insurance coverage for our major meat processing production facilities covering approximately 80% of the net book value of property, plant and equipment of our meat processing segment at that date, and we also carried limited business interruption insurance for our meat processing operations. We also carry insurance covering part of the value of our livestock, including our poultry and pigs. We do not carry third party liability insurance in respect of environmental damage. Our insurance does not cover lost profits resulting from any interruption to our operations.

The terms of our loan agreements with the European Bank for Reconstruction and Development (the “EBRD”) and CJSC Raiffeisenbank Austria (“Raiffeisenbank”) require that we maintain insurance against loss, damage and liability with respect to five of our meat processing plants. The EBRD and Raiffeisenbank are joint loss payees under these policies and receive any payments thereunder before they may be released to us as long as no event of default or potential event of default (as defined in the relevant loan agreements) has occurred and is continuing. Insurance proceeds in excess of specified amounts for each claim must be used for the replacement and/or repair of the relevant facilities and amounts paid annually in excess of certain annual thresholds may be



used, at the sole discretion of the EBRD and Raiffeisenbank, toward either reconstructing facilities or the prepayment of the outstanding principal amounts under the loan agreements. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital resources” for a further discussion of these loan agreements.

Were we to suffer a major disruption or loss at our production facilities, we could experience substantial property loss and significant disruptions in our production capacity. Additionally, depending on the severity of the property damage, we may not be able to reestablish our operations in a timely manner or at all, even if such loss is covered by insurance. For example, we may not be able to replace losses to our livestock, particularly those arising as a result of disease. We also do not maintain separate funds or otherwise set aside reserves for these types of events. As our insurance coverage is less than the book value of our property, plant and equipment, and we carry only limited business interruption insurance, the loss or destruction of certain assets could have a material adverse effect on our financial condition and results of operations.

Our management information systems and internal controls may be inadequate.

Our management information system, financial reporting function and system of internal controls may be less developed in certain respects than those of food producers that operate in more developed markets and may not provide our management with as much or as accurate or timely information as those in more developed markets. In particular, our transaction matching, verification and reporting systems may operate more slowly and/or less effectively than those of food producers that operate in more developed markets. Moreover, we may encounter difficulties in the ongoing process of implementing and enhancing our management information systems. We are currently installing an Oracle ERP management information system to cover the major facilities in our meat processing segment, which we expect to complete in 2007. Any inability to maintain adequate management information systems, financial reporting function and system of internal controls may have a material adverse effect on our financial condition and results of operations.

We may be required to adopt new accounting standards commencing with our financial statements for the year beginning January 1, 2007, which could materially affect our financial statements.

We currently prepare our financial statements in accordance with U.S. GAAP. In December 2004, the European Commission adopted Directive 2004/109/EC (the “Transparency Directive”). Following the implementation of the Transparency Directive, the deadline for which is January 20, 2007, all companies with securities admitted to trading on a regulated market in the European Economic Area (except debt securities with minimum denominations of €50,000 or more), including ourselves following the completion of the Offering, will be required to prepare and publish annual and semi-annual reports containing financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) or accounting standards determined to be equivalent to IFRS by the European Commission. While the Commission of European Securities Regulators has recommended to the European Commission that U.S. GAAP, among others, be recognized as equivalent to IFRS, subject to certain conditions and additional disclosures, it is unlikely that companies incorporated outside the United States will be permitted to make such disclosures, and such companies will instead be required to report under IFRS. The European Commission has published a draft proposal that, if adopted, would permit certain issuers to continue using U.S. GAAP, among other standards, through December 31, 2008.

We currently expect to change from preparing our financial statements in accordance with U.S. GAAP to IFRS for the year beginning January 1, 2007. We have not conducted an analysis of the expected impact of reporting under IFRS on our financial statements, and applying IFRS to our consolidated financial statements may have a significant impact on a number of important items. Our financial statements prepared in accordance with IFRS may differ materially from our financial statements prepared in accordance with U.S. GAAP.

We depend on certain brand names, which we may not be able to protect.

Our ability to market and sell our products depends upon the recognition of our brand names and associated consumer goodwill. The Cherkizovsky, Biruliovsky, Petelinka, Vasilieyvka, Imperiya Vkusa and other brand names are key assets of our business. See “Business—Products and branding.” Maintaining the reputation of these brands is critical to our success. Substantial erosion in the value of our brand names could have a material adverse effect on our business, financial condition, results of operations and prospects. See also “—We may be subject to product liability claims and adverse publicity.” Moreover, our products may be imitated or copied, or retailers may seek to market products produced by other producers as our production. We have also invested considerable effort in protecting our portfolio of intellectual property rights, including trademark registration. See “Business—Trademarks and Patents.” For example, in 2004, Campomos attempted to make use of the Popurri



brand name in Russia, in response to which we pursued legal remedies and caused them to halt use of the name. However, we cannot be certain that the steps we have taken will be sufficient or that third parties will not infringe or misappropriate our brand names and intellectual property rights. Moreover, Russia generally provides lower levels of protection of intellectual property than western Europe or North America. Any inability to protect our intellectual property rights and brand names against infringement or misappropriation could materially adversely affect our business and results of operations.

Failure to comply with existing government regulations, or increased governmental regulation of our operations, could result in substantial additional compliance costs or administrative penalties which could adversely affect our financial condition and results of operations.

Our operations and properties are subject to regulation by various government entities and agencies. As a producer of food products, our operations are subject to health and safety, production, packaging, quality, labeling and distribution standards. The operations of our production and distribution facilities are also subject to various environmental laws and workplace regulations. Compliance with, or any violation of, current and future laws or regulations could require material additional expenditures by us or otherwise materially adversely affect our business or results of operations. See “Certain Regulatory Matters.”

In addition, under relevant Russian legislation, Russian regulatory agencies can impose various sanctions for violations of environmental standards. These sanctions may include civil and administrative penalties applicable to a company and criminal and administrative penalties applicable to its officers. Also, in the course, or as a result, of an environmental investigation, regulatory authorities can issue an order halting part or all of the production at a plant which has violated environmental standards. Any imposition of civil and administrative penalties or limitation, in part or whole, of production at our facilities could materially adversely affect our business, financial condition and results of operations.

If we are unable to obtain adequate financing or fail to comply with the requirements of our existing financing arrangements, we may be required to limit our operations substantially, which may materially adversely affect our business, financial condition or results of operations.

We plan to make significant capital expenditures, particularly in connection with the continued expansion of our pork production activities. Excluding expenditures for acquisitions, we made total capital expenditures of approximately U.S.\$85.9 million, U.S.\$27.9 million and U.S.\$13.3 million in the years ended December 31, 2005, 2004 and 2003, respectively, and plan to make capital expenditures of approximately U.S.\$160 million in 2006 and U.S.\$115 million in 2007. Of our total capital expenditures, U.S.\$40.2 million, U.S.\$2.2 million and U.S.\$785,000 in the years ended December 31, 2005, 2004 and 2003, respectively, were for our pork operations, and we have budgeted further capital expenditures of U.S.\$132 million in 2006 and plan capital expenditures of a further U.S.\$107 million in 2007 for our pork operations. However, we may not be able to obtain adequate financing, or the financing we obtain may not be sufficient to meet our planned needs or on commercially acceptable terms in the event of any or all of the following potential developments:

- changes in the terms of existing financing arrangements;
- pursuit of new business opportunities that require significant investment; or
- significant deterioration in the Russian economy.

To meet our financing requirements, we may need to attract additional equity or debt financing. Debt financing in Russia, particularly long-term debt financing, may be difficult to obtain on commercially acceptable terms, and we may not be able to borrow in the international capital markets on acceptable terms in the future. If we cannot obtain adequate funds to satisfy our capital requirements, we may need to limit our operations and plans for the expansion of our business significantly, which could negatively affect our business and results of operations.

In addition, certain financing arrangements that we have entered into are subsidized by the Russian federal, regional and local governments. Such financing arrangements amounted to approximately 27% of the aggregate principal amount of our outstanding long-term indebtedness (including current portion) as of December 31, 2005. Any failure to comply with the requirements for such subsidies, the withdrawal or termination of or an inability to refinance these facilities when due on comparable terms, or at all, could adversely affect our business, financial condition and results of operations. See also “—We benefit from state subsidies and benefits that may be eliminated in the future.”



In addition, the terms of financing facilities that we obtained from the EBRD and Raiffeisenbank require us to comply with certain financial and other covenants with respect to our meat processing operations, including certain financial ratios and targets, limitations on the payment of dividends and payments to related parties, limitations on capital expenditures and limitations on the pledge and disposition of assets. On April 6, 2006, we amended these facility agreements retroactively for 2005 and the first quarter of 2006, in order to match our current financial and business plans more closely, and we are currently in compliance with the terms of these agreements as amended. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital resources.” To the extent that we do not comply with the covenants of these or any other financing facilities and are not able to obtain a waiver, the relevant indebtedness as well as other indebtedness may become immediately repayable. Any such acceleration of our indebtedness would have a material adverse effect on our business, financial condition, results of operations and prospects.

Under certain of our financing arrangements, including the loans from the EBRD and Raiffeisenbank, we have also pledged a significant percentage of the shares we hold in our subsidiaries, including AIC Cherkizovsky, CMPP, BMPP, Ulyanovsky, Penzensky, Belmiaso, Cherkizovo-Kashira and Vasiljevskaya. As of December 31, 2005, 2004 and 2003, we had pledged property, plant and equipment with a carrying value of U.S.\$126.5 million, U.S.\$129.9 million and U.S.\$48.6 million, respectively, as collateral under loans to us. We also pledged inventory with a value of U.S.\$8.9 million, U.S.\$7.1 million and U.S.\$2.1 million as of December 31, 2005, 2004 and 2003, respectively, and livestock with a value of U.S.\$8.7 million, U.S.\$7.2 million and U.S.\$6.8 million as of December 31, 2005, 2004 and 2003, respectively, as collateral under loans to us. These pledged assets amounted to 34%, 41% and 20% of our total assets as of December 31, 2005, 2004 and 2003, respectively. Any enforcement of such pledges could cause us to lose operational control over, and ultimately our shareholdings in or the use of, such subsidiaries or pledged assets, inventory or livestock, as the case may be. Any such enforcement actions could have a material adverse effect on our business, financial condition and results of operations.

We may be unable to obtain adequate managerial resources to support our plans for the growth and expansion of our business.

Our strategy provides for the continued growth and expansion of our business, and we have recently embarked on a significant expansion of our activities in the pork production sector. Managing such growth and expansion requires significant managerial and operational resources. Our future operating results depend in significant part upon the continued contributions of a small number of our key senior management and technical personnel. In addition, the number of qualified managerial and technical personnel in Russia may be limited, and there is intense competition for the services of such persons. Management of growth requires, among other things:

- continued development of financial and management systems;
- implementation of adequate internal control over financial reporting and disclosure controls and procedures;
- increased marketing activities;
- hiring and training of new personnel; and
- coordination among our logistical, technical, accounting, finance, marketing and sales personnel.

An inability successfully to manage any of these or other factors may adversely affect our business, results of operations and prospects.

We may seek to make further acquisitions, which we may not be able to complete or integrate successfully.

We regularly evaluate potential acquisition targets, and may in the future seek to acquire other businesses and legal entities in order to expand our operations, and in particular our meat processing and poultry operations. The completion of acquisitions and, if completed, the successful integration of such newly acquired businesses into our operations may be difficult for a variety of reasons, including differing culture or management styles, poor records or internal controls and difficulty in establishing immediate control over cash flows. As a result, potential future acquisitions pose significant risks to our existing operations, including:

- additional demands placed on our senior management, who are also responsible for managing our existing operations;
- increased overall operating complexity of our business, requiring greater personnel and other resources;
- additional cash expenditures to integrate recent acquisitions;



- incurrence of additional debt to finance acquisitions and higher debt service costs related thereto; and
- the need to attract and retain sufficient numbers of qualified management and other personnel.

Moreover, when making acquisitions it may not be possible for us to conduct a detailed investigation of the nature of the assets being acquired due to, for example, time constraints in making the decision and other factors. We may also become responsible for additional liabilities or obligations not foreseen at the time of an acquisition.

Any failure to conclude acquisitions in the future or successfully to integrate such acquisitions could adversely affect our business, financial condition and results of operations. Moreover, even if we were successful in integrating newly acquired assets and acquiring additional assets, expected synergies and cost savings may not materialize, resulting in lower than expected benefits to us from such acquisitions.

Deficiencies or ambiguities in privatization legislation could be exploited to challenge our ownership of certain of our subsidiaries, which could materially affect our production capacity, financial condition and results of operations.

Our businesses include a number of privatized companies, and we may seek to acquire additional companies that have been privatized. To the extent that privatization legislation has been vague, internally inconsistent and in conflict with other legislation, including conflicts between federal and local privatization legislation, most, if not all, privatizations are arguably deficient and therefore are vulnerable to attack. For instance, a series of presidential decrees issued in 1991 and 1992 which granted the government of Moscow the right to adopt its own privatization procedures were subsequently held invalid by the Constitutional Court of the Russian Federation in 1993, which ruled, in part, that the presidential decrees addressed issues which were the subject of federal law. While this court ruling, in theory, does not require any implementing actions, the presidential decrees were not officially annulled by another presidential decree until 2000.

In April 2004, LLC Ardymsky Feed Milling Plant entered into litigation related to the privatization of the company and legal title to certain property, plant and equipment. In 2005, legal title on some of the assets in dispute was transferred to the plaintiff by a court decision. We ultimately settled the matter and regained control over these assets. There can be no assurance that similar proceedings will not be brought in the future with respect to any of our subsidiaries that have been privatized, or that, if brought, we will be able successfully to defend against such actions. In the event that any of our privatized companies are subject to attack as having been improperly privatized and we are unable to defeat such claims, we risk losing our ownership interest in the company or its assets, which could materially adversely affect our business, financial condition and results of operations.

Our controlling beneficial shareholders have the ability to exert significant influence over us, and their interests may conflict with those of other holders of our shares and GDRs.

We are controlled by Mr. Igor Babaev, the Chairman of our Board of Directors, Mr. Sergei Mikhailov, our Chief Executive Officer, and members of Mr. Babaev's immediate family, who together will beneficially own 59.88% of our outstanding shares following the Offering and the issuance of the New Shares to the Selling Shareholder, assuming that the Over-allotment Option is exercised in full. As a result of their controlling interest, Mr. Babaev and his immediate family have the ability to exert significant influence over us and certain actions that require shareholder approval, including, but not limited to, the increase or decrease of our authorized share capital, the election of directors, the declaration of dividends, the appointment of management and other policy decisions. See also "—Legislative and Legal Risks—There is only limited protection of minority shareholders in Russia." While we have three directors who are independent directors in accordance with the criteria set out in the Joint Stock Companies Law and the requirements of the Russian Federal Service for the Financial Markets, these criteria differ from those that are set out, for example, in the U.K. Combined Code. The interests of our controlling shareholders could conflict with the interests of our other shareholders, including the holders of the Shares and GDRs. See also "Directors and Management—Interests of Directors and Management."

Our competitive position and future prospects depend on our controlling beneficial owner's and senior management's experience and expertise.

Our ability to maintain our competitive position and to implement our business strategy depends significantly on the services of our senior management team, several of whom, including Mr. Igor Babaev, the Chairman of our Board of Directors and Mr. Sergei Mikhailov, our Chief Executive Officer, are also beneficial owners of our shares. The Chairman of our Board of Directors, Mr. Babaev, is the father of Mr. Sergei



Mikhailov, who is our Chief Executive Officer and a member of our Board of Directors, and Mr. Evgeny I. Mikhailov, who is also a member of our Board of Directors. Mr. Babaev and Messrs. Sergei Mikhailov and Evgeny Mikhailov are also closely related to Ms. Ludmila I. Mikhailova, our Chief Financial Officer, and Mr. Naum Babaev, our Head of Strategy and Business Development. We also do not carry insurance in respect of the loss of the services of any of the members of our management. The loss or diminution in the services of members of our senior management team or an inability to attract, retain and maintain additional senior management personnel could have a material adverse effect on our business, financial condition, results of operations or prospects. Competition in Russia for personnel with relevant expertise is intense due to the small number of qualified individuals, and this situation seriously affects our ability to retain our existing senior management and attract additional qualified senior management personnel, which could have a material adverse effect on our business, financial condition and results of operations.

A challenge by minority shareholders to our past or future approval of transactions among our subsidiaries that require special approval in accordance with Russian legislation could adversely affect our results of operations.

We own less than 100% of a number of our subsidiaries. Under Russian law, certain transactions defined as “interested party transactions” require approval by disinterested directors or shareholders of the companies involved. “Interested party transactions” include transactions in which a member of the board of directors, an officer of a company or any person that owns, together with any affiliates of that person, at least 20% of a company’s voting shares, or any person that is entitled to give binding instructions to a company, is interested, if that person, or that person’s relatives or affiliates, is

- a party to, or a beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- the owner of at least 20% of the issued voting shares of a legal entity that is a party to, or a beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- a member of the board of directors or an officer of a company which is a party to, or a beneficiary of, a transaction with the company, whether directly or as a representative or intermediary.

We and our subsidiaries engage in numerous transactions which require interested party transaction approvals in accordance with Russian law. These transactions have not always been properly approved, and therefore may be contested by minority shareholders. In the event that minority shareholders were to contest successfully existing interested party transactions among our subsidiaries, or prevent the approval of these transactions in the future, this could limit our operational flexibility and adversely affect our business, financial condition and results of operations.

In addition, certain transactions between members of a consolidated corporate group may be considered interested party transactions under Russian law even when the companies involved are wholly-owned by the parent company. While we generally endeavor to obtain all corporate approvals required under Russian law to consummate transactions, we have not always applied special approval procedures in connection with our consummation of transactions with or between our subsidiaries. In the event that a claim is filed in relation to certain transactions with or between our subsidiaries, such transactions are found to have been interested party transactions, and we are found to have failed to obtain the appropriate approvals for such transactions, these transactions may be declared invalid. The unwinding of any transactions concluded with or between our subsidiaries may adversely affect our business and results of operations.

The forced liquidation of our subsidiaries due to negative net assets could adversely affect our results of operations.

In accordance with Russian legislation, in the event that a company’s net assets, as stated in the annual balance sheet prepared under Russian accounting standards, fall below the minimum charter capital required by law, the company must voluntarily liquidate. If it fails to do so within a “reasonable period,” the company’s creditors may accelerate their claims or demand early performance of the company’s obligations to them and demand payment of damages, and governmental authorities may seek the involuntary liquidation of the company. Courts have on occasion ordered the involuntary liquidation of a company for having negative net assets, even if the company had continued to fulfill its obligations and had net assets in excess of the minimum amount at the time of liquidation.

Some of our subsidiaries had net assets below the minimum charter capital required by law as of December 31, 2005. We believe that these subsidiaries, individually and taken together, are not material to our



operations. We have not taken any steps to remedy this situation because we believe that, as long as these subsidiaries continue to fulfill their obligations, the risk of their liquidation is minimal. However, if involuntary liquidation were to occur, we would be forced to reorganize the operations we currently conduct through these subsidiaries.

Fluctuations in the value of the ruble against the U.S. dollar may materially adversely affect our financial condition and results of operations.

Our presentation currency is the U.S. dollar. Our products are generally priced in rubles, and our direct costs, including raw materials, labor and transportation costs, are largely incurred in rubles, though some costs, such as interest expense and imported raw materials, are incurred in rubles, U.S. dollars and euro. The mix of our revenues and costs is such that appreciation in real terms of the ruble against the U.S. dollar tends to result in a decrease in our costs relative to our revenues, while depreciation of the ruble against the U.S. dollar in real terms tends to result in an increase in our costs relative to our revenues. The ruble appreciated in real terms against the U.S. dollar by 10.8% in 2005, 15.1% in 2004 and 13.6% in 2003, according to the CBR. While we generally believe that the mix of our revenues and costs is such that our exposure to fluctuations in the ruble to U.S. dollar exchange rate is limited, real depreciation of the ruble against the U.S. dollar may materially adversely affect our financial condition and results of operations.

In addition, nominal depreciation of the ruble against the U.S. dollar results in a decrease in the reported U.S. dollar value of our ruble-denominated assets (and liabilities) and nominal appreciation of the ruble against the U.S. dollar results in an increase in the reported U.S. dollar value of our ruble-denominated assets (and liabilities). We also record a translation adjustment in the Combined and Consolidated Financial Statements to reflect the adjustments arising on the translation of our ruble-denominated financial statements into U.S. dollars. See note 3 to the Combined and Consolidated Financial Statements for a further discussion of our translation methodology. The average exchange rate of the ruble against the U.S. dollar appreciated by 1.9%, 6.5% and 2.2% in nominal terms in 2005, 2004 and 2003, respectively, according to the CBR.

Vaguely drafted Russian transfer pricing rules and a lack of reliable pricing information may affect our results of operations.

Russian transfer pricing rules entered into force in 1999, giving Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, provided that the transaction price differs from the market price by more than 20%. Controlled transactions include domestic and international transactions between related entities and certain other types of transactions between independent parties, such as barter, foreign trade transactions or transactions with significant (greater than 20%) price fluctuations within a short period of time. Transfer pricing rules also apply to transactions involving securities and derivatives, and the rules applicable to such transactions may be more complex and restrictive than those with respect to other transactions.

Russian transfer pricing rules are vaguely drafted, leaving wide scope for interpretation by Russian tax authorities and courts. Moreover, in the event that a transfer pricing adjustment is assessed by Russian tax authorities, the Russian transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction that is subject to adjustment. While members of our consolidated group engage in numerous transactions between related parties, we seek to conduct such transactions based on arm's length prices. However, it is not always possible to determine a relevant market price, and the view of Russian tax authorities as to what constitutes an appropriate market price may differ from our position. As a result, Russian tax authorities may challenge our prices in such transactions and propose price adjustments. If any such price adjustments were upheld by the Russian courts and implemented, we could face significant losses associated with the assessed amount of prior tax underpaid and related interest and penalties, which could have an adverse effect on our financial condition and results of operations. See also "—Risks Relating to the Russian Federation—Legislative and Legal Risks—Weaknesses and changes in the Russian tax system could materially adversely affect our business and the value of investments in Russia."

Risks Relating to the Russian Federation

Political and Social Risks

Political and governmental instability could adversely affect the value of investments in Russia.

Since 1991, Russia has moved from a one-party state with a centrally-planned economy to a federal republic with democratic institutions and a market-oriented economy, but the Russian political system remains vulnerable



to popular dissatisfaction, including dissatisfaction with the results of privatizations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups. The course of political, economic and other reforms has in some respects been uneven, and the composition of the Russian government—the prime minister and the other heads of federal ministries—has at times been unstable. For example, six different prime ministers headed governments between March 1998 and May 2000. During his term as president, President Putin has generally maintained governmental stability. In addition, the elections to the lower house of the legislature, the State Duma, in December 2003 resulted in a substantial majority for parties supportive of President Putin.

In February 2004, just prior to his election to a second term as president, President Putin dismissed his entire cabinet, including the prime minister. He subsequently appointed Mikhail Fradkov as Prime Minister and issued a presidential decree that significantly reduced the number of federal ministries, redistributed certain functions amongst various agencies of the Government and announced plans for a major overhaul of the federal administrative system. Many of these changes have since been implemented. President Putin is implementing reforms by which executives of sub-federal political units are no longer elected by the population, but instead are nominated by the President of the Russian Federation and confirmed by the legislature of the sub-federal political unit. Pursuant to legislation that will take effect on December 7, 2006, single-member-district elections for the State Duma are to be eliminated, and all votes are instead to be cast on a party-list basis.

Future changes in the Government, major policy shifts or lack of consensus between President Putin, the Government, Russia's parliament and powerful economic groups could lead to political instability, which could have a material adverse effect on us and on the value of investments in Russia.

The reversal of reform policies or government policies targeted at specific individuals or companies could harm our business as well as investments in Russia more generally.

Since President Putin took office as prime minister and then acting president in 1999 and was elected president in 2000, the political and economic situation in Russia has generally become more stable and conducive to investment. However, from time to time, signs of a breakdown in the consensus among key governmental officials have appeared, raising questions about the direction of future economic reforms. Any significant struggle over the direction of future reforms, or the reversal of the reform program, could lead to a deterioration in Russia's investment climate that might constrain our ability to obtain financing in the international capital markets, limit our sales in Russia, and otherwise harm our business and results of operations.

In 2003, Russian authorities arrested Mikhail Khodorkovsky and Platon Lebedev, key shareholders and managers of OJSC NK Yukos ("Yukos"), then Russia's largest oil company by production, on tax evasion, fraud and related charges. On May 31, 2005 they were each sentenced to nine years imprisonment (subsequently reduced to eight years) on these charges and their appeals were rejected in September 2005. Significant back tax claims were also brought against Yukos, resulting in the auction of its major production subsidiary, OJSC Yuganskneftegaz ("Yuganskneftegaz"), and the effective destruction of Yukos. Yuganskneftegaz was acquired, indirectly, by OJSC NK Rosneft, a state-owned oil company, resulting in the first effective renationalization of a significant company that had been privatized in the 1990s. In July 2005, the statute of limitations for challenging transactions entered into in the course of a privatization was reduced from ten years to three years. President Putin also announced in March 2005 that the Government was considering plans to reform the system of tax collection and administration, and in his Annual Address to the Federal Assembly on April 25, 2005, President Putin stated that tax authorities should not "terrorize" taxpayers by repeatedly considering the same problems. Partly in response to this statement, in June 2005 the Government submitted to the State Duma draft amendments to the Tax Code. The proposed amendments are intended to facilitate the procedure for tax inspections and to make the activities of tax authorities more transparent. These proposed amendments were approved in the first reading by the State Duma in October 2005 and are currently being considered further by the State Duma. For further discussion of recent activities by Russian tax authorities, see "—Legislative and Legal Risks—Unlawful, selective or arbitrary government action may have an adverse effect on our business and the value of investments in Russia."

Political, social and other conflicts and corruption create an uncertain operating environment that hinders our long-term planning ability and could adversely affect the value of investments in Russia.

The Russian Federation is a federation of 88 sub-federal political units, consisting of republics, territories, regions, districts, cities of federal importance and an autonomous region. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in many instances, unclear and remains contested. Lack of consensus between the federal government and local or regional authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. In particular, conflicting laws have been enacted in the areas of privatization, securities,



corporate legislation and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. This lack of consensus hinders our long-term planning efforts and creates uncertainties in our operating environment, both of which may prevent us from effectively and efficiently carrying out our business strategy. See also “—Legislative and Legal Risks— Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity in Russia and thus could have a material adverse effect on our business and the value of investments in Russia.”

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict, such as the continuing conflict in Chechnya, which has brought normal economic activity within Chechnya to a halt and disrupted the economies of neighboring regions. Violence and attacks relating to this conflict have also spread to other parts of Russia, including terrorist attacks in Moscow. The further intensification of violence, including terrorist attacks and suicide bombings, or its continued spread to other parts of Russia, could have significant political consequences and could materially adversely affect our results of operations and prospects and the value of investments in Russia.

The implementation of Russia’s economic reforms has also led from time to time to social protest. For example, in 1998, miners in several regions of Russia, demanding payment of overdue wages, resorted to strikes which included blocking major railroads, and, in early 2005, pensioners in cities across Russia protested the replacement of certain in-kind benefits with cash allowances. The escalation of social unrest could have an adverse effect on our ability to conduct business in Russia.

The Russian and international media have reported high levels of corruption in Russia and elsewhere in the CIS. Press reports have also described instances in which Government officials have engaged in selective investigations and prosecutions to further the interests of the Government and individual officials or business groups. Moreover, certain members of the Russian media appear to have published biased articles in exchange for payment. In addition, persons who are hostile to us and/or our management and/or our beneficial owners may allege, in the press or elsewhere, that we and/or our beneficial owners have engaged in illegal activities. Demands of corrupt officials, claims that we or our management or our beneficial owners have been involved in corruption or illegal activities or biased articles and negative publicity could adversely affect our ability to conduct our business and the value of investments in Russia.

The occurrence of any or all of the foregoing developments could adversely affect the value of investments in Russia, such as the Shares or GDRs.

Economic Risks

Emerging markets such as Russia are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt our business, as well as cause the value of investments in Russia to decline.

Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Investors should also note that emerging markets such as Russia are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in capital markets of all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Thus, even if the Russian economy remains relatively stable, financial turmoil in any emerging market country could seriously disrupt our business, as well as result in a decrease in the price of the Shares or GDRs.

Economic instability in Russia could adversely affect consumer demand for meat and other food products.

Since the dissolution of the Soviet Union in 1991, the Russian economy has experienced at various times:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high state debt relative to gross domestic product;



- a weak banking system providing limited liquidity to Russian enterprises;
- a large number of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- the growth of “black” and “grey” market economies;
- high levels of capital flight;
- high levels of corruption and the penetration of organized crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the Russian population.

The Russian economy has been subject to abrupt downturns. In particular, on August 17, 1998, in the face of a rapidly deteriorating economic situation, the Government defaulted on its ruble-denominated securities, the CBR stopped its support of the ruble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the ruble, a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and the inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the near collapse of the Russian banking sector after the events of August 17, 1998, which further impaired the ability of the banking sector to act as a reliable and consistent source of liquidity to Russian companies.

Recent favorable trends in the Russian economy, such as the increase in gross domestic product, a relatively stable ruble and a reduced rate of inflation, may not continue or may be abruptly reversed. For example, during 2005 economic growth slowed and consumer price inflation remained high, and consumer price inflation in Russia has remained high in the first quarter of 2006. In addition, because Russia produces and exports large quantities of oil and natural gas, the Russian economy is particularly vulnerable to fluctuations in the price of oil and natural gas on the world market, and a decline in the price of oil or natural gas could significantly slow or disrupt the Russian economy. The occurrence of any of these events could adversely affect consumer demand in Russia and thus our business, financial condition and results of operations.

The Russian banking system remains underdeveloped, and there are a limited number of creditworthy Russian banks.

Russia’s banking and other financial systems are not well developed or regulated, and Russian legislation relating to banks and bank accounts is subject to varying interpretation and inconsistent application. Many Russian banks do not meet international banking standards, and the transparency of the Russian banking sector in some respects still lags behind internationally accepted norms. Banking supervision is also often inadequate, as a result of which many banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves, diversification of exposure or other requirements. The imposition of more stringent regulations or interpretations could lead to weakened capital adequacy and the insolvency of some banks.

Recently, there has been a rapid increase in lending by Russian banks, which may be accompanied by a deterioration in the credit quality of the loan portfolio of those banks. In addition, a robust domestic corporate debt market is leading Russian banks to hold increasingly large amounts of Russian corporate ruble bonds in their portfolios, which is further deteriorating the risk profile of the assets of Russian banks. The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to market downturns or economic slowdowns, including due to Russian corporate defaults that may occur during any such market downturn or economic slowdown. In addition, in 2004, the CBR revoked the licenses of some Russian banks, which resulted in market rumors about additional bank closures and many depositors withdrawing their savings. Several privately-owned Russian banks collapsed or ceased or severely limited their operations, although Russian banks owned or controlled by the government or the CBR and foreign-owned banks generally were not adversely affected by the turmoil. If a banking crisis were to occur, Russian companies could be subject to severe liquidity constraints due to the limited supply of domestic savings and the potential withdrawal of foreign funding sources.

As of December 31, 2005, we held all of our cash in banks in Russia, denominated in rubles. Our ability to hold foreign currency cash in foreign banks located outside Russia is subject to Russian currency control regulations, including the requirement to notify the tax authorities of the opening of any such foreign accounts, as well as reservation requirements with respect to the transfer of funds to those foreign accounts from Russia. Bank



accounts in countries which are not members of the Organization for Economic Co-operation and Development or the Financial Action Task Force are also required to be registered with the CBR prior to opening. We currently hold all of our excess ruble and foreign currency cash in Russian banks, including subsidiaries of foreign banks. There is currently a limited number of creditworthy Russian banks, most of which are located in Moscow. We have tried to reduce our risk by receiving and holding funds in Russian banks that we believe are creditworthy, as well as subsidiaries of foreign banks. A banking crisis or the bankruptcy or insolvency of the banks from which we receive or with which we hold our funds could result in the loss of our deposits or affect our ability to complete banking transactions in Russia, which could have a material adverse effect on our business, financial conditions and results of operations.

The physical infrastructure in Russia is in poor condition, which could disrupt our normal business activities.

Russia's physical infrastructure largely dates back to Soviet times, and has not been adequately funded and maintained since the dissolution of the Soviet Union. Particularly affected are the rail and road networks, power generation and transmission, communication systems and building stock. Road conditions throughout Russia are poor, with many roads not meeting minimum requirements for use and safety. On May 25, 2005, a failure in the power transmission network interrupted electricity supplies in Moscow and four other regions of Russia, causing significant disruptions to business activity, and in January 2006, electricity supplies to certain industrial customers in Moscow were reduced as a result of extreme cold in Moscow. Service reductions, breakdowns and failures of any part of Russia's physical infrastructure may disrupt normal business activity.

In order to enhance the prospects of infrastructure improvement, the Government is reorganizing Russia's rail, electricity and telephone systems. Such reorganizations may result in increased charges and tariffs and may not result in the anticipated capital investment that is needed to repair, maintain and improve these systems. Significant increases in charges and tariffs, or further deterioration of Russia's infrastructure may limit economic growth, disrupt the transportation of goods and supplies and interrupt our business operations or those of our customers and suppliers, any or all of which could have a material adverse effect on our business and the value of investments in Russia.

Fluctuations in the global economy may materially adversely affect the Russian economy and our business.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia, and Russian businesses could face severe liquidity constraints, further materially adversely affecting those businesses and the Russian economy. Additionally, the Russian economy remains poorly diversified and retains a high degree of reliance on the natural resources sector. For example, as Russia produces and exports large amounts of oil, the Russian economy is especially vulnerable to the price of oil on the world market, and a decline in the price of oil could slow or disrupt the Russian economy. Russia is also a major producer and exporter of metal products, and its economy is vulnerable to fluctuations in world commodity prices and the imposition of tariffs and/or anti-dumping measures by the United States, the European Union, countries in Southeast Asia or by other principal export markets.

Legislative and Legal Risks

Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity in Russia and thus could have a material adverse effect on our business and the value of investments in Russia.

Russia is still developing the legal framework required to support a market economy. The following risks relating to the Russian legal system create uncertainties with respect to the legal and business decisions that we make, many of which do not exist in countries with more developed market economies:

- inconsistencies among (1) federal laws; (2) decrees, orders and regulations issued by the president, the Government and federal ministries; and (3) regional and local laws, rules and regulations;
- limited judicial and administrative guidance on interpreting Russian legislation;
- substantial gaps in the regulatory structure due to delay or absence of implementing regulations;
- the relative inexperience of judges and courts in interpreting new principles of Russian legislation;
- a lack of judicial independence from political, social and commercial forces;



- a high degree of discretion on the part of governmental authorities; and
- bankruptcy procedures that are not well developed and are subject to abuse.

Additionally, several fundamental laws in Russia have only recently become effective. The enactment of new legislation in the context of a rapid evolution to a market economy and the lack of consensus about the scope, content and pace of economic and political reforms has resulted in ambiguities, inconsistencies and anomalies in the overall Russian legal system. The enforceability and underlying constitutionality of many recently enacted laws is in doubt, and many new laws remain untested. Moreover, courts have limited experience in interpreting and applying many aspects of business and corporate law. Russian legislation also often contemplates implementing regulations that have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. All of these weaknesses could affect our ability to enforce our legal rights in Russia, including rights under contracts, or to defend against claims by others in Russia.

The independence of the judicial system and the prosecutor general's office and their immunity from economic, political and nationalistic influences in Russia is also incomplete. The court system is understaffed and underfunded; judicial precedents generally have no binding effect on subsequent decisions; and most court decisions are not readily available to the public. Enforcement of court judgments can in practice be very difficult in Russia. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims are often used in furtherance of political aims, and law enforcement agencies do not always enforce or follow court judgments. We may be subject to such claims and may not be able to receive a fair trial.

These uncertainties also extend to property rights. While legislation has been enacted to protect private property against expropriation and nationalization, due to the lack of experience in enforcing these provisions and political factors, these protections may not be enforced in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any of our businesses, their assets or portions thereof, potentially without adequate compensation, could have a material adverse effect on our business and prospects and on the value of investments in Russia, such as the Shares or GDRs.

Unlawful, selective or arbitrary government action may have an adverse effect on our business and the value of investments in Russia.

Governmental authorities have a high degree of discretion in Russia and at times appear to act selectively or arbitrarily, without hearing or prior notice, and in a manner that is contrary to law or influenced by political or commercial considerations. Moreover, the Government also has the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Unlawful, selective or arbitrary governmental actions have reportedly included denial or withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities also appear to have used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate the issuances or registrations or to void transactions, seemingly for political purposes. Standard & Poor's has expressed concerns that "Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups." In this environment, our competitors may receive preferential treatment from the Government and governmental authorities, potentially giving them a competitive advantage. Unlawful, selective or arbitrary government action, if directed at our operations, could have a material adverse effect on our business, results of operations and prospects and on the value of investments in Russia.

In addition, since 2003, the Ministry for Taxes and Levies (now succeeded by the Federal Tax Service) has begun to attack certain Russian companies' use of tax-optimization schemes, and press reports have speculated that these enforcement actions have been selective. For example, the Russian Federal Tax Service determined that Yukos owes in excess of U.S.\$28 billion in back taxes and related penalties, and, as noted above, in December 2004 Yukos' major production subsidiary, Yuganskneftegaz, was auctioned in partial settlement of these obligations. In addition, the press has reported significant claims for back taxes and related penalties against other oil companies, including TNK-BP; telecommunications companies, including OJSC Vimpelcom; and other major companies. In March 2005, President Putin announced that the Government was considering plans to reform the system of tax collection and administration. However, in April 2005 the back tax claim against TNK-BP for 2001 was increased significantly, though this amount was reportedly subsequently reduced. Sibneft, another oil company, also received large back tax claim, which was also subsequently reduced. As noted above, in his Annual Address to the Federal Assembly in April 2005, President Putin stated that tax authorities



should not “terrorize” taxpayers by repeatedly considering the same problems, and in June 2005 the Government submitted to the State Duma draft amendments to the Tax Code. These amendments are intended to facilitate the procedure for tax inspections and to make the activities of tax authorities more transparent. These proposed amendments were approved in the first reading by the State Duma in October 2005 and are currently being considered further by the State Duma. Although we believe that we are currently in compliance with all of our tax obligations with respect to our operations in the Russian Federation, there can be no assurance that the Federal Tax Service will not become more aggressive in respect of future tax audits, which may have an adverse effect on our results of operations and prospects.

Underdeveloped corporate and securities laws and regulations in Russia may limit our ability to attract investment.

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than in the United Kingdom, the United States and elsewhere in western Europe. Securities laws, including those relating to corporate governance, disclosure and reporting requirements, anti-fraud safeguards, insider trading restrictions and fiduciary duties have been adopted relatively recently and have more limited histories of interpretation and enforcement. In addition, the Russian securities market is regulated by several different authorities, including the Federal Service for the Financial Markets, the Ministry of Finance, the Federal Antimonopoly Service, the CBR and various professional self-regulatory organizations, which are at times in competition with or operate in contradiction to each other.

Russian corporate and securities rules and regulations are also subject to rapid change. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether or how regulations, decisions and letters issued by various regulatory authorities apply to us. As a result, we may be subject to fines or other enforcement measures despite our best efforts at compliance. Any or all of these factors may adversely affect our ability to conduct securities-related transactions, including the Offering.

There is only limited protection of minority shareholders in Russia.

In general, minority shareholder protection under Russian law derives from supermajority shareholder approval requirements for some corporate actions, as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on some types of actions. Companies are also required by Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. See “Description of Capital Stock and Certain Requirements of Russian Legislation—Description of Share Capital.” While these protections are similar to the types of protections available to minority shareholders in U.S. corporations, in practice, corporate governance standards for many Russian companies have proven to be poor, and minority shareholders in Russian companies have on occasion suffered losses due to abusive share dilutions, asset transfers and transfer pricing practices. Some companies have conducted shareholder meetings in an irregular manner, shareholder resolutions have not always been respected by management and shareholders of some companies also suffered as a result of fraudulent bankruptcies initiated by hostile creditors.

In addition, the supermajority shareholder approval requirement is satisfied by a vote of 75% of all voting shares that are present at a shareholders’ meeting. As a result, a controlling shareholder owning slightly less than 75% of outstanding shares of a company may have a 75% or more voting power if certain minority shareholders are not present at the meeting. In situations where a controlling shareholder effectively has 75% or more of the voting power at a shareholders’ meeting, that controlling shareholder is in a position to approve amendments to the charter of the company or significant transactions including asset transfers, which could be prejudicial to the interests of minority shareholders. Any such actions by our controlling shareholders or management could materially and adversely affect the value of the Shares and GDRs.

While the Joint Stock Companies Law provides that shareholders owning not less than 1% of the company’s stock may bring an action for damages suffered by the company, Russian courts to date have not had much experience with respect to such lawsuits. In addition, Russian law does not contemplate class action litigations. Accordingly, your ability to pursue legal redress against us and the Selling Shareholder may be limited.

Moreover, some protections for minority investors that are provided under Russian law may impose additional costs on us. For example, the Law on Joint Stock Companies provides that shareholders that vote against or abstain from voting on certain matters have the right to sell their shares to the company at market



value. The decisions that trigger this right to sell shares include decisions with respect to a reorganization; the approval by shareholders of a “major transaction,” which, in general terms, is a transaction involving property worth 25% or more of the gross book value of the company’s assets calculated according to Russian accounting standards, regardless of whether the transaction is actually consummated; and the amendment of the company’s charter in a manner that limits shareholder rights. Any obligation by the Company or its subsidiaries to purchase shares in these circumstances, though limited to 10% of the relevant company’s net assets calculated in accordance with Russian accounting standards at the time the matter at issue is voted upon, could have a material adverse effect on our results of operations and financial condition.

The lack of a central and rigorously regulated share registration system in Russia may result in improper record ownership of our shares, including the Shares and the shares underlying the GDRs.

Ownership of Russian joint stock company shares (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a share register and is evidenced by extracts from that register. Currently, there is no central registration system in Russia. Share registers are maintained by the companies themselves or, if a company has more than 50 shareholders or so elects, by licensed registrars located throughout Russia. Regulations have been issued regarding the licensing conditions for such registrars, as well as the procedures to be followed by both companies maintaining their own registers and licensed registrars when performing the functions of registrar. In practice, however, these regulations have not been strictly enforced, and registrars often have relatively low levels of capitalization and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a central and rigorously regulated share registration system in Russia, transactions in respect of a company’s shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence, official and unofficial governmental actions or oversight by registrars incapable of compensating shareholders for their misconduct. This creates risks of loss not normally associated with investments in other securities markets. Further, the Depositary, under the terms of the Deposit Agreement, is not liable for the unavailability of shares or for the failure to make any distribution of cash or property with respect thereto due to the unavailability of the shares. See “Description of Capital Stock and Certain Requirements of Russian Legislation—Registration and Transfer of Shares” and “Terms and Conditions of the Global Depositary Receipts” for a further discussion of the share registration system and registrars in the Russian Federation and the Depositary’s obligations.

Shareholder liability under Russian legislation could cause us to become liable for the obligations of our subsidiaries.

The Russian Civil Code, the Law on Joint Stock Companies and the Law on Limited Liability Companies generally provide that shareholders in a Russian joint stock company or limited liability company are not liable for the obligations of the company and bear only the risk of loss of their investment. This may not be the case, however, when one person (an “effective parent”) is capable of determining decisions made by another (an “effective subsidiary”). The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between the companies; and
- the effective parent gives obligatory directions to the effective subsidiary.

In addition, an effective parent is secondarily liable for an effective subsidiary’s debts if an effective subsidiary becomes insolvent or bankrupt as a result of the action or inaction of an effective parent. This is the case regardless of how the effective parent’s capability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary’s losses from the effective parent that caused the effective subsidiary to act or fail to act, knowing that such action or inaction would result in losses. All of our debt consists of obligations of our direct or indirect Russian subsidiaries. Accordingly, in the Company’s position as an effective parent, it could be liable in some cases for the debts of its effective subsidiaries in Russia.

Weaknesses and changes in the Russian tax system could materially adversely affect our business and the value of investments in Russia.

Generally, taxes payable by Russian companies are substantial and numerous. These taxes include, among others, income taxes, value-added tax (“VAT”), unified social tax and property tax.



The tax environment in Russia has historically been complicated by the fact that various authorities have often issued contradictory pieces of tax legislation. Because of the political changes which have occurred in Russia over the past several years, there have recently been significant changes to the Russian taxation system.

Tax reform commenced in 1999 with the introduction of Part One of the Russian Tax Code, which sets out general taxation guidelines. Since then, Russia has been in the process of replacing legislation regulating the application of major taxes such as corporate income tax, VAT and property tax with new chapters of the Tax Code. For instance, new chapters of the Tax Code on VAT, excise tax, unified social tax and personal income tax came into force on January 1, 2001; the profits tax and mineral extraction tax chapters came into force on January 1, 2002; the corporate property tax chapter of the Tax Code came into force on January 1, 2004; and the land and water tax chapters of the Tax Code came into force on January 1, 2005.

In practice, Russian tax authorities often have their own interpretation of the tax laws that rarely favours taxpayers, who often have to resort to court proceedings to defend their position against the tax authorities. Differing interpretations of tax regulations exist both among and within government ministries and organizations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with related documentation such as customs declarations, are subject to review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges. Generally, taxpayers are subject to a tax audit for a period of three calendar years of their activities which immediately preceded the year in which the audit is carried out. However, previous audits do not completely exclude the possibility of subsequent claims relating to the audited period, as Russian tax law authorizes upper-level tax inspectorates to review the results of tax audits conducted by subordinate tax inspectorates. As a result, the statute of limitations is not entirely effective. In addition, on July 14, 2005 the Russian Constitutional Court issued a decision that allows the statute of limitations for tax liabilities to be extended beyond the three-year term set forth in the tax laws if a court determines that a taxpayer has obstructed or hindered a tax audit. As none of the relevant terms is defined, tax authorities may therefore have broad discretion to argue that a taxpayer has “obstructed” or “hindered” an audit and ultimately seek penalties for periods beyond the three-year statutory term. In addition, in some instances, new tax regulations have been given retroactive effect.

Moreover, financial results of Russian companies are not consolidated for tax purposes. Therefore, each of our subsidiaries pays its own Russian taxes and may not offset its profit or loss against the loss or profit of another entity in our consolidated group. In addition, dividends are subject to a withholding tax of 9% if distributed to Russian companies and Russian resident individuals, 15% if distributed to foreign companies and 30% if distributed to individuals who are not Russian residents. If a Russian company that receives intercompany dividends itself pays a dividend, it may offset the withholding tax paid against its own withholding liability for the dividend that it pays to Russian companies and individuals resident in Russia, though not against any withholding made on a distribution to foreign companies or non-resident individuals. These tax requirements may impose additional burdens and costs on our operations.

The foregoing ambiguities in the application and interpretation of Russian tax law and regulations and other conditions create tax risks in Russia that are more significant than typically found in countries with more developed tax systems, imposing additional burdens and costs on our operations, including management resources. There can be no assurance that current taxes will not be increased, that additional tax charges will not be imposed on us or that additional sources of revenue or income, or other activities, will not be subject to new taxes, charges or similar fees in the future. For a further discussion of the risks and uncertainties associated with the enforcement and application of the tax regime in Russia, see “—Legislative and Legal Risks—Unlawful, selective or arbitrary government action may have an adverse effect on our business and the value of investments in Russia.” In addition to our substantial tax burden, these risks and uncertainties complicate our tax planning and related business decisions, potentially exposing us to significant fines and penalties and enforcement measures despite its best efforts at compliance, and could adversely affect our business and results of operations and the value of investments in Russia.

Risks Relating to the GDRs, the Shares and the Trading Market

Because the Depositary may be considered the beneficial holder of shares represented by the GDRs, as a result of which these shares may be arrested or seized in legal proceedings in Russia against the Depositary.

Russian law may not recognize GDR holders as beneficial owners of the underlying shares. Accordingly, holders of GDRs could lose all of their rights to those Shares if the Depositary’s assets in Russia are seized or



arrested. In that case, they would lose all the money they invested. Russian law may treat the Depositary as the beneficial owner of the shares underlying the GDRs. This is different from the way other jurisdictions treat GDRs. In the United States, although shares may be held in the Depositary's name or to its order, making it a "legal" owner of the shares, the GDR holders are the "beneficial," or real owners. In U.S. or U.K. courts, an action against the Depositary, the legal owner of the shares, would not result in the beneficial owners losing their shares. Russian law may not make the same distinction between legal and beneficial ownership, and it may only recognize the rights of the Depositary in whose name the Shares are held, not the rights of GDR holders, to the underlying shares. Thus, in proceedings brought against a depositary, whether or not related to shares underlying GDRs, Russian courts may treat those underlying shares as the assets of the depositary, open to seizure or arrest. In the past, a lawsuit was filed against a depositary bank seeking the attachment of various Russian companies' shares represented by GDRs issued by that depositary. In the event that this type of suit were to be successful in the future against the Depositary, and the Shares underlying our GDRs were to be seized or arrested, the GDR holders involved would lose their rights to such underlying Shares.

Voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreement for the GDRs and relevant requirements of Russian law.

GDR holders will have no direct voting rights with respect to the Shares represented by the GDRs. They will be able to exercise voting rights with respect to the Shares represented by GDRs only in accordance with the provisions of the Deposit Agreement relating to the GDRs and relevant requirements of Russian law. There are, therefore, practical limitations upon the ability of GDR holders to exercise their voting rights due to the additional procedural steps involved in communicating with them. For example, our charter requires us to notify shareholders at least 30 days in advance of any meeting and, in relation to an extraordinary meeting to elect directors, the Joint Stock Companies Law requires at least 50 days' notice. Our common shareholders will receive notice directly from us and will be able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

GDR holders, by comparison, will not receive notice directly from us. Rather, in accordance with the Deposit Agreement, we will provide that notice to the Depositary. The Depositary has undertaken, in turn, as soon as reasonably practicable thereafter, if requested by us in writing in a timely manner and at our expense, and provided there are no U.S., English or Russian legal prohibitions (including, without limitation, the rules of the London Stock Exchange or the rules of any Russian stock exchange on which the Shares are listed or admitted to trading), to mail to GDR holders notice of the meeting, copies of voting materials (if and as received by the Depositary from us) and a statement as to the manner in which instructions may be given by holders. To exercise their voting rights, GDR holders must then instruct the Depositary how to vote the Shares represented by the GDRs they hold. Because of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for them than for holders of the Shares and we cannot assure GDR holders that they will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. GDRs for which the Depositary does not receive timely voting instructions will not be voted. In addition, although Russian securities regulations expressly permit the Depositary to split the votes with respect to the Shares underlying the GDRs in accordance with instructions from GDR holders, such regulations remain untested, and the Depositary will, if requested by the Company, refrain from voting altogether unless it receives instructions from all GDR holders to vote the Shares in the same manner. Moreover, GDR holders may not exercise voting rights in respect of fractional shares. GDR holders may thus have significant difficulty in exercising voting rights with respect to the Shares underlying the GDRs. There can be no assurance that holders and beneficial owners of GDRs will (i) receive notice of shareholder meetings to enable the timely return of voting instructions to the Depositary, (ii) receive notice to enable the timely cancellation of GDRs in respect of shareholder actions (as discussed below) or (iii) be given the benefit of dissenting or minority shareholders' rights in respect of an event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions. See "Terms and Conditions of the Global Depositary Receipts" for a description of the voting rights of holders of GDRs.

Holders of GDRs will also not be able to instruct the Depositary to introduce proposals for the agenda of shareholders' meetings, request that a shareholders' meeting be called, nominate candidates for our Board of Directors or our revision commission or otherwise exercise the rights of minority ownership arising under the Joint Stock Companies Law. See "Description of Capital Stock and Certain Requirements of Russian Legislation." If holders of GDRs wish to take such actions, they must timely request that their GDRs be cancelled and take delivery of the shares and thus become the owner of the shares on our share register.



The offering may not result in an active or liquid market for the Shares or GDRs, and their price may be highly volatile.

Before the offering, there has been no prior market for the GDRs and no active public market for the Shares. Although applications have been made to the U.K. Listing Authority for the GDRs to be admitted to the Official List and to the London Stock Exchange for such GDRs to be admitted to trading on the Regulated Market, an active public market may not develop or be sustained after the offering. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If a liquid trading market for the GDRs does not develop, the price of the GDRs may become more volatile and it may be more difficult to complete a buy or sell order for the GDRs. Prior to the listing of the shares on the MSE and the RTS, there was limited trading in the shares, including trading by certain affiliates of the Underwriters. As trading in the shares was limited, the prices at which those shares traded may not be representative of the trading prices of the shares or GDRs following the offering.

The liquidity of a securities market is often a function of the volume of the underlying shares that are publicly held by unrelated parties. Although GDR holders are entitled to withdraw the Shares underlying the GDRs from the Depositary, prior to the Offering there is effectively no public free float for our shares on the MSE and RTS, where they are currently listed, and there may only be a very limited public free float in the future, thereby limiting the liquidity of these shares. The inability to convert shares into GDRs due to the restrictions on the proportion of a Russian company's shares may be circulated abroad through depositary receipt programs may also have an adverse effect on the development of a liquid trading market for the shares and GDRs. Low trading volumes and/or the low amount of shares publicly held by unrelated parties may result in a delisting of the shares and/or the imposition of other liabilities, which would have a material adverse effect on the liquidity of the Shares and GDRs. See also "Settlement and Delivery—Settlement and Delivery of Shares" for a discussion of the requirements to hold and transfer interests in shares.

The trading prices of the Shares and GDRs may be subject to wide fluctuations in response to a number of factors. In addition, the Russian stock markets have experienced extreme price and volume fluctuations. These market fluctuations could adversely affect the value of the Shares and GDRs. Moreover, the market price of the Shares and GDRs may decline below the Offer Price, which will be determined by negotiations between us, the Selling Shareholders and the Underwriters.

The Depositary has not obtained prior approval from the Russian Federal Antimonopoly Service to accept deposits in excess of 20% of our shares.

Under Russian antimonopoly laws, an individual or legal entity must receive a prior approval of the Federal Antimonopoly Service (the "FAS") before acquiring more than 20% of the voting rights of a company of our size. A deposit of voting shares into a depositary facility may be considered to be an acquisition of voting rights by the depositary, even though the depositary has no discretion with respect to voting the deposited shares and may not dispose of them. Following the Offering, the Depositary will hold more than 20% of our shares, but has not sought, and does not currently intend to, obtain approval from the FAS for deposits in excess of 20% of our shares, including the Shares. Failure to obtain these approvals could result in fines being assessed against the depositary or the deposits being held to be invalid.

The Depositary has applied to the FAS for clarification that no approval by the FAS is required for the deposit by the Selling Shareholder of the Shares being sold in the Offering in the form of GDRs because our Depositary will have no discretion with respect to voting the deposited shares and will not have the authority to dispose of them. In addition, we understand that other depositaries have previously made deposits of more than 20% of the voting shares of other Russian companies into their depositary facilities without having sought or obtained approval from the FAS. While no challenges to these prior deposits have been brought to date, there can be no assurance that fines will not be levied and/or challenges made in the future. If any such challenge were to be successful, these other deposits could be declared invalid, which could result in the cancellation of GDRs (but not the shares represented thereby) and adversely affect the trading market for the GDRs.

You may be unable to repatriate your earnings from distributions made on the GDRs.

In its Information Letter No. 31 dated March 31, 2005, the CBR declared that, for currency control purposes, Russian companies may pay dividends in foreign currency to their shareholders who are not Russian residents. We believe that this declaration has not yet been widely tested in practice and we can give no assurance that it will not be reversed in the future. If Russian companies were again required to pay all dividends on common shares in rubles, current Russian legislation permits such ruble funds to be converted into U.S.



dollars by the Depositary without restriction. The CBR has the right to introduce a 100% reserve requirement for the acquisition by residents of foreign currency for a period of up to 60 calendar days, which may impact on the timing of payment of dividends. The ability to convert rubles into U.S. dollars is subject to the availability of U.S. dollars in Russia's currency markets. Although there is an existing, albeit limited, market within Russia for the conversion of rubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is no market for the conversion of rubles into foreign currencies outside of Russia and no viable market in which to hedge rubles and ruble-denominated investments.

New rules proposed by the FSFM for conducting initial public offerings and issuing GDR permissions could result in a cancellation of our proposed capital increase and/or a suspension or revocation of the permission for our GDR program.

The FSFM has recently adopted amendments to a number of regulations to facilitate initial public offerings by Russian companies (the "New IPO Rules"). The New IPO Rules are designed to ensure that Russian companies structure initial public offerings through the so-called open subscriptions. In addition, the FSFM is currently considering amending the rules regulating permissions for the GDR programs with a view of promoting offerings of shares of Russian issuers on the Russian stock markets. Under the existing regulations, which have recently become effective, a Russian company offering newly issued shares for placement outside Russia must offer to place these shares on a Russian stock exchange or via a Russian broker and may place no more than 70% of the offering of such shares in the form of GDRs. The FSFM has proposed to extend this local tranche requirement also to cover secondary offerings of shares of Russian companies in the form of GDRs offered by selling shareholders. The FSFM also proposes to require that a selling shareholder submit to the FSFM an undertaking to evidence its obligation to offer shares in Russia in connection with the application for the permission for the GDR program.

Our capital increase is structured as a so-called closed subscription by the Selling Shareholder of the New Shares. Although we believe that the structure of the Offering complies with the existing FSFM regulations, there is a risk that our capital increase could be challenged or that the proposed amendments to the FSFM regulations governing GDR programs may be applied retroactively. Accordingly, the decisions of our shareholder and Board of Directors to issue new shares to the Selling Shareholder may be invalidated or the size of our GDR program could be effectively limited to 70% of the total size of the Offering. No assurance can be given that the FSFM will not conduct an investigation or otherwise conclude that the structure of the Offering was designed to circumvent the requirements of the existing or proposed FSFM regulations and the spirit of the FSFM policy. As a result, there is a risk that our capital increase may be cancelled or the FSFM permission for our GDR program could be suspended or revoked. Any such action by the FSFM could prevent us from receiving any proceeds from the Selling Shareholder in the closed subscription and adversely affect the price of our Shares and GDRs. In addition, if the permission for our GDR program is suspended or revoked, holders of shares or GDRs may be unable to trade their securities, convert between shares and GDRs or otherwise make use of the GDR facilities.

In certain circumstances, our shares may be de-listed or the permission we expect to receive in order to establish our GDR facility may be suspended or revoked.

As a prerequisite for obtaining permission from the FSFM to establish a GDR program, we obtained "B"-type listings for our shares on the RTS and MSE. One of the requirements for obtaining the listing is that no more than 90% of our outstanding shares may be owned by a group of affiliates. To enable us to comply with this requirement, on March 30, 2006, Cherkizovsky Group Limited, our principal and selling shareholder, entered into a share repurchase agreement, under which Cherkizovsky Group Limited transferred 8.9% of our shares to other parties. These shares are currently held by Renaissance Securities (Cyprus) Limited, which is one of the Underwriters in the Offering. See "Principal and Selling Shareholders" for a discussion of this arrangement.

The FSFM has not given any official guidance as to how this requirement that no more than 90% of a company's shares may be owned by a group of affiliates should be met or whether share repurchase arrangements, such as the one used in connection with our listing application, can be used to satisfy this requirement. The FSFM and the Russian stock exchanges have the authority to commence an investigation and take regulatory action with respect to any listing by an issuer, and were either the FSFM or the stock exchange to conclude that the share repurchase agreement was not sufficient for purposes of complying with the listing requirement outlined above, our shares could be de-listed and the permission from the FSFM for our GDR facility could be suspended or revoked. Any such investigation or action by the FSFM or the stock exchanges could adversely affect the price of our shares and GDRs. In addition, if our shares are de-listed or permission for



our GDR program is suspended or revoked, holders of shares or GDRs may be unable to trade their securities, convert between shares and GDRs or otherwise make use of the GDR facility.

Future sales of our shares or GDRs may affect the market price of the Shares or GDRs.

Sales, or the possibility of sales, of substantial numbers of our shares, or our shares in the form of GDRs, in the public markets, including the Russian stock market, following the offering could have an adverse effect on the trading prices of the Shares or GDRs or could affect our ability to obtain further capital through an offering of equity securities. Subsequent equity offerings may reduce the percentage ownership of our existing shareholders. Moreover, newly issued shares may have rights, preferences or privileges senior to those of the Shares.

Holders of shares or GDRs may not be able to benefit from double tax treaties.

In accordance with Russian legislation, dividends paid to a non-resident holder of Shares or GDRs generally will be subject to Russian withholding tax at a rate of 15% for legal entities and organizations and at a rate of 30% for individuals. This tax may be reduced to 5% or 10% for legal entities and organizations and to 10% for individuals under the United States-Russia double tax treaty for U.S. holders entitled to treaty benefits and to 10% under the United Kingdom-Russia double tax treaty for U.K. holders entitled to treaty benefits. However, the Russian tax rules applicable to GDR holders are characterized by significant uncertainties and, until recently, by an absence of interpretive guidance. In 2005, the Russian Ministry of Finance expressed an opinion that GDR holders should be treated as the beneficial owners of the underlying shares for the purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that tax residencies of the GDR holders are duly confirmed. However, in the absence of any specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, it is unclear how the Russian tax authorities and courts will ultimately treat the GDR holders in this regard. Thus, in the absence of any official interpretative guidance on the concept of beneficial ownership for Russian tax purposes, we will likely withhold tax at non-treaty rates when paying dividends to holders of the GDRs and U.S. and U.K. holders of GDRs may be unable to benefit from the relevant income tax treaties. See “Taxation—Russian Federation” for further details.

Capital gains from the sale of GDRs may be subject to Russian income tax.

Under Russian tax legislation, gains arising from the sale, exchange or other disposition by legal entities or organizations of Russian shares and securities, such as the Shares, as well as financial instruments derived from such shares, such as the GDRs, may be subject to Russian profit tax or withholding tax if immovable property located in Russia constitutes more than 50% of our assets. However, no procedural mechanism currently exists to withhold and remit this tax with respect to sales made to persons other than Russian companies and foreign companies with a registered permanent establishment in Russia. Gains arising from the sale, exchange or other disposition at foreign stock exchanges of the foregoing types of securities listed on these exchanges by non-resident holders that are legal entities are not subject to taxation in Russia. Therefore, so long as the GDRs remain listed on the London Stock Exchange, gains arising from the sale, exchange or other disposition on the London Stock Exchange of GDRs by non-resident legal entities or organizations should not be subject to taxation in Russia.

Gains arising from the sale, exchange or other disposition of the Shares or GDRs outside of Russia by holders who are individuals not resident in Russia for tax purposes will not be considered Russian source income and will not be taxable in Russia. Gains arising from the sale, exchange or other disposition of the Shares or GDRs in Russia by holders who are individuals not resident in Russia for tax purposes may be subject to tax either at the source in Russia or based on an annual tax return, which they may be required to submit to the Russian tax authorities. See “Taxation—Russian Federation.”

The number of shares that can be deposited into the GDR program is limited, and requires certain approvals from Russian authorities that have not yet been obtained.

Russian securities regulations currently provide that no more than 35% of a Russian company’s shares may be circulated abroad through sponsored depositary receipt programs. Accordingly, there are significant practical and legal limitations which effectively cap the size of our GDR program at 35% of our issued share capital. On April 27, 2006, we received approval from Russian securities regulatory authorities for up to 35% of our issued and outstanding shares prior to the Offering to be circulated abroad, or approximately 29% of our issued and outstanding shares after giving effect to the issuance of the New Shares. Receipt of this approval



is a prerequisite for the issuance of GDRs on the Closing Date and the admission of the GDRs to trading on the London Stock Exchange. Upon completion of the Offering and assuming exercise of the Over-allotment Option in full, our GDR program would not have any remaining capacity to accept deposits of Shares, assuming that the maximum number of Shares being sold in the form of GDRs in the Offering are held in the form of GDRs. As a result, holders of our Shares may be unable to deposit them in order to receive GDRs. In addition, there can be no assurance that we would be able to increase the share of our charter capital that is authorized to circulate in the form of GDRs to the maximum of 35% of our issued and outstanding shares after giving effect to the issuance of the New Shares. Accordingly, investors may not be able to deposit shares into our GDR program in order to receive GDRs.

You may have limited recourse against us and our directors and executive officers because we generally conduct our operations outside the United States and the United Kingdom and most of our current directors and executive officers reside outside the United States and the United Kingdom.

Our presence outside the United States and the United Kingdom may limit your legal recourse against us. We are incorporated under the laws of the Russian Federation. All but one of our current directors and executive officers reside outside the United States and the United Kingdom, principally in the Russian Federation. All or a substantial portion of our assets and the assets of our current directors and executive officers are located outside the United States and the United Kingdom, principally in the Russian Federation. As a result, you may not be able to effect service of process within the United States or the United Kingdom upon us or our directors and executive officers or to enforce U.S. or U.K. court judgments obtained against us or our directors and executive officers in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of U.S. securities laws. In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon U.S. or U.K. securities laws.

There is no treaty between the United States and the Russian Federation or the United Kingdom and the Russian Federation providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters. These limitations may deprive you of effective legal recourse for claims related to your investment in the Shares and GDRs. The Deposit Agreements provide for actions brought by any party thereto against us to be settled by arbitration in accordance with the rules of the London Court of International Arbitration. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards, but it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including the inexperience of Russian courts in international commercial transactions, official and unofficial political resistance to enforcement of awards against Russian companies in favor of foreign investors and Russian courts' inability to enforce such orders and corruption in Russia.

Other Risks

We have not independently verified information we have sourced from third parties.

We have sourced certain information contained in this prospectus from third parties, including the Meat Union, IKAR and other private companies and institutes, international organizations and Russian government agencies, and we have relied on the accuracy of this information without independent verification. One of the members of our Board of Directors, Mr. Musheg Mamikonian, has been President of the Meat Union since 1998 (see "Directors and Management"). Official data published by Russian federal, regional and local governments may be substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries. In addition, certain information has been obtained from research prepared by Scanmarket at our request. Any discussion of matters relating to Russia in this prospectus must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. In addition, the veracity of some official data released by the Russian government may be questionable, and such data may be subject to revisions.



USE OF PROCEEDS

Net proceeds to the Selling Shareholder of the Offering will be approximately U.S.\$243.4 million, assuming no exercise of the Over-allotment Option, or U.S.\$276.8 million, assuming that the Over-allotment Option is exercised in full. Total underwriting commissions, taxes, fees and expenses payable by the Selling Shareholder from the proceeds of the Offering are up to approximately U.S.\$6.3 million, assuming no exercise of the Over-allotment Option, or up to approximately U.S.\$7.1 million, assuming that the Over-allotment Option is exercised in full. The Selling Shareholder has committed to use approximately U.S.\$146.2 million of the net proceeds of the Offering to it to subscribe for 67,427 New Shares. The Selling Shareholder will subscribe for the New Shares at an offer price of U.S.\$2,169 per New Share (the Offer Price per Share after deduction of the total estimated underwriting commissions, taxes, fees and expenses payable in connection with the Offering, assuming that the Over-allotment Option is exercised in full). We intend to use the proceeds from the sale of the New Shares to the Selling Shareholder to finance potential acquisitions of meat processing and poultry assets, to repay indebtedness and to invest in the development of our pork business. We will not receive any proceeds from the sale of shares by the Selling Shareholder other than to the extent used to subscribe for the New Shares.



DIVIDEND POLICY

We did not pay dividends during the years ended December 31, 2005, 2004 and 2003 and we do not expect to declare or pay any dividends for the foreseeable future. Instead, we plan to reinvest all net profits into our business.

The Law on Joint Stock Companies and our charter set forth the procedure for determining the dividends that we distribute to our shareholders. According to our charter, we may distribute dividends based on the Company's first quarter, six months, nine months or annual results according to the statutory non-consolidated accounts of the Company prepared under Russian accounting standards. Dividends are recommended to a shareholders' meeting by a majority vote of the board of directors, and must be approved by a majority vote of the shareholders' meeting. A decision on quarterly, six month and nine month dividends must be taken within three months of the end of the respective period, and a decision on annual dividends must be taken at the annual general shareholders' meeting (which should be held not more than six months after the end of the relevant financial year). The dividend approved at the shareholders' meeting may not be more than the amount recommended by the board of directors. Dividends are distributed to holders of our shares as of the record date for the shareholders' meeting approving the dividends. Under our charter, dividends are paid in money or by other property. See "Description of Capital Stock and Certain Requirements of Russian Legislation—Description of Share Capital—Dividends."

The Company's income and its ability to pay dividends depend primarily upon the receipt of dividends and distributions from its subsidiaries. The receipt of dividends from such subsidiaries is contingent upon sufficiency of the subsidiaries' earnings, cash flow and distributable profits. The payment of dividends by certain of the Company's subsidiaries in our meat processing segment is also currently prohibited by the terms of our loan from the EBRD. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital resources."

We expect that any dividends we may pay in the future in respect of the Shares represented by the GDRs will be declared and paid to the Custodian for the Depositary in rubles. To the extent that we pay such dividends in rubles, the Depositary will convert such dividends into U.S. dollars and distribute them to holders of the GDRs, net of the Depositary's fees and expenses. Accordingly, the value of dividends received by holders of the GDRs may be subject to fluctuations in the exchange rate between the ruble and the U.S. dollar. In addition, dividends that we may distribute to the Depositary will be subject to applicable Russian withholding taxes. See "Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—Holders of shares or GDRs may not be able to benefit from double tax treaties" and "Taxation—Russian Federation—Taxation of Dividends."



CAPITALIZATION

The following table sets forth, at December 31, 2005, (a) the Company's historical cash and cash equivalents, short and long-term borrowings and total capitalization, and (b) the Company's cash and cash equivalents, short and long-term borrowings and total capitalization as adjusted to reflect the issuance of the New Shares to the Selling Shareholder and the application of the proceeds to the Company thereof at an offer price of U.S.\$2,169 per New Share (the Offer Price per Share after deduction of the total estimated underwriting commissions, taxes, fees and expenses payable in connection with the Offering, assuming that the Over-allotment Option is exercised in full).

	At December 31, 2005	
	Historical	As adjusted ⁽¹⁾⁽²⁾
	(thousands of U.S. dollars)	
Cash and cash equivalents	5,200	151,449
Short-term loans (including current portion of long-term loans) ⁽³⁾	90,342	90,342
Long-term loans and notes payable, net of current portion ⁽³⁾	143,774	143,774
Shareholders' Equity		
Share capital ⁽⁴⁾	12	14
Additional paid-in capital	63,614	209,861
Other accumulated comprehensive loss	(13,114)	(13,114)
Retained earnings	11,996	11,996
Total shareholders' equity	62,508	208,757
Total capitalization ⁽⁵⁾	206,282	352,531

Notes:

- (1) Adjusted to give effect to the application of the net proceeds to the Company of the issuance of the New Shares at a price per New Share of U.S.\$2,169, but not adjusted for any other changes subsequent to December 31, 2005.
- (2) Unaudited.
- (3) Includes loans from related parties.
- (4) Assuming an exchange rate of U.S.\$1= RR28.78 as of December 31, 2005.
- (5) Total of long-term loans and notes payable, net of current portion, and shareholders' equity.

Since December 31, 2005, we have entered into additional loan agreements and made draw-downs on existing agreements with Gazprombank in the aggregate principal amount of approximately U.S.\$40.0 million that bear interest from 12.00% to 14.20% per annum and are due in 2007 through 2010, and received additional loans of U.S.\$5.3 million due in 2010 and 2011 and bearing interest from 6.00% to 16.00% per annum. We have also received additional short-term borrowings of approximately U.S.\$49.7 million, and made total repayments of short-term loans and current portion of long-term loans of U.S.\$51.8 million.

On March 27, 2006 we entered into an agreement with Gazprombank that enables us to place a total of RR5 billion (U.S.\$173.7 million) in bonds bearing interest of up to 9.25% per annum. The bonds are to be placed in two tranches, one for RR2 billion (U.S.\$69.5 million) by June 30, 2006 and the other for RR3 billion (U.S.\$104.2 million) within one year from the date of registration of the first tranche with the FSFM. The bonds are to have a five year maturity with interest paid every 182 days, and will require us to meet certain covenants.

Except as described above, there has been no material change in the Company's total capitalization since December 31, 2005.



DILUTION

The Company's consolidated net tangible book value at December 31, 2005 was approximately U.S.\$39.8 million, resulting in consolidated net tangible book value per share of U.S.\$121.30. Consolidated net tangible book value per share represents the amount of the Company's total tangible assets less total liabilities and minority interest, divided by the number of shares outstanding.

Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of GDRs in the Offering and the net tangible book value per share immediately after the completion of the Offering and the issuance of the New Shares to the Selling Shareholder. Following the issuance by the Company of 67,427 shares to the Selling Shareholder at an offering price of U.S.\$2,169 per New Share (the Offer Price per Share after deduction of the total underwriting commissions, taxes, fees and expenses payable by the Company in connection with the Offering, assuming that the Over-allotment Option is exercised in full), the Company's net tangible book value as of December 31, 2005, as adjusted, would have been U.S.\$186.1 million, or U.S.\$470.28 per share. This will represent an immediate increase in net tangible book value of U.S.\$349.0 per share to existing shareholders and an immediate dilution of U.S.\$1,817.22 per Share or U.S.\$12.11 per GDR to new investors in the Offering (based on a ratio of 150 GDRs per share) immediately following the issuance of the New Shares.

	U.S.\$
Offering price to the Company per New Share	2,169.00
Net tangible book value per share immediately before the Offering	121.30
Net tangible book value per GDR immediately before the Offering ⁽¹⁾	0.81
Increase in net tangible book value per share attributable to the issuance of the New Shares	349.0
Increase in net tangible book value per GDR attributable to the issuance of the New Shares	2.33
Pro forma net tangible book value per share immediately after the issuance of the New Shares	470.28
Pro forma net tangible book value per GDR immediately after the issuance of the New Shares	3.14
Dilution per Share to investors in the Offering after giving effect to the issuance of the New Shares	1,817.22
Dilution per GDR to investors in the Offering after giving effect to the issuance of the New Shares	12.11

Note:

(1) 150 GDRs represent an interest in one Share.



SELECTED HISTORICAL COMBINED AND CONSOLIDATED FINANCIAL INFORMATION

The selected combined and consolidated financial information set forth below shows our historical combined and consolidated financial information and other operating information as of December 31, 2005, 2004 and 2003 and for the years then ended. The combined and consolidated financial information as of December 31, 2005, 2004 and 2003 and for the years then ended has been extracted without material adjustment from, and should be read in conjunction with, the combined and consolidated financial statements included elsewhere in this Prospectus. The combined and consolidated financial information should also be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” below. Our combined and consolidated financial statements have been prepared in accordance with U.S. GAAP, which differ in certain respects from IFRS. See “Summary of Certain Differences between U.S. GAAP and IFRS.”

	Year ended December 31,		
	2005	2004	2003
	(thousands of U.S. dollars, except per share data and as noted)		
COMBINED AND CONSOLIDATED STATEMENT OF OPERATIONS DATA			
Sales	546,181	463,760	337,463
Cost of sales	(420,993)	(375,924)	(274,868)
Gross profit	125,188	87,836	62,595
Selling, general and administrative expenses	(80,704)	(74,047)	(52,246)
Other operating expenses	(1,113)	(1,479)	(1,068)
Operating income	43,371	12,310	9,281
Other income and expense, net	(16,906)	(10,215)	(10,405)
Income (loss) before provision for income tax, minority interest and extraordinary item	26,465	2,095	(1,124)
Income tax	(7,901)	(4,790)	(6,268)
Income (loss) before minority interest and extraordinary item	18,564	(2,695)	(7,392)
Minority interest	(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	(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	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:			
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)
Meat processing segment statement of operations data			
Total sales	419,085	352,155	261,324
Intersegment sales	(6,518)	(1,717)	(1,287)
Sales to external customers	412,567	350,438	260,037
Cost of sales	(338,576)	(293,606)	(211,730)
Gross profit	73,991	56,832	48,307
Operating expenses	(52,939)	(53,903)	(38,893)
Operating income	21,052	2,929	9,414
Financial income and expenses, net (excluding interest expenses)	(1,257)	3,235	1,168
Income from investments in associates ⁽¹⁾	—	—	1,439
Interest expenses	(8,437)	(10,488)	(8,227)
Segment profit (loss)	11,358	(4,324)	3,794



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	Year ended December 31,		
	2005	2004	2003
	(thousands of U.S. dollars, except per share data and as noted)		
Poultry segment income statement data			
Total sales	126,818	101,822	71,857
Intersegment sales	(12,889)	(3,197)	(1,790)
Sales to external customers	113,929	98,625	70,067
Cost of sales	(66,115)	(68,841)	(54,633)
Gross profit	47,814	29,784	15,434
Operating expenses	(25,229)	(19,855)	(12,953)
Operating income	22,585	9,929	2,481
Financial income and expenses, net (excluding interest expenses)	(20)	2,056	350
Interest expenses	(6,757)	(4,755)	(4,648)
Segment profit (loss)	15,808	7,230	(1,817)
Pork segment income statement data			
Total sales	25,148	18,868	9,996
Intersegment sales	(5,463)	(4,171)	(2,637)
Sales to external customers	19,685	14,697	7,359
Cost of sales	(16,302)	(13,477)	(8,505)
Gross profit	3,383	1,220	(1,146)
Operating expenses	(3,609)	(1,690)	(1,446)
Operating income	(226)	(470)	(2,592)
Financial income and expenses, net (excluding interest expenses)	(18)	345	(23)
Interest expenses	(417)	(643)	(506)
Segment profit (loss)	(661)	(768)	(3,121)
COMBINED AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DATA (at year end)			
Total assets	423,813	349,347	282,778
Total shareholders' equity	62,508	32,848	28,815
Minority interests	14,548	35,443	33,092
Long-term loans and notes payable, net of current portion ⁽²⁾	143,774	102,385	63,129
COMBINED AND CONSOLIDATED CASH FLOWS DATA ⁽³⁾			
Total net cash from (used in) operating activities	14,248	(4,510)	(8,390)
Total net cash used in investing activities	(71,075)	(22,283)	(14,704)
Total net cash from financing activities	59,839	26,935	24,195
OTHER MEASURES			
Combined and consolidated Adjusted EBITDA ⁽⁴⁾	66,116	34,919	23,336
Meat segment Adjusted EBITDA ⁽⁴⁾	34,425	18,271	19,355
Poultry segment Adjusted EBITDA ⁽⁴⁾	27,529	13,732	4,422
Pork segment Adjusted EBITDA ⁽⁴⁾	1,927	1,055	(1,536)

Notes:

- (1) Represents income attributable to CMPP prior to its consolidation from June 30, 2003. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Acquisitions of interests in subsidiaries."
- (2) Includes loans from related parties.
- (3) Includes cash flows from (used in) discontinued operations.
- (4) Combined and consolidated Adjusted EBITDA represents operating income plus depreciation expense loss on disposal of property, plant and equipment, unusual loss related to the privatization of a subsidiary and other items, which are expenses primarily related to financing and restructuring activities. Segment Adjusted EBITDA represents segment operating income plus depreciation expense. Adjusted EBITDA is not a measure of financial performance under U.S. GAAP, and it should not be considered as an alternative to net operating profit as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Our calculation of Adjusted EBITDA may be different from the calculation used by other companies and therefore comparability may be limited.



Reconciliation of Adjusted EBITDA to operating income is as follows:

	Year ended December 31,		
	2005	2004	2003
	(thousands of U.S. dollars)		
Combined and consolidated Adjusted EBITDA reconciliation			
Operating income	43,371	12,310	9,281
Add:			
Depreciation expense	20,470	20,670	12,938
Loss on disposal of property, plant & equipment	646	1,479	1,068
Unusual loss related to privatization of a subsidiary	467	—	—
Other items	1,162	460	49
Combined and consolidated Adjusted EBITDA	66,116	34,919	23,336
Meat processing segment Adjusted EBITDA reconciliation			
Operating income	21,052	2,929	9,414
Add:			
Depreciation expense	13,373	15,342	9,941
Meat processing segment Adjusted EBITDA	34,425	18,271	19,355
Poultry segment Adjusted EBITDA reconciliation			
Operating income	22,585	9,929	2,481
Add:			
Depreciation expense	4,944	3,803	1,941
Poultry segment Adjusted EBITDA	27,529	13,732	4,422
Pork segment Adjusted EBITDA reconciliation			
Operating income	(226)	(470)	(2,592)
Add:			
Depreciation expense	2,153	1,525	1,056
Pork segment Adjusted EBITDA	1,927	1,055	(1,536)



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with the audited combined and consolidated financial statements as of December 31, 2005, 2004 and 2003 and for the years then ended, the notes thereto and the other information included elsewhere in this Prospectus. This section contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in such forward-looking statements as a result of various factors, including those described under "Risk Factors" and "Forward-Looking Statements."

Unless the context otherwise requires, references to "sales" are to our combined and consolidated sales for the relevant period. We present our sales after eliminating intersegment sales. Total segment sales consist of segment sales before elimination of intersegment sales. Financial information pertaining to the Company on the basis of having consolidated CMPP's results for all of 2003 are unaudited. See note 13 to the Combined and Consolidated Financial Statements.

Overview

We are one of the leading integrated diversified meat producers in the Russian Federation. According to IKAR, we have the largest market share of processed meat products in Russia and the second largest in Moscow and the Moscow region; we have the largest sales of poultry in Moscow and the Moscow region and are among the leaders nationally; and we are one of the leaders in the highly-fragmented Russian pork industry. We sold 161,973 tonnes of meat products, 50,995 slaughter-weight tonnes of poultry products and 11,142 live-weight tonnes of pork products in 2005. Our principal operations consist of the production and sale of processed meat products primarily in the European part of Russia; breeding and raising chickens and the processing and sale of chilled and frozen poultry products produced at facilities in the Moscow and Penza regions; and breeding and raising pigs at facilities located in the Moscow region and in other regions of Russia. We also operate trading and distribution operations and produce fodder that is consumed in our poultry and pork operations. In February 2006 we started operations at a new pig farm in Lipetsk, Russia, and we plan to expand our operations to include the production and sale of chilled pork products in Moscow, Lipetsk and other regions of Russia.

We divide our operations into three operating segments: meat processing, poultry and pork. Our meat processing operations consist of eight meat processing plants at which we conduct both initial processing of raw meat into fresh and ready-to-cook meat products and further processing into sausages, hams and other processed meat products (see "Business—Products and branding—Meat processing"), as well as associated sales and trading operations. Our poultry segment consists of two poultry production clusters, a poultry processing company, a feed production plant and associated sales and trading operations. Our pork segment consists of four pig farms. We record expenses of our corporate headquarters, which are not material to our results of operations, under "corporate expenditures." All three segments are also involved in other business activities, including dairy, farming and accompanying services, which are all non-core business activities.

In 2005, our meat processing segment accounted for 75% of our sales, our poultry segment accounted for 21% of our sales and our pork segment accounted for 4% of our sales. In 2004, our meat processing segment accounted for 76% of our sales, our poultry segment accounted for 21% of our sales and our pork segment accounted for 3% of our sales. We make substantially all of our sales in the Russian Federation.

Restructuring and Formation of the Company

The Company was incorporated as a limited liability company (*obschestvo s ogranichennoi otvetstvennostyi*) under the laws of the Russian Federation on March 23, 2005, and was converted into an open joint stock company (*otkrytoe aktsionernoe obschestvo*) on September 22, 2005. Following a corporate restructuring that consisted of the contribution to the share capital of the Company in the form of interests in various meat and poultry processing plants held by a group of close relatives consisting of the chairman of our Board of Directors, Igor Babaev, and members of his family, the Control Group, as well as certain other minority shareholders in some of these facilities, the Company became the indirect owner of these meat and poultry processing plants. The members of the Control Group now control us through direct interests in the Company and beneficial interests in Cherkizovsky Group Ltd. and other companies. See "Principal and Selling Shareholders."

We now conduct our operations through two wholly-owned subsidiaries, Limited Liability Company AIC Cherkizovsky ("AIC Cherkizovsky") and Limited Liability Company AIC Mikhailovsky ("AIC Mikhailovsky"). We operate our meat processing segment through AIC Cherkizovsky and our poultry and pork segments through



AIC Mikhailovsky, and these entities directly or indirectly hold our interests in our other subsidiaries. The objective of our reorganization was to consolidate control over our subsidiaries through these intermediate holding companies, eliminating direct ownership in our subsidiaries by our controlling and certain other shareholders. This restructuring was completed prior to December 31, 2005, and our current structure was in place as of such date.

Our combined and consolidated financial statements include companies that were controlled by the Control Group through direct and indirect ownership of the majority of the voting interests. Prior to the completion of the restructuring described above, in some instances there was no formal legal structure in place that would have allowed for consolidation based on ownership, though the companies conducted their business as a unified group. As a result, we believe that it is necessary to present combined financial statements of the companies under common control in order to achieve a comprehensive presentation of our financial position and results of operations. Our combined and consolidated financial statements as of and for the years ended December 31, 2004 and 2003 present operations that were under the common control of the Control Group as of such dates.

Disposal of non-core operations

During the course of our restructuring (see “—Restructuring and Formation of the Company”), we acquired from shareholders direct equity interests in certain combined entities. We also distributed our interests in certain entities that engaged in non-core business activities, including dairy, plant growing and accompanying services, to members of the Control Group. Certain items of property, plant and equipment belonging to the entities that were distributed to members of the Control Group are necessary for our continuing operations; some of this equipment was transferred to other entities within our group, and we entered into lease agreements for the items of property, plant and equipment that are necessary to our operations and that could not be transferred due to timing constraints. We also made sales of U.S.\$2.2 million to these entities in 2005 following their distribution to members of the Control Group. These sales consisted primarily of feed equipment.

The direct equity interests in certain consolidated entities that we acquired from shareholders were valued at U.S.\$1.9 million, which was accounted for as a distribution to shareholders. We accounted for the entities distributed to members of the Control Group as a distribution to shareholders through spin-off in the form of net assets in the distributed companies. These distributed entities are included in our results of operations through the date of spin-off.

The terms of the lease agreements for the use of property, plant and equipment belonging to the entities that were distributed to members of the Control Group include an option for us to continue using the equipment over the life of the underlying equipment. As a result, we have used the remaining useful lives of the underlying assets in order to calculate the maximum lease term, following which we may purchase these assets. At the lease origination date, the book value of the leased property, plant and equipment amounted to U.S.\$4.1 million, and the related deferred tax asset was U.S.\$229,000. As of December 31, 2005, payables to shareholders for the leased items of property, plant and equipment amounted to U.S.\$1.1 million nearly all of which were long-term. See “—Contractual obligations and commercial commitments.” See note 31 to the Combined and Consolidated Financial Statements for a further discussion of these transactions and restructuring.

In October 2005 we disposed of our 74% interest in OJSC Rastovtsy (“Rastovtsy”), an agricultural production enterprise that was not involved in our core operations. During 2005, 2004 and 2003 Rastovtsy had immaterial transactions with our other operations. We accounted for Rastovtsy as discontinued operations. See note 14 to the Combined and Consolidated Financial Statements.

State support for agricultural production in Russia

Enterprises engaged in agricultural production operations in Russia, including our poultry and pig production facilities, benefit from a favorable profit tax rate. This rate is currently set at 0% from 2004 through 2007, and is currently scheduled to increase to 6% for 2008 and 2009, to 12% for 2010 and 2011, to 18% for 2012 to 2014 and to 24% from 2015. The general corporate profit tax rate in Russia is 24%. Largely as a result of these reduced tax rates, our overall effective tax rate was 30% in 2005, as compared to 64% in our meat processing segment. Our non-production agricultural operations, such as processing of chilled and frozen poultry, trading operations and feed production, do not benefit from this reduced tax rate.

Agricultural enterprises are also eligible to receive reimbursements from Russian federal authorities for interest payable under loans in the amount of up to two-thirds of the official CBR refinancing rate, and from regional authorities in an amount of up to one-third of the official CBR refinancing rate. The CBR’s refinancing rate has been 12% since December 26, 2005 (decreased from 13%, the rate in effect from June 15, 2004). We



account for interest expense on these loans on a net basis, after taking account of the subsidies. As of December 31, 2005, approximately 27% of the aggregate principal amount of our loans received such subsidies. These subsidies reduced our interest expense by U.S.\$3.7 million, U.S.\$1.2 million and U.S.\$489,000 in the years ended December 31, 2005, 2004 and 2003. See also “Risk Factors—Risks Relating to Our Business and Industry—We benefit from state subsidies and benefits that may be eliminated in the future.”

Some agricultural operations also receive direct state support in the form of subsidies. For example, Lipetskmyasoprom is to receive subsidies from the government of the Lipetsk region in connection with its production of pork.

The favorable tax rates and interest rate subsidies are not available to non-production agriculture-related operations, such as our trading and meat and poultry processing operations.

Acquisitions of interests in subsidiaries

We use the purchase method of accounting for acquired businesses. Companies acquired or disposed of are included in the combined and consolidated financial statements from the date of acquisition or to the date of disposal. Any excess of the purchase price paid for businesses acquired in excess of the fair value of identifiable net assets acquired is recognized as goodwill and tested annually for impairment. As many 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. According to SFAS 141, “Business Combinations,” the excess of the value of net assets acquired over the purchase price paid is allocated to reduce proportionately the values assigned to all (excepting certain categories) of the acquired assets. Any remaining amount, constituting negative goodwill, is recognized as an extraordinary gain in the period that the acquisition takes place once the value of the acquired assets has been reduced to zero.

U.S. GAAP requires that property, plant and equipment be stated at historical cost. However, we did not maintain historical cost records for property, plant and equipment acquired prior to December 31, 2001 in accordance with U.S. GAAP. On December 31, 2001, we established the carrying value of such assets based on the estimated fair values at such date. As a result, the information needed to quantify the effects of these items on our financial position, results of operations, and cash flows of the Group and related companies is not reasonably determinable from our accounts and records.

In June 2003, we acquired an additional 8% interest in Cherkizovsky Meat Processing Plant (“CMPP”) from a state entity for U.S.\$3.7 million in cash, increasing our interest to 57% and resulting in the consolidation of CMPP into the Combined and Consolidated Financial Statements from June 30, 2003. Prior to this date, CMPP was accounted for under the equity method. See note 13 to the Combined and Consolidated Financial Statements. In August 2005, Morgan Stanley Bank AG exchanged its 15.1% interest in CMPP for a 0.7% interest in the Company. This transaction was accounted for using the purchase method and the consideration was determined as the fair market value of the net assets received, U.S.\$9.9 million. Also in August 2005, Pacific Agro Ltd. exchanged its 15.1% interest in CMPP and its 10.0% interest in AIC Cherkizovsky for a 0.8% interest in the Company. This transaction was accounted for using the purchase method, and the consideration was determined as the fair market value of the net assets received, U.S.\$16.3 million. As a result of these transactions, our interest in CMPP increased to 87%. Both Morgan Stanley Bank AG and Pacific Agro Ltd. are currently shareholders in the Company. See “Principal and Selling Shareholders.”

Results of Operations

Our sales increased by 37% in 2004 and by nearly 18% in 2005. Our meat processing and poultry segments were primarily responsible for the increases in our sales, growing at 35% and 41% in 2004 and 18% and 16% in 2005, respectively. The consolidation of CMPP for all of 2004 also significantly affected our sales revenue in 2004. Had we consolidated CMPP from the beginning of 2003 instead of June 30, 2003, as discussed above under “—Acquisitions of interests in subsidiaries,” our sales would have increased by approximately 13% from 2003 to 2004 (unaudited).

Our results of operations in the periods under review were primarily affected by the following factors:

- sales volumes;
- average selling prices; and
- prices of raw material inputs.



In our meat processing segment, increases in selling prices of our processed meat products in 2004 did not keep pace with the increase in our costs of raw meat resulting from the introduction of import quotas on raw meat by the Russian Government, leading to a decrease of gross profit margin in the meat processing segment and a net loss for that segment in 2004. In 2005, because we were able to increase selling prices for processed meat products at faster rates than raw material costs, gross margins substantially improved in our meat processing segment.

Results in our poultry segment in the periods under review were substantially driven by increased sales volumes of 21% in 2004 and 9% in 2005, as well as increases in average selling prices, by 16% in 2004 and 27% in 2005. The significant increase in average selling prices reflects largely the increased share of higher value-added cut and chilled poultry products in our sales mix and the price premium we generally realize on our branded poultry products such as our Petelinka line of chilled poultry products as well as the temporary introduction and restriction on the import of poultry products into Russia in the first half of 2005.

Results in our pork segment were significantly affected by the reorganization of operations in this segment in the periods under review. In addition to acquiring a controlling interest in Botovo during 2004, we replaced the parent stock at both LLC Kuznetsovsky Kombinat and CJSC Botovo (“Botovo”). While we believe that these changes will ultimately improve the quality and efficiency of the segment’s operations, the implementation of these changes has adversely affected the segment’s results of operations.

We make substantially all of our sales in Russia, and Moscow and the Moscow region account for the largest share of our sales.

Sales volumes and average selling prices in each of our segments are generally most favorable in the second and fourth quarters of each year as a result of the start of the summer season and the New Year holiday period in Russia, respectively. The first quarter of each year is generally the least favorable as a result of the Russian pre-Easter lent season and post-New Year economizing. Sales typically begin to recover in the second quarter with the start of the summer season.

Results of operations for the years ended December 31, 2005 and 2004

Sales

Sales increased by nearly 18% to U.S.\$546.2 million in 2005 from U.S.\$463.8 million in 2004. The meat processing segment is our largest business segment, representing approximately 75% of sales in 2005 and 76% of sales in 2004.

The following table presents our sales by segment for 2005 and 2004. Segment sales as presented below include sales of produced goods, goods for resale and other sales attributable to the relevant segment and are net of sales return allowance and sales volume discounts attributable to the segment. See note 23 to the Combined and Consolidated Financial Statements.

	For the year ended December 31,			
	2005		2004	
	Amount	Percentage of sales ⁽¹⁾	Amount	Percentage of sales ⁽¹⁾
	(thousands of U.S. dollars, except percentages)			
Meat processing				
Sales to external customers	412,567	75	350,438	76
Intersegment sales	6,518	2	1,717	(2)
Total segment sales	419,085	77	352,155	76
Poultry				
Sales to external customers	113,929	21	98,625	21
Intersegment sales	12,889	2	3,197	1
Total segment sales	126,818	23	101,822	22
Pork				
Sales to external customers	19,685	4	14,697	3
Intersegment sales	5,463	1	4,171	1
Total segment sales	25,148	5	18,868	4
Eliminations ⁽³⁾	(24,870)	(5)	(9,085)	(2)
Sales	546,181	100	463,760	100

Notes:

- (1) Percentages before eliminations add to more than 100%, as intersegment sales are deducted from total consolidated sales.
- (2) Rounds to less than 1% of sales.
- (3) Consists of intersegment sales.



Total sales in our meat processing segment increased by 19% to U.S.\$419.1 million in 2005 from U.S.\$352.2 million in 2004. The increase in total sales was primarily attributable to an increase in the average selling price, partially offset by a decline of approximately 3% in total sales volumes. The average selling price for meat products increased by 23%, driven by incremental ruble price increases, ruble appreciation and a change in our product mix in favor of higher-value added and premium products as well as more premium brands such as Cherkizovsky, Pyat' Zvezd and Popurri. We attribute this shift in favor of higher value-added products and premium brands largely to increasing income and changing consumer preferences in Russia.

Total sales in our poultry segment increased by 25% to U.S.\$126.8 million in 2005 from U.S.\$101.8 million in 2004. The increase in total sales resulted from increases in both volumes sold and average selling prices. The increase in volumes resulted from increased production capacity as a result of capacity-related capital expenditures in our poultry segment. Average selling prices increased as a result of an increased share in our sales volumes of branded as well as cut chilled and cut frozen poultry products, for which we generally receive higher prices as well as generally higher prices for poultry products in Russia, attributable in part to the introduction of temporary import restrictions on poultry products in the second quarter of 2005. Partly as a result of this improved sales mix, our average selling price for poultry products increased by 27% in 2005 as compared to 2004. Chilled poultry accounted for 49% of total segment sales in 2004, increasing to 58% in 2005.

Total sales in our pork segment increased by 33% to U.S.\$25.1 million in 2005 from U.S.\$18.9 million in 2004. The increase in total sales resulted primarily from a change in our operational profile and the effect of the acquisition of a controlling interest in Botovo in July 2004. In particular, the replacement of our parent stock in Botovo and Kuznetsovsky Kombinat with an improved genetic composition of our stock in 2004 and the resumption of pig sales from Kuznetsovsky Kombinat and Botovo in late 2004 and 2005 resulted in increased sales.

Goods for resale includes meat products outsourced to external producers such as pelmeni (dumplings) and deli meats, in addition to beverages and baked goods. We sell these non-core products through the trading houses in our meat processing and poultry segments, and in the case of outsourced products, to complement our primary product lines. Sales of goods for resale increased by 81%, from U.S.\$5.4 million in 2004 (1% of sales) to U.S.\$9.8 million in 2005 (2% of sales), in order to meet increased demand for these products from our customers.

Other sales consist primarily of sales of services and other products of non-core operations. In the meat processing segment these consist of sales of casings, fasteners, transportation services and payments for the rent of property, plant and equipment. In our poultry and pork segments other sales constitute sales of dairy products and cattle, as well as rent of property. Other sales remained approximately constant at U.S.\$4.4 million, or 1% of sales, in each of 2004 and 2005.

We also provide product guarantees to our customers, providing them with an opportunity to return damaged and nonconforming goods and goods of an improper quality within one month from the day of shipment. We account for these returns in the sales return allowance, which remained approximately constant, at U.S. \$4.3 million, or 1% of sales, in each of 2004 and 2005.

The terms of our agreements with our customers, particularly in the meat processing segment, also provide for certain discounts for volume purchases. These discounts increased from U.S.\$2.5 million in 2004 to U.S.\$3.4 million in 2005, as a result of the increasing share of large-volume customers, in particular modern chain retailers, in our sales. We present our sales net of these amounts.

In 2005, we made sales of U.S.\$2.2 million to related parties. These sales primarily consisted of sales of feed to the entities distributed to members of the Control Group as part of our restructuring. See “—Restructuring and Formation of the Company” and “Related Party Transactions.” These sales are included in our sales to external customers. We did not make any such sales to related parties in 2004.



Cost of Sales

Our cost of sales increased by 12% in 2005 as compared to 2004. Cost of sales primarily consists of expenses relating to raw materials such as raw meat for processed meat products, feed for poultry and pork raising operations and packaging materials. These raw materials accounted for 80% and 81% of our cost of sales in 2005 and 2004, respectively. The table below sets forth our costs of sales for both 2005 and 2004:

	For the year ended December 31,			
	2005		2004	
	Amount	Percentage of sales	Amount	Percentage of sales
	(thousands of U.S. dollars, except percentages)			
Raw materials	335,684	62	305,641	66
Personnel (excluding pension costs)	33,553	6	29,721	6
Depreciation	17,326	3	16,478	4
Cost of goods for resale	10,815	2	3,911	1
Utilities	10,038	2	9,934	2
Pension costs	6,050	1	6,479	1
Other	7,527	1	3,760	1
Total	420,993	77	375,924	81

Raw material costs increased by 10% between 2004 and 2005 but decreased as a percentage of sales to 62% in 2005 from 66% in 2004, as increases in sales outpaced increases in the price of raw meat and other raw materials.

Raw material costs in our meat processing segment increased by 16% from 2004 to 2005, but decreased slightly as a percentage of total meat processing segment sales from 70% in 2004 to 68% in 2005. Raw meat prices and costs of packaging materials, as well as increased purchases of higher-quality (and thus higher-priced) grades of raw meat associated with the shift towards a more premium product mix. The average price of our raw meat inputs increased by 16% in 2005 as compared to 2004. Our raw materials costs include transportation costs associated with the delivery of raw materials to our facilities.

Raw material costs in our poultry segment decreased by 1% from 2004 to 2005, and decreased as a percentage of total poultry segment sales to 40% in 2005 from 50% in 2004. While raw materials requirements increased in line with increased production volumes, the average price of wheat, which is one of the basic components of feed, declined in 2005. In addition, we reduced our feed requirements per unit of output as a result of improved feeding practices, and we also benefited from reduced prices for feed that we purchase from third parties.

Raw material costs in our pork segment increased by 9%, but decreased as a percentage of total pork segment sales from 62% in 2004 to 51% in 2005. Raw material costs in our pork segment declined due to reduced consumption associated with reduced production volumes as a result of the replacement of our parent stock at Kuznetsovsky Kombinat and Botovo. The average price of feed for pigs that we purchased from third parties increased by 8% in 2005 as compared to 2004, and resulted largely from the replacement of parent stock with higher-quality varieties that consume more expensive feed as well as the acquisition of Botovo in 2004 and the inclusion of Penzamyasoprom through September 2005.

Personnel costs (excluding pension costs) are the second largest component of the cost of sales, though significantly less than raw materials. Personnel costs included in cost of sales consist primarily of the wages of employees at our production facilities. Personnel costs increased by 13% between 2005 and 2004, remaining approximately constant at 6% of our sales. The increase was mostly due to the increase in salaries generally in-line with inflation and one-time severance costs associated with personnel reductions during our restructuring, partially offset by headcount reductions during our restructuring in 2005.

Depreciation increased by 5% between 2004 and 2005, reflecting additional capital expenditures, particularly in our poultry operations. As a percentage of sales, depreciation decreased from approximately 4% in 2004 to 3% in 2005.

Cost of goods for resale increased by 177% from 2004 to 2005. The increase resulted from the expansion of our sales of these products in response to demand from our customers.

Utility costs remained generally constant, and amounted to approximately 2% of sales in each of 2004 and 2005. Increased natural gas and electricity tariffs and increased consumption in our pork segment was offset by



reduced consumption in our meat processing segment. The reduction in utility costs in our meat processing segment resulted from reduced storage of raw materials in refrigerators, as well as reduced sales of lower-priced frozen processed meat products, the production of which requires greater utility inputs.

Gross Profit

Our gross profit increased by 43% to U.S.\$125.2 million in 2005 from U.S.\$87.8 million in 2004. Our gross margin increased to 23% in 2005 from 19% in 2004.

Gross margin in our meat processing segment increased to 18% in 2005 from 16% in 2004 due to the lower rate of increase in raw meat prices than in average selling prices during 2005 as well as the shift in the composition of our sales in favor of higher margin premium products.

Gross margin in our poultry segment increased to 42% in 2005 from 30% in 2004. This increase was primarily due to increased average selling prices during 2005 generally and as a result of the shift in our product mix in favor of a greater share of cut and chilled products as well as efficiencies from the increased scale of our operations.

Gross margin in our pork segment increased to 17% in 2005 from 8% in 2004. The increase of gross margin during this period was primarily due to replacement of the parent stock at Botovo and Kuznetsovsky Kombinat in 2004, which improved our operational efficiency. We believe that the historical performance of our pork segment is not indicative of the future real margin and revenue profile of the business, as its operations have undergone significant restructuring during the period.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 9% from 2004 to 2005, and as a percentage of sales selling, general and administrative expenses slightly decreased to 15% in 2005 from 16% in 2004. Our selling, general and administrative expenses in 2005 and 2004 were as follows:

	For the year ended December 31,			
	2005		2004	
	Amount	Percentage of sales	Amount	Percentage of sales
(thousands of U.S. dollars, except percentages)				
Personnel (excluding pension costs)	33,967	6	29,284	6
Shipping and handling	6,048	1	4,587	1
Materials and supplies	5,685	1	4,657	1
Pension costs	5,042	1	6,462	1
Taxes (other than income tax)	4,939	1	4,262	1
Marketing	4,801	1	3,045	1
Depreciation	3,144	1	4,192	1
Audit, consulting and legal fees	2,792	1	1,609	(1)
Security services	2,621	(1)	733	(1)
Bank charges	1,665	(1)	1,135	(1)
Utilities	982	(1)	904	(1)
Insurance	886	(1)	310	(1)
Information technology and communication services	667	(1)	1,397	(1)
Bad debt (recovery) expense	(295)	(1)	2,781	1
Charity	178	(1)	671	(1)
Other	7,582	1	8,018	2
Total	80,704	15	74,047	16

Note:

(1) Rounds to less than 1% of sales.

Selling, general and administrative expenses in our meat processing segment remained approximately constant in 2005 as compared to 2004, and decreased slightly as a percentage of total segment sales, from 15% in 2004 to 13% in 2005. Selling, general and administrative expenses in our poultry segment increased by 23% from 2004 to 2005 in line with the growth in poultry segment sales, and accordingly remained approximately constant as a percentage of total segment sales at 19% in 2004 and 20% in 2005. Selling, general and administrative expenses in our pork segment increased from 9% of total segment sales in 2004 to 15% of total segment sales in 2005, reflecting additional costs resulting from the restructuring of the business during 2005.



Personnel expenses (excluding pension costs) are the largest component of selling, general and administrative expenses. Personnel expenses increased in 2005 by U.S.\$4.7 million, or 16%, and remained approximately constant as a percentage of sales in both 2004 and 2005. The increase is mostly due to increased salaries resulting from inflation and the expansion of our distribution network in the poultry segment, particularly in the Volga region.

Shipping and handling costs, which consist of transportation expenses charged to us by third parties on shipments of our products, increased by 32% in 2005 as compared to 2004, and as a percentage of sales remained the same at 1% of sales in each of 2005 and 2004. This increase primarily resulted from the expansion of our distribution network.

Materials and supplies accounted for in selling and general administrative expenses consist primarily of promotional and advertising materials, gasoline and spare parts for our trucks, equipment for maintenance, selling and general administrative property, plant and equipment and stationery. Costs of materials and supplies increased by 22% in 2005 as compared to 2004. The increase was in line with sales growth.

Taxes, other than income tax, include property tax, which is levied on our property, various local taxes and, in 2004, advertising tax that was levied on our advertising expenses. The 16% increase in expenses for these taxes in 2005 compared to 2004 was due to increases in the taxable base resulting from revaluation of property for Russian accounting purposes and new property put in use.

Marketing expenses, which consist of advertising and promotional campaigns, increased by 58% between 2004 and 2005. This increase was attributable to advertising and promotions related to the introduction of new products in our meat processing segment, our efforts to increase the profile of our poultry segment and promotional campaigns associated with our expanded relationships with chain retailers.

Operating Income

Operating income increased significantly to U.S.\$43.4 million in 2005 from U.S.\$12.3 million in 2004. As a percentage of sales, operating income increased to 8% in 2005 from 3% in 2004. As discussed above, the increase in operating income was primarily due to the improvement in the gross margin in the meat processing and poultry segments and increased sales volumes in the poultry segment.

Operating income in our meat processing segment increased significantly to U.S.\$21.1 million in 2005 from U.S.\$2.9 million in 2004. As discussed above, this improvement was primarily due to a rate of increase in raw meat prices that was below the rate of increase in average selling prices.

Operating income in our poultry segment increased significantly to U.S.\$22.6 million in 2005 from U.S.\$9.9 million in 2004. As discussed above, this improvement was primarily due to increase in volumes, increased selling prices, improved production efficiency and some benefits from the increased scale of our operations.

Operating loss in our pork segment decreased to U.S.\$226,000 in 2005 from U.S.\$470,000 in 2004. As discussed above, this decrease was primarily due to the consolidation of Botovo for all of 2005, replacement of the parent stock at Botovo and Kuznetsovsky Kombinat during 2004 and improved production efficiency at Botovo and Kuznetsovsky Kombinat during 2005.

Other operating expenses

Other operating expenses consist of loss on disposal of property, plant and equipment and an unusual loss related to the privatization of a subsidiary. Our loss from disposal of property, plant and equipment declined from U.S.\$1.5 million in 2004 to U.S.\$646,000 in 2005, reflecting only minor disposals of fixed assets in 2005.

We recognized an unusual loss related to the privatization of a subsidiary of U.S.\$467,000 in 2005 on the settlement of litigation pertaining to LLC Ardymsky Feed Milling Plant. See "Business—Litigation and Investigations."



Other Income and Expense, net

Other income and expense, net comprised the following:

	For the year ended December 31,			
	2005		2004	
	Amount	Percentage of sales	Amount	Percentage of sales
	(thousands of U.S. dollars, except percentages)			
Interest expense	15,611	3	15,886	3
Foreign exchange gain (loss)	2,219	(1)	(2,315)	—
Gain from debt forgiveness	(987)	—	(4,311)	—
Other financial expense (income)	63	(1)	955	(1)
Total	16,906	3	10,215	2

Note:

(1) Rounds to less than 1% of sales.

Though our total debt level increased (see “—Liquidity and Capital Resources”), our interest expense remained unchanged in 2004 and 2005. This mainly resulted from the receipt of a loan from the EBRD, which carried a lower interest rate than the facilities it replaced, partially offset by increased interest expense in the poultry segment associated with increased indebtedness to finance the expansion of our poultry operations. A significant part of the indebtedness that we received in our poultry and pork segments benefitted from interest rate subsidies. These subsidies amounted to U.S.\$3.7 million and U.S.\$1.2 million in the years ended December 31, 2005 and 2004, respectively. See “—State support for agricultural production in Russia.”

Gain from debt forgiveness, which amounted to U.S.\$987,000 in 2005 and U.S.\$4.3 million in 2004, consisted primarily of forgiveness of old accounts payable for raw materials in the meat processing segment in 2005 and primarily of forgiveness of fines and penalties related to a loan from the Ministry of Finance and of fines and penalties on restructured taxes in 2004.

Income Tax

Our income taxes for the years ended December 31, 2005 and 2004 were as follows:

	For the year ended December 31,	
	2005	2004
	(thousands of U.S. dollars)	
Current income taxes	9,868	5,240
Deferred tax (benefit)	(1,967)	(450)
Total income taxes	7,901	4,790

Income taxes amounted to U.S.\$7.9 million in 2005 and U.S.\$4.8 million in 2004. These comprise current income tax charges of U.S.\$9.9 million in 2005 and U.S.\$5.2 million in 2004, and deferred tax benefits of U.S.\$2 million in 2005 and U.S.\$450,000 in 2004, respectively. Deferred tax benefits arise on temporary differences between the bases of computing income under Russian tax principles and U.S. GAAP.

In both 2005 and 2004, the statutory income tax rate was 24% for our meat processing segment and 0% for our poultry and pork segments. In 2005 our overall effective tax rate was 30%, a reduction from 229% in 2004. The difference between our effective tax rate and the actual rates paid was primarily due to the non-deductibility of certain expenses for Russian statutory taxation purposes and changes in the valuation allowance for deferred tax assets and tax benefits for small enterprises.

As of December 31, 2005 and 2004, we had net operating losses carried forward for statutory income tax purposes of approximately U.S.\$5.8 million and U.S.\$19.7 million, respectively. We established a valuation allowance for the associated deferred tax asset amounting to U.S.\$901,000 and U.S.\$4.2 million as of December 31, 2005 and 2004, respectively, due to management’s estimate of the future benefits of these losses that are more likely than not to be realized.

We utilized deferred tax loss carry-forwards of U.S.\$453,000 during 2005. Deferred tax assets on losses carried forward for statutory income tax purposes amounting to U.S.\$3.3 million expired during 2005. Valuation



allowances that had previously been recognized on these tax loss carry-forwards. 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 expires in 2012 (U.S.\$1.0 million) and 2015 (U.S.\$4.8 million).

Minority Interest

Minority interest reflects the net income and losses of our subsidiaries that are attributable to the minority shareholders in those subsidiaries. In 2005, minority interest in net income amounted to an expense of U.S.\$1.5 million, as compared to income of U.S.\$3.6 million in 2004. The shift from a gain to an expense in 2005 reflects the generally greater profitability of our meat processing operations in 2005 than in 2004, as well as the reduction in the minority stakes in our operating subsidiaries as a result of our restructuring. See “Restructuring and Formation of the Company.”

Other

We recorded a loss from discontinued operations (net of income tax expenses) of U.S.\$82,000 in 2005 and U.S.\$216,000 in 2004. Discontinued operations represent the disposal of OJSC Rastovtsy in October 2005 as part of our spin-off of companies, the activities of which we consider to be non-core to us. During the period under review, OJSC Rastovtsy had immaterial transactions with other Group entities. See note 14 to the Combined and Consolidated Financial Statements for a further discussion of our discontinued operations.

We also recorded an extraordinary gain of U.S.\$79,000 in 2005 and U.S.\$463,000 in 2004, resulting from the excess negative goodwill associated with our acquisitions of interests in Botovo in these years.

Net Income

Net income increased in 2005 to U.S.\$17 million, or 3% of sales, from U.S.\$1.1 million, or 0.2% of sales in 2004, primarily as a result of the increase in operating income and other factors explained above.

Results of operations for the years ended December 31, 2004 and December 31, 2003

Sales

Sales increased by 37% to U.S.\$463.8 million in 2004 from U.S.\$337.5 million in 2003. The meat processing segment, our largest business segment, accounted for approximately 76% of sales in 2004 compared to 77% of sales in 2003. If CMPP had been consolidated for all of 2003 (see “—Acquisitions of interests in subsidiaries”), our sales would have increased by approximately 13% from 2003 to 2004 (unaudited).

The following table presents our sales by segment for 2004 and 2003.

	For the year ended December 31,			
	2004		2003	
	Amount	Percentage of sales ⁽¹⁾	Amount	Percentage of sales ⁽¹⁾
(thousands of U.S. dollars, except percentages)				
Meat processing				
Sales to external customers	350,438	76	260,037	77
Intersegment sales	1,717	(2)	1,287	(2)
Total segment sales	352,155	76	261,324	77
Poultry				
Sales to external customers	98,625	21	70,067	21
Intersegment sales	3,197	1	1,790	1
Total segment sales	101,822	22	71,857	22
Pork				
Sales to external customers	14,697	3	7,359	2
Intersegment sales	4,171	1	2,637	1
Total segment sales	18,868	4	9,996	3
<i>Eliminations⁽³⁾</i>	(9,085)	(2)	(5,714)	(2)
Sales	463,760	100	337,463	100

Notes:

- (1) Percentages before eliminations add to more than 100%, as intersegment sales are deducted from total consolidated sales.
- (2) Rounds to less than 1% of sales.
- (3) Consists of intersegment sales.



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Total sales in our meat processing segment increased by 35% to U.S.\$352.2 million in 2004 from U.S.\$261.3 million in 2003. The increase in total sales was primarily attributable to an increase in the average selling price, as well as by the consolidation of CMPP for all of 2004 as compared to only six months in 2003. The average selling price for meat products increased by 23%, driven by incremental price increases, and a change in our product mix in favor of higher-value added products as well as more premium brands such as Cherkizovsky, Pyat' Zvezd and Popurri. We attribute this shift in favor of higher premium brands and value-added products largely to increasing income and changing consumer preferences in Russia. If CMPP had been consolidated for all of 2003, total sales in our meat processing segment would have increased by approximately 5% from 2003 to 2004.

Total sales in our poultry segment increased by 42% to U.S.\$101.8 million in 2004 from U.S.\$71.9 million in 2003. The increased total sales resulted from an increase in sales volumes, supported by an increase in average selling prices. The increased selling prices resulted from increased sales of cut poultry products (both chilled and frozen), on which we receive higher prices. Our average selling price for poultry products increased by 16% from 2003 to 2004.

Total sales in our pork segment increased by 89% to U.S.\$18.9 million in 2004 from U.S.\$10.0 million in 2003. The increase in total sales in 2004 resulted primarily from the effect of the acquisition of a controlling interest in Botovo in July 2004, which resulted in increased sales volumes, as well as a significant increase in average selling prices from 2003 to 2004. Our total pork segment sales in the period under review consisted primarily of live pigs and carcass pork meat.

In addition to sales of our own production, we purchase certain goods for resale. These include meat products outsourced to external producers, beverages and baked goods. We sell these products through our distribution network, and in the case of outsourced products, to complement our primary product lines. Sales of goods for resale decreased from U.S.\$27.9 million in 2003 (8% of sales) to U.S.\$5.4 million in 2004 (1% of sales). The decline resulted from the consolidation of CMPP for all of 2004. During the first six months of 2003, we purchased goods from CMPP that were resold through our distribution network. After we acquired control over CMPP in 2003, the costs associated with these sales are included in sales of produced goods.

We also engage in sales of services and other products of our non-core operations, which are classified as other sales. In the meat processing segment these other sales consist of sales of casings, fasteners, transportation services and payment for the rent of property, plant and equipment. In our poultry and pork segments other sales constitute sales of dairy products and cattle, as well as rent of property. Other sales remained approximately constant, at U.S.\$4.5 million in 2003 and U.S.\$4.4 million in 2004, or approximately 1% of sales in each year.

Our sales return allowance increased by 212%, from U.S.\$1.4 million in 2003 to U.S.\$4.3 million in 2004, as a result of the launch of our product guarantee program in mid-2003.

Our sales volume discounts, which we account for as a deduction from our gross sales revenue, increased by 264% from 2003 to 2004, reflecting the increasing share of large volume customers, particularly modern retail chains, in our sales. We present our sales net of these amounts.



Cost of Sales

Our cost of sales increased by 37% in 2004 as compared to 2003. If CMPP had been consolidated for all of 2003, our cost of sales would have increased by approximately 13%, to U.S.\$333.6 million (unaudited). Raw materials accounted for 81% and 73% of our total cost of sales in 2004 and 2003, respectively. The table below sets forth these costs for both 2004 and 2003:

	For the year ended December 31,			
	2004		2003	
	Amount	Percentage of sales	Amount	Percentage of sales
(thousands of U.S. dollars, except percentages)				
Raw materials	305,641	66	201,375	60
Personnel (excluding pension costs)	29,721	6	21,458	6
Depreciation	16,478	4	10,879	3
Cost of goods for resale	3,911	1	26,254	8
Utilities	9,934	2	6,225	2
Pension costs	6,479	1	4,355	1
Other	3,760	1	4,322	1
Total	375,924	81	274,868	81

Raw material costs increased by 52% between 2003 and 2004 and increased as a percentage of sales to 66% in 2004 from 60% in 2003, as raw meat and other raw material prices increased faster than our overall sales. The increase in raw material costs also reflects the consolidation of CMPP from June 30, 2003. Assuming the consolidation of CMPP for all of 2003, raw material costs would have increased by approximately 27% in 2004 (unaudited).

Raw material costs in our meat processing segment increased by 55% from 2003 to 2004 and as a percentage of total meat processing segment sales increased to 70% in 2004 from 61% in 2003. The increase from 2003 to 2004 largely reflects increases in raw meat prices as a result of the full-year impact of the imposition of quotas on raw meat imports into Russia during 2003 and the consolidation of CMPP for all of 2004. If CMPP had been consolidated for all of 2003, raw material costs would have constituted approximately 60% of total meat processing segment sales in 2003 (unaudited). The average price of our raw meat inputs increased by 33% in 2004 as compared to 2003.

Raw material costs in our poultry segment increased by 33% from 2003 to 2004, but as a percentage of total poultry segment sales decreased to 50% in 2004 from 53% in 2003. While our requirements for raw materials increased in line with increased production volumes, the average price of wheat, which is one of the basic components of our feed, declined in 2004. In addition, we reduced our feed requirements per unit of output as a result of improved feeding practices, and we also benefited from reduced prices for feed purchased from third parties.

Raw material costs in our pork segment increased by 85% from 2003 to 2004, but as a percentage of total pork segment sales decreased slightly to 62% in 2004 from 63% in 2003. The average price of feed for pigs that we purchased from third parties increased by approximately 19% in 2004 as compared to 2003, and volume purchased also increased as a result of the acquisition of Botovo and the start of operations at Penzamyasoprom.

Personnel costs (excluding pension costs) increased by 39% between 2004 and 2003 and remained approximately constant as a percentage of sales, at 6%. This increase resulted from increased salaries and the consolidation of CMPP for all of 2004. If CMPP had been consolidated for all of 2003, personnel costs would have increased by approximately 18% in 2004 (unaudited).

Depreciation increased by 51% between 2003 and 2004, reflecting additional capital expenditures and consolidation of CMPP for all of 2004. As a percentage of sales, depreciation increased from approximately 3% in 2003 to 4% in 2004. Assuming the consolidation of CMPP for all of 2003, depreciation would have increased by approximately 13% in 2004 (unaudited).

Costs of goods for resale decreased from U.S.\$26.3 million in 2003 to U.S.\$3.9 million in 2004. The decrease resulted from the consolidation of CMPP for all of 2004, as a result of which costs of goods that were purchased from CMPP and resold through our distribution network prior to the acquisition of a controlling interest in CMPP are now eliminated on consolidation.



Utility costs increased by 60% in 2004 due to increased natural gas and electricity tariffs and the consolidation of CMPP for all of 2004. Assuming the consolidation of CMPP for all of 2003, utility costs would have increased by approximately 37% in 2004 (unaudited).

Gross Profit

Our gross profit increased by 40% to U.S.\$87.8 million in 2004 from U.S.\$62.6 million in 2003. Our gross margin remained constant, at 19% in both 2004 and 2003. Including the consolidation of CMPP for all of 2003, our gross profit in 2004 would have remained approximately the same, at 19%.

Gross margin in our meat processing segment decreased to 16% in 2004 from 19% in 2003 as we were unable to increase selling prices in line with increases in raw meat prices. Including the consolidation of CMPP for all of 2003, gross margin in our meat processing segment would have been approximately the same in 2003 (unaudited).

Gross margin in our poultry segment increased to 30% in 2004 from 22% in 2003. This increase was primarily due to increased average selling prices, improved production efficiencies and benefits from the increased scale of our operations.

Gross margin in our pork segment increased to 8% in 2004 from (16)% in 2003. This increase was primarily due to increased average selling prices.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 42% in 2004 over 2003. As a percentage of sales, selling and distribution expenses increased from approximately 15% to approximately 16%. Including the consolidation of CMPP for all of 2003, selling, general and administrative expenses would have increased by approximately 16%, to U.S.\$60.5 million in 2003. Our selling, general and administrative expenses in 2004 and 2003 were as follows:

	For the year ended December 31,			
	2004		2003	
	Amount	Percentage of sales	Amount	Percentage of sales
(thousands of U.S. dollars, except percentages)				
Personnel (excluding pension costs)	29,284	6	23,616	7
Shipping and handling	4,587	1	2,784	1
Materials and supplies	4,657	1	3,160	1
Taxes (other than income tax)	4,262	1	2,302	1
Marketing	3,045	1	291	(1)
Pension costs	6,462	1	4,271	1
Depreciation	4,192	1	2,059	1
Audit, consulting and legal fees	1,609	(1)	519	(1)
Security services	733	(1)	502	(1)
Bank charges	1,135	(1)	839	(1)
Utilities	904	(1)	887	(1)
Insurance	310	(1)	650	(1)
Information technology and communication services	1,397	(1)	784	(1)
Bad debt (recovery) expense	2,781	1	2,746	1
Charity	671	(1)	—	—
Other	8,018	2	6,836	2
Total	74,047	16	52,246	15

Note:

(1) Rounds to less than 1% of sales.

Selling, general and administrative expenses in our meat processing segment increased by U.S.\$13.0 million from 2003 to 2004 and remained approximately constant at 15% of total segment sales in each of 2003 and 2004. Selling, general and administrative expenses in our poultry segment increased by 62% from 2003 to 2004 but remained approximately constant as a percentage of total segment sales. Selling, general and administrative expenses in our pork segment decreased from 14% of total segment sales in 2003 to 9% of total segment sales in 2004.



Personnel expenses (excluding pension costs) increased in 2004 by U.S.\$5.7 million, or 24%, over 2003. As a percentage of sales they decreased from 7% in 2003 to 6% in 2004. The increase in expenses was due to the general increase in wages in Russia and the consolidation of CMPP for all of 2004, though average headcount remained approximately constant. Assuming the consolidation of CMPP for all of 2003, personnel costs would have increased by approximately 5% in 2004 (unaudited).

Shipping and handling costs, which consist of transportation expenses charged to us by third parties on shipments of our products, increased by 65% in 2004 as compared to 2003, and as a percentage of sales remained approximately constant at 1%. The increase resulted largely from the consolidation of CMPP for all of 2004, as well as general increases in the prices we pay for these services.

Costs of materials and supplies increased by 47% in 2004 as compared to 2003. The increase was largely due to increased purchases of promotional and advertising materials as well as the consolidation of CMPP for all of 2004. Assuming the consolidation of CMPP for all of 2003, costs of materials and supplies would have increased by approximately 23% from 2003 to 2004. As a percentage of sales, costs of materials and supplies remained approximately constant at 1% in both 2004 and 2003.

Taxes, other than income tax, include property tax, which is levied on our property, various local taxes and advertising tax. The 85% increase in these taxes in 2004 compared to 2003 was partly due to revaluation of property for Russian accounting purposes and new property put in use, as well as the consolidation of CMPP for all of 2004.

Marketing expenses increased by 946% between 2004 and 2003. This increase was attributable to advertising and promotional activities related to the introduction of new products in our meat processing segment, our efforts to increase the profile of our poultry segment, and the consolidation of CMPP for all of 2004.

Operating Income

Operating income increased by 33% to U.S.\$12.3 million in 2004 from U.S.\$9.3 million in 2003. As a percentage of sales, operating income remained the same at 3%. Assuming the consolidation of CMPP for all of 2003, our operating income in 2003 would have been approximately U.S.\$16.3 million (unaudited).

Operating income in our meat processing segment decreased by 69% to U.S.\$2.9 million in 2004 from U.S.\$9.4 million in 2003. Assuming the consolidation of CMPP for all of 2003, operating income in 2003 in our meat processing segment would have been approximately U.S.\$16.4 million. As discussed above, the decline in operating income in 2004 occurred primarily as a result of our inability to increase average selling prices in line with increases in raw meat prices.

Operating income in our poultry segment increased by 300% to U.S.\$9.9 million in 2004 from U.S.\$2.5 million in 2003. As discussed above, this improvement was primarily due to increased average selling prices, improved production efficiency and some benefits from the increased scale of our operations.

Operating income in our pork segment increased to a loss of U.S.\$470,000 in 2004 from a loss of U.S.\$2.6 million in 2003. As discussed above, this improvement was primarily due to increased selling prices.

Other operating expenses

Other operating expenses in 2003 and 2004 consisted of loss on disposal of property, plant and equipment. Other operating expenses increased from U.S.\$1.1 million in 2003 to U.S.\$1.5 million in 2004 primarily as a result of expenses related to the renovation of property, plant and equipment in 2004.



Other income and expense, net

Net other income and expense comprised the following in 2004 and 2003:

	For the year ended December 31,			
	2004		2003	
	Amount	Percentage of sales	Amount	Percentage of sales
	(thousands of U.S. dollars, except percentages)			
Interest expense	15,886	3	13,381	4
Foreign exchange gain	(2,315)	—	(1,832)	—
Gain from debt forgiveness	(4,311)	—	(150)	—
Other financial expense, net	955	(1)	445	(1)
Income from investments in affiliated companies	—	—	(1,439)	—
Total	10,215	2	10,405	3

Note:

(1) Rounds to less than 1% of sales.

Assuming the consolidation of CMPP for all of 2003, other income and expense, net, would have been approximately U.S.\$12.4 million in 2003.

Interest expense increased by 19% in 2004 compared to 2003. The increase resulted primarily from increased indebtedness in 2004. Our interest subsidies, which apply to certain indebtedness relating to our poultry and pork operations, amounted to U.S.\$1.2 million and U.S.\$489,000 in the years ended December 31, 2004 and 2003, respectively.

Our gain from debt forgiveness increased from U.S.\$150,000 in 2003 to U.S.\$4.3 million in 2004. Gain on debt forgiveness in 2004 arose primarily of forgiveness of fines and penalties related to a loan from the Ministry of Finance and fines and penalties on restructured taxes.

Income from investments in associates in 2003 consists of our share in the income of CMPP prior to our acquisition of a controlling interest in CMPP on June 30, 2003. See “—Acquisitions of interests in subsidiaries.”

Income Taxes

Our income taxes for the years ended December 31, 2004 and 2003 were as follows

	For the year ended December 31,	
	2004	2003
	(thousand of U.S. dollars)	
Current income taxes	5,240	3,706
Deferred tax (benefit) expense	(450)	2,562
Total income taxes	4,790	6,268

Income taxes amounted to U.S.\$4.8 million in 2004 and U.S.\$6.3 million in 2003. These comprise current income tax charges of U.S.\$5.2 million in 2004 and U.S.\$3.7 million in 2003, and a deferred tax benefit of U.S.\$450,000 in 2004 and a deferred tax expense of U.S.\$2.6 million in 2003. Deferred tax benefits and charges arise on temporary differences between the bases of computing income under Russian tax principles and U.S. GAAP. Assuming the consolidation of CMPP for all of 2003, income taxes would have been approximately U.S.\$9.7 million in 2003 (unaudited).

In both 2004 and 2003 statutory income tax rates were 24% for our meat processing segment and 0% for operations in our poultry and pork segments that qualified for reduced tax rates. In 2004 our overall effective tax rate amounted to 229%, an increase from (558)% in 2003. Negative effective tax rates result from pre-tax losses at our subsidiaries in the relevant periods. The difference between our effective tax rate and the actual rates paid was primarily due to the non-deductibility of certain expenses for Russian statutory taxation purposes and changes in the valuation allowance for deferred tax assets and tax benefits for small enterprises.

As of December 31, 2004 and 2003, we had losses carried forward for statutory income tax purposes of approximately U.S.\$19.7 million and U.S.\$16.4 million, respectively. We established a valuation allowance for



the associated deferred tax asset amounting to U.S.\$4.2 million and U.S.\$2.1 million as of December 31, 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.

Minority Interest

In 2004 and 2003, minority interest in net profit amounted to gains of U.S.\$3.6 million and U.S.\$4.6 million, respectively. The gain from minority interest reflected operating losses at certain of our subsidiaries with minority interests. See “—Restructuring and Formation of the Company.” Assuming the consolidation of CMPP for all of 2003, minority interest in net loss would have been approximately U.S.\$3.3 million in 2003 (unaudited).

Other

We recorded a loss from discontinued operations of U.S.\$216,000 in 2004 and U.S.\$38,000 in 2003. Discontinued operations represent the disposal of Rastovtsy in October 2005 as a part of our spin-off of companies whose activities are considered non-core to us. During the period under review, Rastovtsy had immaterial transactions with other Group entities. See note 14 to the Combined and Consolidated Financial Statements for a further discussion of our discontinued operations.

We recorded an extraordinary gain of U.S.\$463,000 in 2004, resulting from excess negative goodwill associated with our acquisition of an interest in Botovo in that year. See “—Acquisitions of interests in subsidiaries.”

Net Income

Net income increased in 2004 to U.S.\$1.1 million (0.2% of sales) from a loss of U.S.\$2.9 million in 2003, primarily as a result of the increase in operating income explained above. Assuming the consolidation of CMPP for all of 2003, our net loss would have been approximately U.S.\$2.5 million in 2003 (unaudited).

Liquidity and Capital Resources

Capital Requirements

In addition to cash to meet our working capital requirements, we require capital to finance the following:

- capital expenditures, particularly the further development of our pork segment;
- potential acquisitions; and
- repayment of debt.

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

Our total capital expenditures in 2005, excluding acquisitions, amounted to U.S.\$85.9 million. These amounts include cash and other payments for property, plant and equipment, property, plant and equipment acquired under leases as well as changes in accounts payable for equipment. Capital expenditures in our meat processing segment amounted to U.S.\$8.5 million and related to improvements at our existing meat processing facilities. Capital expenditures in our poultry segment amounted to U.S.\$37.2 million and related mainly to the expansion of production capacity at our poultry farms in the Moscow and Penza regions. Capital expenditures in our pork segment amounted to U.S.\$40.2 million and related mainly to the construction of a new pork facility in Lipetsk.

Our capital expenditures, excluding acquisitions, for the three years ended December 31, 2005 are set forth in the following table:

	For the year ended December 31,			
	2005	2004	2003	Total
	<small>(thousands of U.S. dollars)</small>			
Meat processing segment	8,530	10,118	5,179	23,827
Poultry segment	37,205	15,547	7,308	60,060
Pork segment	40,157	2,218	785	43,160
Total capital expenditures	85,892	27,883	13,272	127,047

Our total expenditures for acquisitions amounted to U.S.\$291,000, U.S.\$7.8 million and U.S.\$4.5 million in the years ended December 31, 2005, 2004 and 2003, respectively.



We have developed a capital expenditure plan that extends through 2007. This plan focuses on our pork segment, in which we plan to invest U.S.\$132 million in 2006 and U.S.\$107 million in 2007. We are focusing these investments on completing and bringing to full operating capacity Lipetskmyasoprom, on constructing new pig raising facilities and constructing facilities to produce fresh cut pork products. In addition, we plan to invest approximately U.S.\$8 million in our meat processing segment in each of 2006 and 2007 and U.S.\$20 million in our poultry segment in 2006 and nil in 2007. In our meat processing segment we plan to focus on incremental improvements and modernization of our existing facilities in order to improve efficiency and to expand our distribution. In our poultry segment, we expect to focus on completing the upgrades of our facilities in the Moscow and Penza regions, expanding our distribution network and upgrading our feed production facilities. See “Business—Production Facilities” for a discussion of our investment projects. As described below under “—Capital resources,” the terms of the loan that we received from the EBRD limit capital expenditures in our meat processing segment. We plan to use debt financing and the proceeds of the Offering to fund our capital expenditures. See also “Use of Proceeds.”

The amount and timing of our debt and other obligations is set forth under “Contractual Obligations and Commercial Commitments.”

Capital resources

We generally rely on operating cash flows and bank loans to finance capital expenditures and acquisitions. The availability of external financing is influenced by many factors, including our financial position and market conditions. Under certain circumstances, we may be required to repay our indebtedness earlier than scheduled, as discussed below.

In 2005, the major sources of our funds were our operating cash flows and short and long-term borrowings. We financed our investing activities primarily with short and long-term borrowings.

Net cash from continuing operating activities associated with continuing operations in 2005 increased to U.S.\$14.1 million from net cash used in continuing operating activities of U.S.\$4.4 million in 2004 and U.S.\$8.5 million in 2003. The improvement in operating cash flows from 2003 to 2005 was due primarily to an increase in income from continuing operations before extraordinary item from a loss of U.S.\$2.8 million in 2003 to income of U.S.\$873,000 in 2004 and U.S.\$17.1 million in 2005. Improvements in foreign exchange gain (loss) and deferred tax benefit were among the factors contributing to the improvement over the period. Increases in inventories, trade receivables, livestock and other assets constituted increased uses of cash in 2005, while increases in taxes payable and other current payables resulted in outflows of cash in 2005 in comparison to 2004. Increases in trade accounts payable also increased in each period, from a use of U.S.\$9.8 million in cash in 2003 to outflows of cash of U.S.\$20.3 million in 2004 and U.S.\$17.5 million in 2005. These changes are primarily due to the negotiation of better payment conditions with our suppliers to help finance our working capital requirements. In addition, we had net cash from operating activities associated with discontinued operations from the disposal of Rastovsty of U.S.\$138,000 in 2005, compared to a use of cash associated with such operations of U.S.\$155,000 in 2004.

Investing activities constituted a net use of cash of U.S.\$71.0 million in 2005, as compared to a net use of cash of U.S.\$22.3 million in 2004 and U.S.\$14.7 million in 2003. The increased use of cash over this period was primarily attributable to an increase in purchases of property, plant and equipment from U.S.\$13.1 million in 2003 to U.S.\$24.5 million in 2004 and U.S.\$76.9 million in 2005, a reduction in proceeds from the sale of property, plant and equipment from U.S.\$4.0 million in 2004 to U.S.\$1.5 million in 2005 (U.S.\$376,000 in 2003) and an increase in short term loans granted from U.S.\$128,000 in 2003 to U.S.\$735,000 in 2004 and U.S.\$6.4 million in 2005, offset by an outflow of cash of U.S.\$11.0 million in 2005 from repayment of short-term loans (compared to nil in 2004 and 2003). The increases in short-term loans granted and repaid in 2005 resulted from loans granted to entities disposed of during our restructuring in 2005. See “—Restructuring and Formation of the Company.”

Our net cash flows from financing activities associated with continuing operations increased in 2005 to U.S.\$59.8 million, from U.S.\$26.9 million in 2004 and U.S.\$24.1 million in 2003. The increase was primarily driven by a reduced use of cash in repayment of both long-term loans, from U.S.\$13.4 million in 2003 and U.S.\$42.2 million in 2004 to U.S.\$23.1 million in 2005, and short-term loans, from U.S.\$119.0 million in 2003 to U.S.\$129.4 million in 2004 and U.S.\$100.6 million in 2005, reflecting our increasing reliance on long-term debt as a source of financing. The increased use of cash in repayment of both long- and short-term loans in 2004 resulted primarily from our repayment of indebtedness in connection with the receipt of a loan from the EBRD. Proceeds from short-term loans continued to be a significant source of cash, amounting to U.S.\$120.9 million in 2003, U.S.\$123.9 million in 2004 and U.S.\$118.9 million in 2005.



Our principal long-term loan facilities as of December 31, 2005 were as follows:

- In December 2004, we entered into a loan agreement with the European Bank for Reconstruction and Development (the “EBRD”) with an aggregate principal amount of U.S.\$52 million and due from 2006 through to 2011. The loan consists of three tranches: one for U.S.\$5 million and bearing interest at LIBOR plus 4.5% per annum; one for U.S.\$35.9 million and bearing interest at LIBOR plus 5.5% per annum; and one for U.S.\$10.1 million and bearing interest at LIBOR plus 5% per annum. We pledged property, plant and equipment valued at U.S.\$70.2 million, as collateral. In addition, we pledged shares of and participation interests in AIC Cherkizovsky, CMPP, BMPP, Ulyanovsky, Penzensky, Belmiaso and Cherkizovo-Kashira as collateral under the loan agreement, and the loan agreement is guaranteed by AIC Cherkizovsky, CMPP, BMPP, Ulyanovsky, Penzensky, Babaevsky, Belmiaso, Salsky, Cherkizovo-Kashira, Trade House Cherkizovsky, and LLC Cherkizovo-Ural. The terms of the loan also include limitations on the payment of dividends by certain of the entities in our meat processing segment and payments to related parties by AIC Cherkizovsky, until 75% of the initial principal amount has been repaid and provided that the payment is no more than 50% of the net profit of the meat processing segment for the prior financial year. In addition, the terms of the loan contain financial covenants with respect to indebtedness, debt service and other matters, and the loan limits capital expenditures in the meat processing segment to U.S.\$8.6 million in 2006 and U.S.\$5.0 million annually thereafter. See note 18 to the Combined and Consolidated Financial Statements.
- In December 2004, we entered into a U.S. dollar-denominated loan agreement with CJSC Raiffeisenbank Austria with an aggregate principal amount of U.S.\$10 million and bearing interest at an average of LIBOR plus 4.5% per annum and due from 2006 through 2011. We pledged property, plant and equipment valued at U.S.\$17.0 million as collateral. This loan provides for the same financial covenants as the loan from the EBRD discussed above.
- In March 1993, we entered into a loan agreement with the Ministry of Finance of the Russian Federation (now denominated in euro) in the aggregate principal amount of U.S.\$3.1 million and bearing interest at 3% per annum. The loan is due in equal installments in 2006, 2008 and 2011. We pledged property, plant and equipment of U.S.\$5.2 million as collateral under this loan agreement. Fines and penalties of U.S.\$1.4 million were forgiven in 2004 in accordance with a debt restructuring agreement that had been concluded in 2001.
- We had three loan facilities with a total limit of U.S.\$81.7 million from Gazprombank. These bear weighted average interest rates of 14.11% per annum (ranging from 14.00% to 14.20% for facilities drawn as of December 31, 2005) and are payable between 2007 and 2009. As of December 31, 2005, U.S.\$34.3 million was available for drawdown under these facilities. We pledged property, plant and equipment of U.S.\$7.7 million as collateral, and 51% of the outstanding shares of AIC Mikhailovsky and 100% of the shares of Lipetskmyasoprom are pledged as collateral. The facilities are guaranteed by a member of the Control Group and by certain of our subsidiaries.
- We had nine outstanding loan facilities, with a total limit of U.S.\$51.0 million, from the Savings Bank of the Russian Federation (“Sberbank”) bearing a weighted average interest rate of 14.05% per annum (ranging from 12.00% to 22.00%) and payable between 2006 and 2010. As of December 31, 2005, U.S.\$3.1 million was available for drawdown on these facilities. We pledged property, plant and equipment of U.S.\$21.4 million and inventory and livestock of U.S.\$1.9 million as collateral.

Since December 31, 2005, we have entered into additional loan agreements and made draw-downs on existing agreements with Gazprombank in the aggregate principal amount of U.S.\$40.0 million that bear interest from 12.00% to 14.20% per annum and are due in 2007 through 2010, and received additional loans of U.S.\$5.3 million due in 2010 and 2011 and that bear interest from 6.00% to 16.00% per annum.

In addition, on March 27, 2006 we entered into an agreement with Gazprombank that enables us to place a total of RR5 billion (U.S.\$173.7 million) in bonds bearing interest of up to 9.25% per annum. At our option, Gazprombank has agreed to place the bonds in two tranches, one for RR2 billion roubles (U.S.\$69.5 million) by June 30, 2006 and the other for RR3 billion (U.S.\$104.2 million) within one year from the date of registration of the first tranche with the FSFM. The bonds are to have a five year maturity with interest paid every 182 days, and will require us to meet certain covenants. We filed a prospectus for the issuance of these bonds with the FSFM on April 13, 2006.



Our principal short-term loan facilities as of December 31, 2005 were as follows:

- We had a total of seven loans, thirty loan facilities (with a total limit of U.S.\$22.7 million) and four overdraft agreements with Sberbank bearing interest at rates from 10.0% to 15.0% per annum, all denominated in rubles. The aggregate principal amount outstanding as of December 31, 2005 was U.S.\$29.6 million, and the weighted average interest rate was 13.16% per annum. We pledged property, plant and equipment of U.S.\$1.8 million and inventory and livestock of U.S.\$8.0 million as collateral under these agreements. Two of the loan agreements are also guaranteed by JSC Vasiljevskaya and a member of the Control Group.
- We had a total of three loans from the Department of Food Supply of the City of Moscow bearing interest at rates from 3.00% to 4.33% per annum, all denominated in rubles. The aggregate principal amount outstanding as of December 31, 2005 was U.S.\$19.3 million, and the weighted average interest rate was 3.91% per annum. We pledged 44% of the outstanding shares of BMPP and 51% of the capital of Cherkizovo-Kashira as collateral under these loan agreements, and one of the loans is guaranteed by TIC Cherkizovo Ltd.
- We had a total of three loans and one loan facility (with a limit of U.S.\$10.4 million) from Gazprombank, bearing interest at rates of 10.00% to 13.00% per annum, all denominated in rubles. The aggregate principal amount outstanding as of December 31, 2005 was U.S.\$12.2 million, and the weighted average interest rate was 12.01% per annum. We pledged property, plant and equipment of U.S.\$391,000 and inventory and livestock of U.S.\$2.2 million as collateral.
- We had one loan from OJSC Bank Zenit, bearing interest at 12.50% per annum and denominated in rubles. The aggregate principal amount outstanding as of December 31, 2005 was U.S.\$3.1 million, and we repaid the full amount during January and February 2006.
- We had a total of four loans and one overdraft agreement from Vneshtorgbank, bearing interest at rates from 13.00% to 15.00% per annum, all denominated in rubles. The aggregate principal amount outstanding as of December 31, 2005 was U.S.\$3.0 million, and the weighted average interest rate was 13.78% per annum. We pledged property, plant and equipment of U.S.\$1.3 million and inventory and livestock of U.S.\$2.2 million as collateral under these agreements. Two of the loans are also guaranteed by JSC Vasiljevskaya.

Since December 31, 2005, we have made total repayments of short-term loans and current portion of long-term loans of U.S.\$51.8 million. We have also received additional short-term loans of approximately U.S.\$49.7 million.

Some of the loans granted by Sberbank, Gazprombank and Vneshtorgbank bear subsidized interest. Approximately 27% of the aggregate principal amount of our loans outstanding as of December 31, 2005 received such subsidiaries.

As of December 31, 2004, we were not in compliance with certain financial covenants related to the loans from the EBRD and Raiffeisenbank. The lenders waived our non-compliance with these financial covenants for the financial year ended December 31, 2004. Additionally, we amended the original loan agreements on April 6, 2006, establishing the financial covenants discussed above, and these amendments were applied retroactively to 2005 and the first quarter of 2006. Should we fail to meet any of the financial covenants associated with these loan agreements, the lenders could view such non-compliance as a technical default and demand immediate repayment of these loans.

Liquidity

As of December 31, 2005, we had total cash and cash equivalents of U.S.\$5.2 million, all of which was denominated in rubles. At December 31, 2005, 2004 and 2003, we had negative working capital of U.S.\$40.1 million, U.S.\$28.6 million and U.S.\$52.8 million, respectively, which largely resulted from the use of short-term financing for both capital expenditure and working capital purposes. Subsequent to December 31, 2005, we continued to meet our obligations to trade creditors from operating cash flows and debt financing. Our trade working capital, which we define as current assets less current liabilities excluding short-term loans and current portion of long-term loans, was U.S.\$50.2 million, U.S.\$46.7 million and U.S.\$21.1 million as of December 31, 2005, 2004 and 2003, respectively. Our future plans with respect to improvement of liquidity and our working capital position include refinancing of short-term debt on a long-term basis.



As we started to increase the share of sales that we make to modern format retailers, our trade receivables from third parties, net of allowance for doubtful accounts, increased from U.S.\$17.2 million as of December 31, 2003 to U.S.\$33.5 million as of December 31, 2004. In 2005, we improved our payment terms and our trade receivables declined to U.S.\$30.6 million as of December 31, 2005. In addition, trade receivables from affiliated companies and other related parties increased from U.S.\$358,000 to U.S.\$438,000 and U.S.\$1.6 million as of December 31, 2003, 2004 and 2005, respectively. The increase in trade receivables from affiliated companies in 2005 is due to the receivables from companies distributed to members of the Control Group in our restructuring during 2005. Trade receivables turnover averaged 24 days as of December 31, 2005, 23 days as of December 31, 2004 and 18 days as of December 31, 2003. Allowance for doubtful accounts was U.S.\$3.2 million, U.S.\$4.9 million and U.S.\$3.0 million as of December 31, 2005, 2004 and 2003, respectively. We create allowances for doubtful accounts on a case-by-case basis. Due to changes in our customer base in 2004 and lack of historical information related to new customers, management, based on its best estimates, established allowances for doubtful accounts. As many of these doubtful accounts were actually collected in 2005, management considered this experience in making its estimates of doubtful accounts in 2005, resulting in a decrease in allowance for doubtful accounts in 2005 as compared to 2004.

Trade accounts payable to third parties increased from U.S.\$34.0 million as of December 31, 2003 to U.S.\$53.0 million as of December 31, 2004 and decreased slightly to U.S.\$46.9 million as of December 31, 2005. Following increases in raw meat prices during 2005, we negotiated more favorable payment terms with our suppliers of raw meat in order to improve our working capital position, which has helped to improve our payable profile. In addition, trade payables to affiliated companies and other related parties increased from U.S.\$79,000 to U.S.\$1.2 million and U.S.\$1.2 million as of December 31, 2003, 2004 and 2005, respectively. Trade payables turnover averaged 44 days as of December 31, 2005, 43 days as of December 31, 2004 and 43 days as of December 31, 2003.

We also make advances to our raw meat suppliers, in accordance with the terms of our supply agreements. Advances paid, net of allowance for doubtful accounts, amounted to U.S.\$8.6 million, U.S.\$7.4 million and U.S.\$3.2 million as of December 31, 2005, 2004 and 2003, respectively. Of our total net advances, U.S.\$1.7 million, U.S.\$713,000 and nil was to related parties as of December 31, 2005, 2004 and 2003, respectively. Our advances to suppliers, including related parties, increased during the period under review primarily as a result of higher raw meat prices.

Inventory consists primarily of raw materials, as well as finished goods, work-in-progress and goods for resale. Our inventories were U.S.\$43.2 million, U.S.\$42.5 million and U.S.\$34.1 million as of December 31, 2005, 2004 and 2003, respectively. In addition, livestock amounted to U.S.\$13.7 million, U.S.\$16.2 million and U.S.\$9.1 million as of December 31, 2005, 2004 and 2003, respectively. In 2003, the value of pigs at Kuznetsovsky Kombinat was written down by U.S.\$1.2 million. This write-down was largely due to a decision to improve the genetic composition of the herd, as a result of which our existing stock of pigs was slaughtered in 2004.

Other current assets include taxes receivable, prepaid expenses, spare parts, other receivables and promissory notes receivable. Taxes receivable, comprised primarily of value added tax ("VAT") due from the state budget, increased from U.S.\$10.9 million as of December 31, 2003 to U.S.\$15.4 million as of December 31, 2004 and U.S.\$21.7 million as of December 31, 2005. VAT receivables increased as a result of increased accounts payable at the level of our subsidiaries. Under existing tax legislation tax settlements are performed on the level of individual legal entities and not on a consolidated basis. We are generally able to offset this VAT against VAT, income taxes and other taxes payable to the state budget and to recover these amounts from the state budget. In 2005, we received U.S.\$116 million in VAT from the state budget primarily by an offset with VAT and other taxes to the state budget.

Contractual obligations and commercial commitments

Our debt consists of notes and loans. The following table sets forth the principal amount of our obligations in respect of loans and borrowings as of December 31, 2005:

<u>Contractual obligations</u>	<u>Payments due by periods at December 31, 2005</u>				
	<u>Total</u>	<u>Less than 1 year</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
	<u>(thousands of U.S. dollars)</u>				
Notes payable	3,559	—	—	1,737	1,822
Long-term loans	158,684	18,469	35,003	95,740	9,472
Short-term loans	71,873	71,873	—	—	—
Total	<u>234,116</u>	<u>90,342</u>	<u>35,003</u>	<u>97,477</u>	<u>11,294</u>



Notes payable consist of ruble-denominated notes issued by Cherkizovo-Kashira with an aggregate principal amount of U.S.\$3.8 million bearing interest at 12% annually and maturing in 2010 and 2011. These notes were issued in April 2003 in exchange for U.S. dollar and ruble-denominated notes originally issued in 1999 as part of a restructuring of our debts with SBS-Agro Bank. We did not recognize any gain or loss on this exchange.

As of December 31, 2005, 2004 and 2003, we had pledged property, plant and equipment with a carrying value of U.S.\$126.4 million, U.S.\$129.9 million and U.S.\$48.6 million, respectively, as collateral under loans that we received. We also pledged inventory with a value of U.S.\$8.9 million, U.S.\$7.1 million and U.S.\$2.1 million as of December 31, 2005, 2004 and 2003, respectively. Pledged inventory as of December 31, 2005 consisted of U.S.\$5.7 million of raw materials, U.S.\$1.8 million in finished goods and U.S.\$1.4 million in other goods. We also pledged livestock with a value of U.S.\$8.7 million, U.S.\$7.2 million and U.S.\$6.8 million as of December 31, 2005, 2004 and 2003, respectively, as collateral for loans that we received. The aggregate amount of pledged assets represented 34%, 41% and 20% of our total assets as of December 31, 2005, 2004 and 2003, respectively.

We make defined contributions to Russia's state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force. Through December 31, 2004 these contributions were calculated on the basis of a regressive rate for unified social tax ("UST") that ranged from 35.6% to 5% of the annual gross remuneration of each employee, and from January 1, 2005 the contribution was reduced to a regressive rate of 26% to 2% of the gross remuneration of each employee. These contributions are expensed as incurred. We do not have any other pension obligations.

In 2001, certain of our subsidiaries entered into tax restructuring agreements with regional tax authorities with respect to VAT, payroll related taxes and taxes other than income in the amount of U.S.\$1.4 million and related fines and penalties in the amount of U.S.\$2.1 million. In accordance with these agreements payment of the taxes and penalties and fines was extended through 2014. In 2005, Budennovets entered into a tax restructuring agreement with regional tax authorities with respect to VAT, payroll related taxes and taxes other than income in the amount of U.S.\$225,000 and related fines and penalties in the amount of U.S.\$177,000, and payment of the taxes, penalties and fines was extended through 2014. As a result of adhering to the 2001 tax restructuring agreements, related fines and penalties of U.S.\$2.0 million were forgiven in 2004, which was accounted for as gain from debt forgiveness. In 2005, LLC Ardymsky Feed Milling Plant failed to fulfill terms of the restructuring agreement and its restructured tax liability in the amount of U.S.\$129,000 was transferred to current tax payables. As of December 31, 2005, outstanding amounts due under these restructuring agreements amounted to U.S.\$1.1 million, payable from 2008 through 2014.

We have also acquired certain fixed assets under leasing contracts that qualify for treatment as capital leases. We use the lower of the incremental borrowing rate and the rate implicit in the lease agreement in capitalizing these leases. These rates range from 14% to 33% for ruble denominated leases and from 8% to 20% for U.S. dollar and euro-denominated leases. Most lease agreements contain a purchase option. Our total minimum lease payments due under these lease agreements as of December 31, 2005 were as follows:

<u>Payments falling due</u>	<u>Total minimum lease payments</u>	<u>Portion related to interest</u>
	(thousands of U.S. dollars)	
2006	1,140	80
2007	230	13
2008	27	—
Total	<u>1,397</u>	<u>93</u>
Less: current portion	<u>(1,140)</u>	<u>(80)</u>
Total	<u>257</u>	<u>13</u>

In addition, during 2005, we leased on bargain terms certain items of property, plant and equipment necessary for our continuing operations that were owned by entities distributed to shareholders as part of our restructuring. See "—Disposal of non-core operations." Lease terms include bargain options by which we may continue these agreements over the life of the underlying equipment. We used the remaining useful life of the underlying assets in order to calculate the maximum lease term. As of December 31, 2005, payables to shareholders for the leased property, plant and equipment amounted to U.S.\$1.1 million, of which the current portion amounted to U.S.\$32,000. The total value of property, plant and equipment subject to such leases was U.S.\$4.1 million, and the related deferred tax asset was U.S.\$229,000.

Since December 31, 2005, we have entered into additional lease agreements, primarily for equipment related to transportation and distribution, under which our total payments amount to approximately U.S.\$1.1 million through 2009.



As of December 31, 2005, we had made commitments to contractors of approximately U.S.\$59.2 million for completion of the development of Lipetskmyasoprom. On March 16, 2006, we 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. Our total obligations under these agreements are approximately U.S.\$2.4 million.

Contingencies

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 our activity may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federations 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, resulting in the imposition of 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, and under certain circumstances review may cover longer periods. Management believes that it has accrued all taxes that are applicable, and where uncertainty exists, we have accrued tax liabilities as management's best estimate of the probable outflow of resources that 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.

Quantitative and Qualitative Disclosures about Market Risk

Overview

In the ordinary course of our business we are exposed to risks related to changes in exchange rates, interest rates, the prices of our raw material inputs and the credit risk associated with our external customers. We do not currently enter into hedging or forward contracts with respect to any of these risks, and do not currently plan to enter into such arrangements.

Raw material input price risk

Our revenue is exposed to the market risk of price fluctuations related to the price of our raw material inputs, in particular the raw meat that we use in our meat processing operations and the fodder that we use in our poultry and pork production operations. These prices may be influenced by such factors as supply and demand, the prevalence of disease, consumer preferences, the trade policies of Russia and other countries and Russian economic growth and consumer demand. Adverse changes in any of these factors may increase our costs associated with the production of our processed meat products. To the extent that we are unable to increase the prices at which we sell our finished processed meat products, this increase may adversely affect our results of operations. For example, in 2004 our meat processing segment experienced substantial losses due to our inability to increase prices of processed meat at the same rates as increases in prices of raw meat resulting from the introduction of import quotas on raw meat by the Russian Government. This situation led to a decrease of gross profit margin in our processed meat segment and a substantial net loss for the segment in 2004. See "—Results of operations for the years ended December 31, 2005 and December 31, 2004" and "—Results of operations for the years ended December 31, 2004 and December 31, 2003."

Increases in the prices of raw meat inputs may also result in increased selling prices for our poultry and pork products, thereby to some extent offsetting the effects of increases in the price of raw meat inputs. As we expand our production of poultry and in particular pork products, we will increasingly be able to supply products from our poultry and pork segments to our processed meat segment in order to optimize our input price and quality mix and, to the extent that we supply such products, limit our exposure to input price fluctuations. In addition, we already obtain a substantial proportion of our feed requirements, which is the most significant raw material input in our poultry and pork production operations, from our own feed plant, limiting our exposure to fluctuations in the market price for feed. When we obtain these products from internal sources, the effect of price fluctuations is accounted for as an intersegment transfer and eliminated on consolidation. We also purchase grain from a related party. See "Related Party Transactions."

Exchange and Interest Rate Risk

Our reporting currency is the U.S. dollar. The functional currency of our subsidiaries is the ruble. The CBR has established strict currency control regulations designed to promote the commercial utilization of the ruble.



Such regulations place restrictions on the conversion of rubles into hard currencies and establish requirements for conversion of hard currency sales to rubles, and the ruble is not a fully convertible currency outside the territory of the Russian Federation. Within the Russian Federation, official exchange rates are determined daily by the CBR. Market rates may differ from the official rates but the differences are, generally, within narrow parameters monitored by the CBR. See “Currencies and Exchange Rates.”

Our products are typically priced in rubles, and our direct costs, including raw materials (except for imported meat products), labor and transportation costs, are largely incurred in rubles, while other costs, such as interest expense, are incurred in rubles and U.S. dollars and euro. The mix of our revenues and costs is such that appreciation in real terms of the ruble against the U.S. dollar tends to result in a decrease in our costs relative to our revenues, while depreciation of the ruble against the U.S. dollar in real terms tends to result in an increase in our costs relative to our revenues. The ruble appreciated in real terms against the U.S. dollar by 13.6% in 2003, 15.1% in 2004 and by 10.8% in 2005, according to the CBR. However, in recent years the effect of the real appreciation of the ruble against the U.S. dollar has been more than offset by increased prices for our products.

In addition, nominal depreciation of the ruble against the U.S. dollar results in a decrease in the reported U.S. dollar value of our ruble-denominated assets (and liabilities) and nominal appreciation of the ruble against the U.S. dollar results in an increase in the reported U.S. dollar value of our ruble-denominated assets (and liabilities). The average exchange rate of the ruble against the U.S. dollar appreciated by 2.2%, 6.5% and 1.9% in nominal terms in 2003, 2004 and 2005, respectively, according to the CBR. We may have difficulty in meeting our foreign currency denominated obligations if the ruble further depreciates against the U.S. dollar. See “Risk Factors—Risks Relating to Our Business and Industry—Fluctuations in the value of the ruble against the U.S. dollar may materially adversely affect our financial condition and results of operations.”

Approximately 40.6% of the aggregate principal amount of our long-term bank loans outstanding at December 31, 2005 consisted of hard-currency denominated loans (approximately 95% of which was U.S. dollar-denominated). Our short-term debt balance (excluding current portion of long-term loans) at December 31, 2005 was entirely ruble-denominated.

As of December 31, 2005, all of our outstanding ruble-denominated debt bore interest at fixed rates, and most of our outstanding dollar-denominated debt bears interest at floating rates linked to LIBOR. Interest rates on loans to our agricultural operations were fixed at 13% for U.S. dollar-denominated loans and 3% to 22% for ruble-denominated loans. In accordance with Russian legislation, enterprises engaged in agricultural production operations receive subsidies to repay their interest expenses. See “—State support for agricultural production in Russia.” As a result, the weighted average interest rate for ruble-denominated loans to our poultry and pork segments was 5.44%. We have not entered into transactions designed to hedge against the interest rate risk associated with these fixed interest rates.



The following table summarizes our currency exposure and interest rates on our outstanding debt as of December 31, 2005:

	Currency	Expected maturity as of December 31, 2005					Total	Average annual interest rate ⁽¹⁾
		2006	2007	2008	2009	2010 and after		
(thousands of U.S. dollars)								
EBRD	U.S. dollar	3,000	12,125	10,250	10,250	15,375	51,000	9.87%
Raiffeisenbank	U.S. dollar	588	2,378	2,010	2,010	3,014	10,000	7.10%
Other	U.S. dollar	—	—	—	322	—	322	
<i>Total US dollar denominated</i>		<u>3,588</u>	<u>14,503</u>	<u>12,260</u>	<u>12,582</u>	<u>18,389</u>	<u>61,322</u>	
Minfin	euro	986	—	852	—	1,233	3,071	3.00%
<i>Total euro denominated</i>		<u>986</u>	<u>—</u>	<u>852</u>	<u>—</u>	<u>1,233</u>	<u>3,071</u>	
Gazprombank	ruble	—	5,559	16,677	2,988	—	25,224	14.20%
Gazprombank ⁽²⁾	ruble	—	8,686	10,028	3,474	—	22,188	14.00%
Sberbank	ruble	11,492	834	500	500	368	13,694	17.14%
Sberbank ⁽²⁾	ruble	1,191	4,101	6,989	10,483	493	23,257	12.23%
Other	ruble	460	625	1,191	1,191	3,229	6,696	
Individuals (members of the Control Group)	ruble	752	—	—	—	1,663	2,415	
OJSC Rostpromstroybank	ruble	—	695	—	—	—	695	
Loans from affiliated companies	ruble	—	—	—	—	122	122	
Sberbank	ruble	25,290	—	—	—	—	25,290	12.97%
Sberbank ⁽²⁾	ruble	4,316	—	—	—	—	4,316	14.28%
Department of Food Supply of Moscow city	ruble	19,317	—	—	—	—	19,317	3.91%
Gazprombank	ruble	1,737	—	—	—	—	1,737	12.06%
Gazprombank ⁽²⁾	ruble	10,423	—	—	—	—	10,423	12.00%
Other	ruble	3,243	—	—	—	—	3,243	13.20%
Other ⁽¹⁾	ruble	261	—	—	—	—	261	14.00%
OJSC Bank Zenit	ruble	3,127	—	—	—	—	3,127	12.50%
Vneshtorgbank	ruble	1,928	—	—	—	—	1,928	14.21%
Vneshtorgbank ⁽²⁾	ruble	1,043	—	—	—	—	1,043	13.00%
Loans from affiliated companies	ruble	428	—	—	—	—	428	0.00%
AO Rostpromstroybank	ruble	347	—	—	—	—	347	16.00%
AKB Vozrozhdenie	ruble	104	—	—	—	—	104	14.00%
AKB Vozrozhdenie ⁽²⁾	ruble	243	—	—	—	—	243	14.00%
Individuals (members of the Control Group)	ruble	66	—	—	—	—	66	0.00%
<i>Total ruble denominated</i>		<u>85,768</u>	<u>20,500</u>	<u>35,385</u>	<u>18,636</u>	<u>5,875</u>	<u>166,164</u>	
Total		<u>90,342</u>	<u>35,003</u>	<u>48,497</u>	<u>31,218</u>	<u>25,497</u>	<u>230,557</u>	

Notes:

(1) Excluding subsidies.

(2) Amounts receiving interest subsidies.

A hypothetical, instantaneous and simultaneous 10% appreciation of the ruble and euro against the U.S. dollar as of December 31, 2005 would have resulted in an increase of approximately U.S.\$9.7 million in the aggregate principal amount of our obligations under long-term borrowings denominated in rubles and euro held as at December 31, 2005.

Credit risk

As of December 31, 2005, 2004 and 2003, our credit risk was concentrated in accounts receivable from external customers and affiliated companies. However, management believes that the risk associated with external customers is diversified due to our large customer base. We estimate that the maximum amount of loss due to credit risk, based on the fair value of the financial instruments that we would incur if affiliated companies



failed to perform according to the terms of the contracts, was U.S.\$6.6 million, U.S.\$1.6 million and U.S.\$544,000 as of December 31, 2005, 2004 and 2003, respectively.

Off-balance Sheet Arrangements

As of December 31, 2005, we did not have any off-balance sheet arrangements.

Critical accounting policies

We prepare our combined and consolidated financial statements in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. Accounting policies applied in the preparation of the financial statements are described in note 3 to the Combined and Consolidated Financial Statements. The preparation of the combined and consolidated financial statements in conformity with U.S. 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 intangible assets determined to have an indefinite life.

Management believes that the following are critical policies that may affect the combined consolidated financial statements.

Impairment of Long-Lived Assets

We test our long-lived assets (groups of assets) for impairment by first assessing whether indicators of impairment are present. These usually arise due to circumstances which indicate that the long-lived assets (or group) may not be recoverable. These circumstances include sustained operating losses, cessation of product lines and natural disasters, among other factors. When events and circumstances occur which indicate that the carrying amount of a long-lived asset (or group) may not be recoverable, we estimate the future undiscounted cash flows expected to be derived from the use and eventual disposition of the asset (or group). If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the long-lived asset (or group), we calculate impairment as the excess of the carrying value of the asset (or 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. Goodwill and intangible assets deemed to have indefinite useful lives are subject to annual impairment tests in accordance with SFAS 142, "Goodwill and Other Intangible Assets."

In our assessment of goodwill, management makes assumptions regarding estimates of future cash flows and other factors to determine the fair value of the respective assets. The fair value of our 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.

Management uses royalty rates based on an analysis of other food brands similar in nature to those being assessed; management believes that rates within a 1% to 3% range are most appropriate for brand transactions in the Russian Federation. Discount rates are determined based on estimated costs of equity as of the date of calculation. Using the estimated royalty rate and an average estimated tax rate in Russia of 24%, we calculate the estimated royalty savings.

Revenue recognition and shipping and handling costs

We recognize revenue when it is probable that the economic benefits associated with the transaction will flow to us, we have delivered a product or rendered services, the amount of the revenue can be measured reliably and the collectibility of the revenue is reasonably assured.

We recognize sales, net of VAT and discounts, when we ship goods to customers. In accordance with our standard sales terms, title is transferred at the time of shipment 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. We recognize shipping and handling costs that we incur in selling and distribution expenses.

We grant 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. We accrue discounts against sales and accounts receivable in the month earned. Other strategically targeted discounts are not material. Any consideration provided to direct or indirect customers of the Group in the form of cash, such as listing fees, is included in our statement of operations as deductions from sales.

We provide guarantees to our customers, granting them an option to return damaged and non-conforming goods and goods of improper quality for a period of up to one month from the day of shipment. We account for these returns as a sales return provision. We established this policy in the second half of 2003.

Livestock

Animals with short productive lives, such as poultry and pigs, are classified as inventory. We use the full cost absorption method to determine the asset value of livestock. Newborn cattle, sows and other immature animals purchased for breeding are initially accounted as inventory. The asset value is derived from the initial purchase price plus the cumulative annual cost associated with its raising. These total costs include costs of feed, veterinary care, medicines, labor, land and pasture rent, depreciation of the herd and facilities. 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. We start treating breeding animals as fixed assets with costs to be depreciated over their useful lives when they are transferred into the main herd as follows:

	<u>Age of transfer into main herd, years</u>	<u>Depreciation, years</u>
Pigs	0.5	2
Cattle	2	7

New accounting pronouncements

In December 2004, the Financial Accounting Standards Board (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 believes that the adoption of this standard will not have a material impact on the 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 believes that the adoption of SFAS 153 will not have a material impact on the 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



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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 did 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 us beginning January 1, 2006. We are currently assessing the effects of Interpretation 47 on our 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. SFAS No. 154 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.

Recent Trading Update

Meat processing segment

In our meat processing segment, sales for the first quarter of 2006 were slightly above budget and increased compared to the first quarter of the previous year. Sales volumes of our processed meat products in the first quarter of 2006 decreased compared to the first quarter of the previous year, reflecting the continued shift in our product mix towards premium and higher margin value-added products such as cooked and raw smoked sausages, salamis and retail format meat while volumes in lower-priced segments continued to decrease. Sales volumes were also negatively affected by exceptionally cold weather in Moscow in January and February, which had a negative effect on Russian retail markets generally, as well as by an early start to the pre-Easter Lent season, during which demand for processed meat products generally declines. The increase in sales was primarily attributable to an increase in average selling prices compared to the previous quarter as well as compared to the first quarter of the previous year. The increase in the average selling price was driven by the continued shift in our product mix towards higher value added and premium products which command higher prices, as well as general inflation.

Our results in meat processing are significantly affected by seasonality, with the first quarter of the year historically accounting for the lowest proportion of annual volume, sales and profitability levels. Our results in



the fourth quarter have historically accounted for the highest proportion of our annual sales and profitability, driven by the New Year holidays in Russia. Our average selling prices are also significantly affected by seasonality, as retail consumers generally purchase a higher proportion of more expensive high-quality products in the fourth quarter of the year.

Poultry segment

In the poultry segment, our production volumes increased in actual terms as compared to the first quarter of the prior year due to the implementation of our program to increase production capacity. Our sales and production volumes for the first quarter of 2006 were slightly below budget. The average selling prices for our poultry products in the first quarter of 2006 remained unchanged as compared to the same period of the previous year, reflecting a decrease in the price of frozen poultry, offset by increases in the price of branded chilled poultry.

During the second quarter of 2005, we experienced an unusual increase in the price of our poultry products, particularly of our frozen poultry products, as a result of temporary import restrictions that came into effect as well as particularly high demand for poultry products during this period. Starting in the third quarter of 2005 through the first quarter of 2006 we experienced a decline in the average selling price of our poultry products as the price of imports fell dramatically in response to worldwide consumer concerns over avian influenza. Average selling prices for our poultry products began to slightly increase towards the end of the first quarter of 2006, and we currently believe that this trend will continue, as prices for beef and pork products in Russia continue to increase, and poultry continues to be one of the least expensive sources of meat protein for Russian consumers.

As in meat processing, the results of our poultry segment are subject to significant seasonality, with the first quarter historically accounting for the lowest proportion of annual volumes, sales and profitability levels. Our results in the fourth quarter have historically accounted for the highest proportion of our annual sales and profitability, driven by the New Year holidays in Russia. Our average selling prices are also affected by seasonality, as retail consumers generally purchase a higher proportion of more expensive high-quality products in the fourth quarter of the year whereas prices normally weaken in the first quarter of the year. There is also an increase in poultry demand during the summer due to the popularity of outdoor barbecues. We expect these trends to continue in the current year.

We have invested in significant capacity increases in our poultry business during the period under review. See “—Capital Resources.” While we expect the proportion of our poultry production volumes in the first quarter of 2006 to comprise a smaller proportion of total production volumes for 2006 than they did in prior years, our ability to realize the poultry production volumes we have budgeted for 2006 depends on the successful completion of these capacity increases. We have put in place sufficient additional incubator capacity in both the Moscow and Penza clusters to support our budgeted increases in broiler chicken output. We have also completed construction of new facilities in Moscow and intend to house the first batch of broilers for production in these facilities in early May 2006. In Penza, we are in the process of completing the construction of facilities in which we intend to house the first two batches of broilers in the second quarter of 2006. We are currently on track to complete our capacity increase programme for 2006.

Pork segment

In the pork segment, our production volumes significantly increased as compared to the first quarter of the prior year due to the implementation of our program to increase production capacity at our Kuznetsovsky Kombinat and Botovo facilities. The average selling price for our pork products in the first quarter of 2006 were above budget, reflecting high demand for pork products in the Russian markets.

We have invested in significant capacity increases in our pork business during the period under review. See “—Capital Resources”. While we expect the proportion of our pork production volumes in the first quarter of 2006 to comprise a smaller proportion of total production volumes for 2006 than they did in prior years, our ability to realize the pork production volumes we have budgeted for 2006 depends on the successful completion of these capacity increases. As of the date of this prospectus, we have largely completed capacity upgrades on our Kuznetsovsky Kombinat and Botovo facilities. Our new Lipetsk pork facility was partially put into operation in February 2006. Since February, we have been delivering brood-sows and have recently started breeding operations. We expect to complete construction of the remaining production stages of the Lipetsk facility during 2006 and 2007, including reaching full brood-sow capacity by mid 2006. Due to the timing lag between installing brood-sows and product output, we expect to commence production of meat in late 2006.



INDUSTRY OVERVIEW

The following information includes extracts from publicly available information, data and statistics and has been extracted from official sources and other sources that we believe to be reliable. We accept responsibility for accurately reproducing such information, data and statistics and as far as we are aware no facts have been omitted which would render such information misleading, but we accept no further responsibility in respect of such information, data and statistics. Such information, data and statistics may be approximations or use rounded numbers. See also “Risk Factors—Other Risks—We have not independently verified information we have sourced from third parties.”

Global Overview

The volume of global consumption of meat products, including fresh and processed beef, veal, pork, poultry and lamb products, has increased from 224 million tonnes in 2000 to 249 million tonnes in 2005, according to the Organization for Economic Co-operation and Development (the “OECD”).

In recent years, poultry consumption has decreased slightly in the global meat consumption profile, from 30% in 2002 to 29.7% in 2005, according to the OECD. The global consumption of pork has remained approximately the same, at 40% in both 2002 and 2005 and the consumption of beef has also remained approximately the same at 25.4% in both 2002 and 2005, according to the OECD. General trends in consumption patterns have manifested themselves in a shift in favor of higher quality meat products that offer greater convenience in storage, form of sale, preparation and consumption.

Many producers have also sought to increase the level of vertical integration in their production, for example expanding into feed production in order to ensure the availability and quality of feed supplies, which are crucial to the quality of meat, as well as improving the efficiency of production processes. Some producers have also sought to divest more capital-intensive stages of meat production, such as pig raising, and to focus on the processing, sales and marketing.

Overview of the Russian Meat Industry

The collapse of the planned economy of the Soviet Union and accompanying economic downturn resulted in a significant decline in the Russian agriculture and food processing industries as a result of the collapse of centralized management, insufficient state and budgetary funding and low salaries. Livestock production, including poultry and pork, was also adversely affected by increasing prices for feed, high energy prices and generally inefficient organization of production coupled with market liberalization in Russia. Real price growth was restrained by declining overall economic conditions, and generally increased by much less than the rate of increase in production costs, particularly when combined with the removal of many governmental price supports and subsidies. As a result, production of both processed meat products and livestock declined significantly in Russia throughout the 1990s. For example, production of sausages, canned meat and ready-to-cook meat products in Russia declined from 2.0 million tonnes in 1994 to 1.3 million tonnes in 1999; production of poultry declined from 1.8 million slaughter-weight tonnes in 1990 to 630,300 slaughter-weight tonnes in 1997; and production of pork declined from approximately 2.8 million slaughter-weight tonnes in 1994 to 1.5 million slaughter-weight tonnes in 1999, according to the Meat Union. During this period, imports increased significantly, offsetting some of the decline in domestic production.

By 2000, the Russian meat industry had started to recover, aided by the 1998 macroeconomic crisis and devaluation of the ruble, which made imported meat products relatively more expensive in comparison to domestically-produced products. As the industry began to recover, a number of new leaders began to re-emerge in the Russian food-processing sector, including in processed meats products, though production measures of livestock, including poultry and pigs, continued to decline.

Notwithstanding recent improvements, per capita meat consumption in Russia remains lower than that in developed countries, particularly the European Union and the United States. For example, annual per capita meat consumption, including consumption of beef, veal, pork and poultry, in 2005 was 92 kilograms in Australia, 120 kilograms in the United States, 83 kilograms in the European Union member states (excluding the new member states admitted in May 2005), including consumption of beef and veal, pork and poultry, and only 43 kilograms in Russia, according to the Food and Agricultural Policy Research Institute of Iowa State University (“FAPRI”).

The composition of the market for meat products has changed significantly in Russia in recent years. For example, according to the Meat Union, in 2000, total consumption of beef, pork and poultry in Russia was



5.8 million tonnes, of which beef accounted for 39%, pork for 34% and poultry for 27%. In 2005, total consumption of beef, pork and poultry in Russia was 8.5 million tonnes, of which beef accounted for 32%, pork for 31% and poultry for 37%.

Though imports have declined in recent years, Russia remains a significant importer of meat products, and approximately 2.0 million tonnes of beef, pork and poultry products were imported in 2004, according to the Meat Union. Nevertheless, the share of imports in consumption of pork and poultry has declined in recent years. According to the Meat Union, the share of imports in total consumption of poultry in Russia declined from 47% in 2003 to 39% in 2005; the share of imports in total consumption of pork declined from 21% in 2003 to 20% in 2005; and the share of imports in the total consumption of beef slightly increased from 18% in 2003 to 24% in 2005. These changes reflect both the increased strength of the domestic poultry and pork industries as well as increased state support, particularly quotas on imports of pork and poultry that were introduced in 2003 and favorable tax rates on domestic agricultural production and interest-rate and other subsidies on certain agricultural production operations. See “Certain Regulatory Matters—State Support Programs” for a further discussion of these state programs.

In addition to government support, meat production in Russia also benefits from prices of wheat, energy (including natural gas and electricity) and other key raw material inputs that are generally lower than those in other markets.

The following table sets forth total consumption of beef, poultry and pork products in Russia from 2000 through 2005.

	For the year ended December 31,					
	2005	2004	2003	2002	2001	2000
	(thousand tonnes, except percentages)					
Beef, of which	2,700	2,680	2,530	2,400	2,346	2,281
Imported product	24%	12%	18%	20%	19%	12%
Domestic production	76%	88%	82%	80%	81%	88%
Poultry, of which	3,100	2,850	2,550	2,304	2,143	2,359
Imported product	39%	39%	47%	57%	61%	63%
Domestic production	61%	61%	53%	43%	39%	37%
Pork, of which	2,650	2,500	2,400	2,180	1,882	1,947
Imported product	20%	17%	21%	27%	19%	10%
Domestic production	80%	83%	79%	73%	81%	90%

Source: Meat Union

Russian processed meat market

The consumption of processed meat products in Russia has increased rapidly in recent years. The market is divided into “traditional” sausage products as well as fresh and ready-to-cook meat products, which consist primarily of retail format meat and other semi-prepared food products.

The market for both sausage products and ready-to-cook products has grown rapidly in Russia in recent years. Total sales of sausage products increased from 1.1 million tonnes in 2000 to 1.9 million tonnes in 2005 and increased in value from U.S.\$1.6 billion in 2000 to U.S.\$8.6 billion in 2005, sales of ready-to-cook products increased from 241,774 tonnes in 2000 to 895,269 tonnes in 2005, and in value from U.S.\$298.8 million in 2000 in U.S.\$2.2 billion in 2005, and sales of canned meat products increased from 230,000 tonnes in 2000 to 267,000 tonnes in 2005 and increased in value from U.S.\$81.0 million in 2000 to U.S.\$600.8 million in 2005, according to the Meat Union. Most sausage products consumed in Russia are produced domestically. Differences in local tastes make it more difficult for imported products to gain market share, which has been gradually decreasing in the past several years. According to the Meat Union, imports of sausage, ready-to-cook and canned meat products into Russia amounted to only 47,000 tonnes in 2004, as compared to 300,000 tonnes in 1996 and 476,000 tonnes in 1997.



The following table summarizes the growth of the Russian processed meat sector from 2000 through 2005:

	For the year ended December 31,					
	2005	2004	2003	2002	2001	2000
<i>Sausage products</i>						
Volume (thousand tonnes)	1,931	1,844	1,719	1,503	1,252	1,079
Value (billions of U.S. dollars)	8.6	7.0	5.3	3.9	2.1	1.6
<i>Ready-to-cook meat products</i>						
Volume (thousand tonnes)	895	772	599	409	338	242
Value (billions of U.S. dollars)	2.2	1.8	1.0	0.7	0.5	0.3
<i>Canned meat products</i>						
Volume (thousand tonnes)	267	236	240	269	244	230
Value (billions of U.S. dollars)	0.6	0.5	0.4	0.3	0.2	0.1

Source: Meat Union

The increase in Russian processed meat consumption, including both sausage and fresh and ready-to-cook products, is partly attributable to increases in income. The increase has been accompanied by a shift in consumption patterns away from less expensive meat products towards premium and higher quality products such as ready-to-eat and convenience food products. For example, from 2000 through 2005 consumption patterns have shifted in favor of higher-value products such as smoked, cooked-smoked and raw smoked sausages.

The following table presents the major product categories in the Russian processed meat sector in 2000 and 2005 by share of the total value of products sold.

Product	2005	2000
	(%)	
Cooked sausages	36	38
Hot dogs/frankfurters	20	22
Semi-smoked sausages	13	12
Cooked-smoked sausages	7	8
Raw smoked sausages	13	9
Hams and deli and smoked meats	5	5
Other	6	6
Total	100	100

Source: Meat Union

Certain market surveys have also indicated that consumers are increasingly sensitive to product quality, as may be indicated by taste, appearance and producer.

Competition

While there are a number of large producers of processed meat products in Russia, the market remains fragmented, and the three largest producers only account for approximately 20% of total sales of sausage products in Russia. In addition, unbranded products are particularly prominent in the low and mid-priced segments, including cooked sausages and frankfurters and cooked and smoked and semi-smoked sausages, while branded products tend to be more common in higher-priced product lines, such as cooked smoked, raw smoked and delicatessen meats.

The following table summarizes the market positions of the major Russian producers in 2004, measured by volume of products sold:

	Market share of sausage products market in 2004
Cherkizovo Group	6.8%
Prodo Management	6.3%
Eksima	4.7%
Tsaritsyno	4.5%
Velikoluksky Meat Processing Plant	3.2%
Campomos	2.4%
Parnas-M	2.2%
Ostankinskii MPK	2.2%

Source: IKAR



In addition to major national brands, such as Cherkizovsky and Mikoyan, sales in many regions are dominated by strong local and regional brands (i.e., brands that are not marketed nationally, even if owned by a producer that operates nationally).

The following table summarizes the market positions of the major Russian ready-to-cook meat products producers in 2004, measured by volume of products sold:

	Market share of ready-to-cook products market in 2004
Prodo Management	4.7%
Ostanskinskii MPK	2.8%
Cherkizovo Group	1.6%
Eksima	1.7%
Tsaritsyno	0.6%
Myasnoy Alyance	0.3%
Parnas-M	0.2%

Source: IKAR

Russian poultry market

In recent years, the Russian poultry market has exhibited a shift from frozen toward chilled products and the volume of domestic production of poultry has increased, according to Meat Union. Consumer demand has also shifted toward cut products instead of whole poultry products, according to the Meat Union. These changes have been driven primarily by overall economic growth in Russia, including increased disposable income, consumer confidence, increased demand for higher quality meat products and penetration of “modern” retail outlets with greater capability to support the sales of chilled poultry products. The shift in consumer preferences has been accompanied by a migration toward the production of ready-to-cook cut poultry products and the industrialization of poultry production, as production shifts from private farms to larger production enterprises, according to IKAR and the Meat Union.

According to the Meat Union, the total volume of poultry consumption in Russia has increased at a compound annual growth rate of 6% in recent years, from 2.4 million tonnes in 2000 to 3.1 million tonnes in 2005. The consumption growth in Russia has been concentrated in chilled products, and in particular chilled precut products. According to the Meat Union, the share of chilled poultry products in consumption in Russia increased from 32% in 2001 to 39% in 2005, and even within the chilled product segment the share of finished and precut products has been increasing, at the expense of whole products. The Meat Union estimates that the total value of poultry sales has increased from U.S.\$1.88 billion in 2000 to U.S.\$7.32 billion in 2005, a rate of increase significantly in excess of inflation and reflecting the aforementioned shift in favor of chilled and other higher-grade (and thus higher-priced) chilled and cut poultry products and away from frozen products. This shift has also reduced the share of imports in the total Russian market, as importing chilled poultry into Russia is generally not practicable due to the difficulty of transporting fresh product over large distances. Chilled poultry generally sells for a higher price than frozen poultry, according to the Meat Union. Poultry tends to be less expensive than the competing sources of meat protein in Russia.

The following table sets forth certain information about the composition of poultry consumption in Russia from 2000 to 2005:

	For the year ended December 31,					
	2005	2004	2003	2002	2001	2000
	(thousand tonnes)					
Imports	1,220	1,100	1,200	1,314	1,309	1,475
Domestic	1,880	1,750	1,350	990	835	884
Total consumption	3,100	2,850	2,550	2,304	2,144	2,359

Source: Meat Union

Competition

Production of poultry products in Russia is highly fragmented. While the production process has been shifting in favor of larger industrial-scale producers and away from smaller private poultry farms, the three



largest producers, according to IKAR, accounted for only approximately 13% of the market by production volume in 2004, a level of concentration that is significantly below that commonly observed in the United States or Western Europe. Most competition in the chilled meat sector is local, as it is difficult to transport product beyond an approximately 500 km radius from the production site while maintaining its freshness.

The following table summarizes the market positions of the major Russian poultry producers in 2004, measured by volume of products sold:

	<u>Market share of poultry market in 2004</u>
Prodo Management	5.5%
Severnaya	4.2%
Golden Rooster	3.2%
Kursk	2.9%
Cherkizovo Group	2.5%
Sibirskaya Guberniya	2.5%

Source: IKAR

Russian pork market

In the last several years, the Russian market for pork products exhibited significant signs of structural change. The rate of annual volume growth has been below the rate of GDP growth in Russia over the last several years, but prices for pork products have increased significantly, as a result of increased demand and the imposition of import quotas in 2003. The introduction of quotas in 2003 also sharply reduced imports of pork. The growth of domestic production has also been stimulated by direct state support measures, including state-financed loans and direct subsidies. See “Certain Regulatory Matters—State Support Programs” for a description of these programs. The shift in consumer preferences toward higher-quality lean meat products is expected to result in further expansion of the market, and in particular, to create a new market segment for high-quality pork products.

According to the Meat Union, the total volume of pork consumption in Russia has increased at a compound annual growth rate of 6.4% in recent years, from 1.9 million tonnes in 2000 to 2.7 million tonnes in 2005, and the total value of sales has increased from U.S.\$2.4 billion in 2000 to U.S.\$9.2 billion in 2005. However, most of the increased consumption has resulted from increased imports, as domestic production has remained rather low due to the generally inefficient and highly fragmented structure of much of the Russian pork industry and the long investment cycle.

The following table sets forth certain information about the composition of pork consumption in Russia from 2000 to 2005:

	For the year ended December 31,					
	2005	2004	2003	2002	2001	2000
	(thousand tonnes)					
Imports	518	437	511	578	354	195
Domestic	2,132	2,063	1,889	1,602	1,529	1,752
Total consumption	2,650	2,500	2,400	2,180	1,883	1,947

Source: Meat Union

Competition

The market for pork production in Russia is highly fragmented, with no producer accounting for more than 3% of the total production volume and a very small number of large production complexes. Moreover, most competition occurs on a local level. Much of the existing infrastructure is also obsolescent and inefficient in design and operations and largely dates to the Soviet era; newer facilities based on modern technology are capable of producing much higher quality pork with greater efficiency.



The following table summarizes positions of the major Russian pork producers in 2004, measured by the number of pigs raised:

	<u>Production share in 2004</u>
Prodo	3.0%
OJSC Ariant	1.1%
FSUE Permsky	0.9%
OJSC Vostochny	0.9%
Cherkizovo Group	0.3%

Source: IKAR

Retail Sector

According to the Investment-Finance Corporation Alemar (“Alemar”), the food consumer retail sector in Russia has been developing rapidly during the past several years. Consumers, especially in large cities, have developed preferences in favor of modern retail format chain. Increases in actual income, specific consumer preferences, inflation and the development of consumer lending are among the main factors that contributed to the growth of the retail sector, according to Alemar. In Moscow and St. Petersburg, in particular, modern supermarket style retail format chains such as, Auchan, Metro Cash & Carry, Ramstor and Lenta, have been especially popular among consumers. The overall market share of supermarket chain retailers has been growing steadily during the past two years, while market shares of more traditional open-air markets have, on the opposite, decreased, according to Alemar. The revenues of most chain food retailers increased in 2005 and into 2006. Market analysts anticipate that chain retail sector will continue to grow in Russia, with large retailers both acquiring traditional format retail stores and granting franchise licenses.

Modern retail format chain stores have significantly increased their market presence in Russia in recent years. They first appeared in the 1990s, and in 2003, their overall market share in Russia constituted only 9%, rising to 16% in 2004. In Moscow, chain retailers have a somewhat larger market share as compared with regional markets, reaching 24% in 2005, according to Alemar. Most food retailers operate in Moscow and St. Petersburg. Retail chains have also been growing in number of stores within each chain. In 2004, according to Alemar, most food chain retailers had between 6 and 235 stores operating in Moscow, with Pyaterochka having the largest number of locations. According to Alemar, supermarkets and hypermarkets are also the most profitable food retail format in Russia. Major chains include Perekryostok, Paterson, Azbuka Vkusa, Ramstor, Sedmoi Kontinent and Auchan.



BUSINESS

Overview

We are one of the leading integrated diversified meat producers in the Russian Federation. According to IKAR, in 2004, we had the largest market share by volume among manufacturers of sausage products in Russia; we are the leading seller of chilled poultry products in Moscow and the Moscow region and are among the leaders nationally; and we are one of the leaders in the highly-fragmented Russian pork industry. We sold 161,973 tonnes of meat products, 50,955 slaughter-weight tonnes of poultry and 11,142 live-weight tonnes of pork in 2005. Our sales for the year ended December 31, 2005 amounted to U.S.\$546.2 million, compared to U.S.\$463.8 million for the year ended December 31, 2004. Our total assets as of December 31, 2005 were U.S.\$423.8 million. Our principal operations are:

- *Meat processing.* Our meat processing operations consist of the production and sale of processed meat products primarily in European Russia under the Cherkizovsky, Biruliovsky, Imperiya Vkusa, Popurri and Myasnaya Guberniya national brands and a number of regional brands produced at eight meat-processing plants, three of which are located in Moscow and the Moscow region.
- *Poultry.* Our poultry operations consist of breeding, raising and processing of chickens and the sale of chilled and frozen poultry products from facilities in the Moscow and Penza regions.
- *Pork.* Our pork operations consist of breeding and raising of pigs at facilities located in the Moscow region and in other regions of Russia and, in February 2006, we started operations at a new pig farm in Lipetsk, Russia.

We also conduct sales, trading and distribution operations and produce feed that is consumed in our poultry and pork operations.

See “Presentation of Market Data and Terminology” and “Glossary of Selected Terms” for definitions of certain key terms as used in this Prospectus.

Key Strengths

A leading meat producer. We hold strong market positions in the fragmented Russian meat processing and poultry markets. According to IKAR, we are the leading producer of sausage products in Russia, with a market share of 6.8% by volume in 2004 for sales of sausage products. According to IKAR we also had a 1.6% market share by volume for ready-to-cook meat products in 2004. We are also one of the largest poultry producers in Russia, with a market share of 2.5% by volume in 2004, and are the leading seller of chilled poultry products in Moscow and the Moscow region. We are one of the leaders in the highly-fragmented Russian pork industry. We focus our operations in the Central and Volga federal districts, where nearly half of the Russian population resides.

Well-positioned in high-growth markets. We have strong positions in fast-growing and dynamic segments of the Russian meat market. Russian meat consumption has grown rapidly in both value and volume terms in recent years. According to the Meat Union, the total volume of poultry consumption in Russia grew at a compound annual growth rate of 6% from 2000 to 2005, and the total volume of pork consumption in Russia grew at a compound annual growth rate of 6% from 2000 to 2005. These changes were driven largely by the growth in household disposable income and increased consumer spending on food. Nevertheless, per capita meat consumption in Russia remains well below the levels in developed countries, at 43 kilograms per capita in 2005 according to FAPRI estimates, compared to 120 kilograms per capita in the United States and 92 kilograms per capita in Australia, which we believe suggests potential opportunities for further market growth.

Attractive profitability profile. The pricing environment for processed meat products, poultry and pork is generally favorable for Russian producers in comparison to other international markets. The product pricing environment for meat products in Russia is generally strong, and chilled meat products, such as our poultry products, typically sell at a significant premium to frozen products. The input costs for feed, which we produce ourselves, including locally produced wheat and barley, natural gas, electricity and labor, are also generally lower in Russia than in many other major agricultural production regions.

Vertically-integrated business. Our meat processing, poultry production and pork production operations demonstrate high levels of vertical integration. In meat processing, we conduct all stages of the production cycle,



from the initial processing of raw meat to marketing and distribution. We produce our own feed for our poultry and pork segments, which is the key raw material input for these operations, and we both breed and raise poultry and pigs and process our own poultry products. By operating in multiple stages in the production process, we are able to maintain better control over product safety, quality and costs. We also process the poultry that we raise into products for sale and conduct our own marketing and distribution, in order to help ensure that our products are fresh and of consistent quality when they reach our customers. As we expand our pork production, we also expect to source some of the inputs for our meat processing operations from our own pork production, reducing our dependence on outside suppliers, and also to expand downstream into pork processing.

Portfolio of strong brands. Our key brands for our processed meat and poultry products, which are focused primarily on the premium and medium market segments, enjoy significant recognition among retail consumers in Russia. Our flagship Petelinka brand for chilled poultry had approximately 80% brand awareness among Moscow consumers in 2005 (according to a study by Scanmarket), and the brand enjoys high levels of brand loyalty among customers and is a leading brand in terms of expressed consumer preference in Moscow, according to Scanmarket research. Cherkizovsky, our flagship processed meat product brand, is well-known throughout European Russia and accounts for the largest share of sales among our brands. We also have several other processed meat products brands that have strong regional market positions, and the Kurlyandia frozen poultry brand is one of Russia's leading brands for frozen poultry.

Extensive sales and distribution network. We sell most of our products through our own trading houses, and a significant proportion of these sales are direct to retailers. We also operate dedicated fleets of trucks that make daily deliveries of processed meat and chilled poultry products to our retail and wholesale customers, particularly in Moscow and the Moscow region and in Penza. Our warehouse network for our processed meat products extends throughout European Russia, and we also have strong relationships with independent distributors. This distribution network helps us more effectively to serve retail chains, which in recent years have become increasingly important as a distribution channel for our products and food products in Russia more specifically. The depth and scale of our distribution network also helps to ensure the quality and timely delivery of our products to customers, to offer the complete range of our products to our customers and we believe helps to secure our market position with existing customers.

Proven track record of acquisitions and start-ups. We have developed our operations by acquiring, integrating and modernizing production assets, as well as through greenfield investments in new facilities. We acquired most of our production facilities starting in 1993. We modernized our meat processing facilities following their acquisition, and also reconstructed or upgraded our poultry and pork production facilities following their acquisition. We also have experience in starting operations at new facilities in each of our operating segments, including the Cherkizovo-Kashira Meat Processing Plant, Petelinsky PF and, most recently, Lipetskmyasoprom.

State support for the agriculture industry. We have a strong history of successful cooperation with state and governmental entities, and agricultural operations in Russia currently benefit from a favorable regulatory environment. Agricultural production enterprises in Russia receive subsidies in the form of reimbursement of interest payments on borrowings from the federal budget of up to two-thirds of total interest payable and from regional budget of up to one-third of interest payable, to a maximum reimbursement equivalent to the CBR refinancing rate (currently 12%), and a favorable tax rate of 0% through 2007 (compared to the more general 24% corporate profit tax rate in Russia). At our new pork production facility Lipetskmyasoprom we also expect to receive direct subsidies for each kilogram of live weight of pork produced. In addition, imports of pork and poultry into the Russian Federation are limited by quotas established by the Russian Government. See also "Certain Regulatory Matters," "Risk Factors—Risks Relating to Our Business and Industry—We benefit from tariffs, duties, quotas and other limitations on meat, poultry and pork products that are imported into Russia and that may be eliminated in the future" and "Risk Factors—Risks Relating to our Business and Industry—We benefit from state subsidies and benefits that may be eliminated in the future."

Modern production facilities. We believe that our meat processing and poultry production facilities are among the most modern in Russia, equipped with machinery and technology in line with global industry standards. These facilities permit high levels of traceability with respect to input content and quality, helping us to maintain consistent quality output. Our newly constructed pork production facility, Lipetskmyasoprom, which commenced operations in February 2006, is constructed on a model similar to the most modern facilities internationally in terms of key production measures, health and hygiene standards and animal welfare, and we believe that it is one of the largest greenfield pig raising facilities constructed in Russia in recent years.



Business Strategy

Our long-term objective is to become the leading producer of meat and meat products in Russia, focused on the production, sale and distribution of processed meat products, poultry and pork in key regions of Russia. We seek to promote our image as a “single source of protein” throughout our distribution chain. We intend to achieve this objective by pursuing the following strategies:

Increase market share across our core businesses. We are focused on increasing our market share in core businesses of meat processing, poultry and pork by expanding our capacity at our existing facilities, developing new “greenfield” sites and through acquisitions.

In our meat processing segment, we intend to focus on enhancing utilization of our existing capacity as well as selective acquisitions of high quality branded producers in core regions. In our poultry segment, we are completing our capacity expansion program, and intend to grow further by acquisitions, targeting in particular operations with recognized brands, high-quality production facilities and well-developed distribution networks. In our pork segment, we intend to use our experience in building and operating Lipetskmyasoprom, a new and modern pig raising facility in Lipetsk, as a platform for greenfield expansion into adjacent regions, such as Penza and Tambov. Consistent with our strategy since 1995, we continue to seek opportunities to acquire interests in areas of our core business where we believe that such acquisitions will complement and enhance our existing business.

Continue investment into our brands. We plan to increase awareness of our flagship brands, Cherkizovsky in meat processing and Petelinka in chilled poultry, through targeted marketing in key distribution channels as well as consumer-focused marketing campaigns. We intend to focus on promoting the key differentiating features of our brands, including quality, convenience, freshness and taste.

Launch new innovative products. As consumer preferences shift towards healthier, better quality and convenience food, we see significant opportunities to introduce new products and product categories. In our meat processing and poultry businesses, we intend to develop a number of innovative products, including delicacies, meat snacks, low-fat, dietary, ethnic products and products for children. In our pork business, we intend to introduce branded chilled pork products, making optimal use of our high-quality, modern pig-raising facility in Lipetsk. We seek both to leverage our existing brands to promote these products as well as, where appropriate, to introduce new brands.

Increase our share of direct distribution and penetration into modern retail channels. We plan to further develop our own distribution network to capture shelf space, increase product visibility and customer ownership. In particular, we intend to capitalize on rapid national expansion of modern retail format establishments, to which our meat processing and poultry businesses are already significant suppliers. We intend to leverage the quality and leading position of our chilled meat products to maintain bargaining power with modern retail chains, and become their supplier of choice for a wide range of meat and meat-based products. We also intend to expand our presence in emerging distribution channels such as the food service market (hotel, restaurant and cafeteria, or “HoReCa”), particularly for our poultry and pork products.

Enhance operating efficiency. We intend to further benefit from vertical integration by using our own poultry and pork production capacity to optimize the procurement of raw materials for our meat processing segment and increase our vertical integration, to improve the quality and reduce the price volatility of our raw meat inputs and improve product yields. We also plan to increase our feed production capacity in order to improve our cost structure and to ensure that we retain control over the quality and cost of the key raw materials for our poultry and pork segments. We also believe that we have significant potential to improve profitability in our poultry business by improving key production metrics.

Drive group synergies and knowledge sharing. We intend to seek economies of scale by further centralizing procurement of raw materials, advertising and marketing across our business segments and leveraging the opportunities resulting from our corporate restructuring during 2005. We also intend to facilitate the exchange of best practices between our businesses in areas such as procurement, production, warehousing, sales and distribution to further enhance production and operating efficiency.

Attract and retain top management and employees. We intend to motivate and develop our personnel by offering performance-based compensation, training programs and career growth opportunities. We plan to continue developing incentive programs for employees to better align their interests with those of the shareholders and the Company, and to implement a share option program for top and selected middle-level management.



History and Development

Our business was established in 1993 with the privatization of a controlling stake in what is now our largest meat processing plant, Open Joint Stock Company Cherkizovsky Meat Processing Plant (“CMPP”). Mr. Igor Babaev, who is now Chairman of our Board of Directors and one of our controlling beneficial owners (see “Principal and Selling Shareholders”), at the time served as General Director of CMPP. Since then, Mr. Babaev and the members of his immediate family have acquired controlling interest in other enterprises through privatizations, secondary market share purchases and through bankruptcy proceedings and by establishing new enterprises, expanding our operations to their current scope.

Historical Development

Our first production facility was CMPP, one of the leading meat processing plants in Moscow. In the course of its privatization in 1993, Mr. Babaev, his associates and family members (together, the “Control Group”), obtained control over CMPP through both the allocation of shares in the course of the privatization and the subsequent acquisition of shares from employees. The Control Group’s interest in CMPP decreased to 48.2% in 2001, following an additional share issuance to certain minority shareholders, but was subsequently increased through the acquisition of an additional interest, as of June 30, 2003. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Acquisitions of interests in subsidiaries.”

From 1995 through 2003, the Control Group acquired interests in additional meat processing plants, including OJSC Biruliovsky Meat Processing Plant (“BMPP”), OJSC Meat and Poultry Processing Plant Penzensky (“Penzensky”), OJSC Belmiaso (“Belmiaso”), OJSC Meat Processing Plant Ulyanovsky (“Ulyanovsky”), CJSC Labinsky Meat Plant (“Babaevsky”) and LLC Meat Processing Plant Salsky (“Salsky”) through a number of privatization sales and secondary market transactions, and established a new meat processing facility, LLC Cherkizovo-Kashira (“Cherkizovo-Kashira”). These meat processing operations were subsequently consolidated under AIC Cherkizovsky.

Following the example of other leading global meat producers, we pursued the strategy of expanding our operations into other areas of meat production and processing in order to diversify our product lines and to provide for vertical integration of our meat processing activities through supplies of our own poultry and pork products. In pursuit of this objective, starting in 1997, the Control Group also began to acquire interests in poultry and pork production assets through the acquisition of an interest in CSJC Petelinskaya, a poultry production facility in the Moscow region. From 1998 to 2000, the Control Group acquired control over several additional poultry farms in the Moscow region, and from 1999 through 2002 it acquired control over poultry production facilities in the Penza region. Between 1998 and 2000, we also acquired a controlling interest in our first hog production facility, Kuznetsovsky Kombinat, and acquired control over two further pig breeding farms CJSC Budenovets Agrifirm (“Budenovets”), in the Moscow region, and Botovo, in the Vologda region, in 2002 and 2004 respectively. These agricultural assets were subsequently consolidated under AIC Mikhailovsky.

From 1998 through 2000, the Control Group also acquired interests in a feed production plant in the Penza region and established distribution and trading companies to merge the sales, marketing and distribution of our products and the procurement of our raw materials.

See also “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Acquisitions of interests in subsidiaries” for a discussion of our recent acquisitions of key assets.

Restructuring

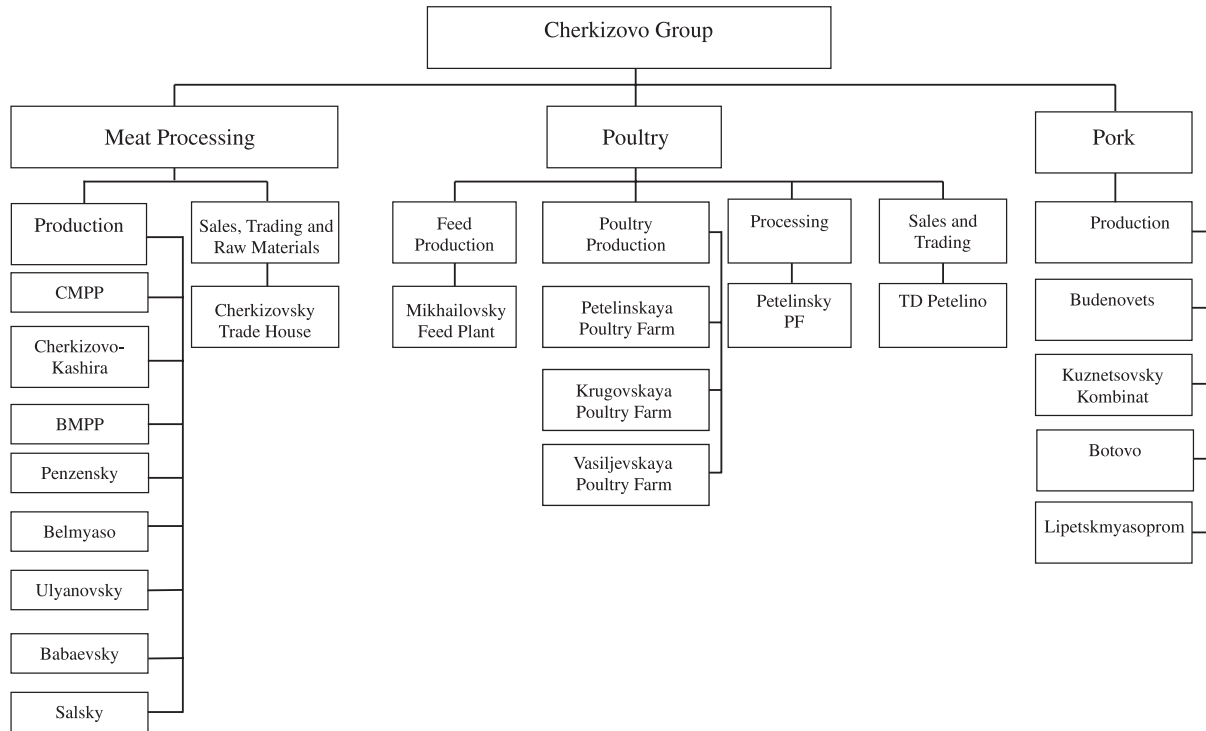
In 2005, we initiated the process of consolidating AIC Cherkizovsky and AIC Mikhailovsky into a single corporate entity, in order to optimize our corporate structure and make it more transparent. This restructuring has involved the formation of the Company as a new holding company for our operations, and, through a number of share exchanges structured as share capital increases, the transfer of various ownership stakes held by members of the Control Group in order to simplify and consolidate the ownership of our subsidiaries under the Company. In these transactions, members of the Control Group (including individuals as well as legal entities), together with certain other minority shareholders in some of our facilities, made additional contributions to the share capital of the Company in the form of interests in various meat and poultry processing plants held by them, as a result of which the Company became the owner of these meat and poultry processing plants and members of the Control Group acquired additional interests in the Company. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Restructuring and Formation of the Company.”



Organizational Structure

The Company is our parent company, through which we manage our operations. We separate our operations into three business segments: meat processing, poultry production and processing and pork production. We conduct our operations through the Company’s direct and indirect subsidiaries. See also “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Overview” for a discussion of the organization of our business segments.

The following chart shows our business (but not legal) structure, including our key operating units and the position of the Selling Shareholder in our holding structure:



The Company was incorporated as Limited Liability Company Cherkizovsky, a limited liability company (*obschestvo s ogranichennoi otvetstvennosti*) under the laws of the Russian Federation according to Certificate of Registration series 77 No. 006589663 of March 25, 2005. On September 22, 2005, the Company was converted into an open joint stock company (*otkrytoe aktsionernoye obschestvo*), Open Joint Stock Company Cherkizovo Group. The registered address of the Company is 5 Permskaya Street, 107143 Moscow, Russian Federation, telephone +7 495 788-3232. The Company is registered in the Unified State Register of Legal Entities under number 1057748318473.

Products and branding

Meat processing

We operate eight meat processing facilities located primarily across European Russia (west of the Urals), though our operations are concentrated in Moscow and the Moscow region. These facilities produce more than 300 varieties of processed meat products, the most significant of which are cooked sausages, cooked-smoked and semi-smoked sausages, raw smoked sausages and salamis, hot dogs and frankfurters, smoked meats and deli meats, hams and meat spreads. We also produce ready-to-cook food products, including meatballs, burgers and ground-meat patties, as well as a range of fresh meat products, including chilled and frozen meat products and meat raw materials. The total sales revenues of our meat processing segment were U.S.\$419.1 million in the year ended December 31, 2005, as compared to U.S.\$352.2 million in the year ended December 31, 2004 (including intersegment sales).



We market our processed meat products under a number of brand names, differentiated by product, market price and geographical segments. Prior to 2001, we marketed our processed meat products nationally only under the Cherkizovsky and Biruliovsky brands. Our principal national brands now are Cherkizovsky, Biruliovsky, Imperiya Vkusa, Popurri and Myasnaya Guberniya, all of which we sell throughout our distribution regions. We also market certain products under other brands, such as Pyat' Zvezd, Grill and Serveletti.

We seek to position each of our brands in a distinct market segment. Cherkizovsky is our "flagship" sausage brand, which we target at the premium and mid-priced market segments; Biruliovsky is our second most significant brand, under which we sell our sausage products, meat spreads, specialty meat sausages and ready-to-cook products and which we target at the medium and low-market segments; Popurri is our brand for medium-market segment hot dogs and frankfurters; Imperiya Vkusa is our medium-market ham and smoked meat brand and one of the leading ham brands in Russia; and Myasnaya Guberniya is our brand for low-priced cooked sausages, semi-smoked and cooked and smoked sausages, hot dogs and frankfurters. Pyat' Zvezd is our brand for our most expensive, premium quality cooked, semi-smoked, cooked and smoked and raw smoked sausages and hot dogs. Grill is primarily a brand of low-priced hot dogs and Serveletti is a medium and low-market segment brand for cooked smoked sausages, semi-smoked and raw smoked sausages. In 2005, the Cherkizovsky brand accounted for approximately 34% of the total volume of our sales of prepared meat products, and the Myasnaya Guberniya, Grill and Imperiya Vkusa brands together accounted for approximately 32% of the total volume of our sales of prepared meat products.

Outside of the Moscow region we market both our national and regional brands, such as Belmiaso, Penzensky, Ulyanovsky and Salsky. We target these regional brands primarily at customers in the regions in which they are produced, as we believe that many customers have more "conservative" tastes and tend to prefer brand names that are familiar to them even over national brands. We use the Belmiaso brand name in the Central Federal District, primarily in Belgorod and the Belgorod region. We market the Penzensky brand name in the Volga region, primarily in Penza and the Penza region, where we estimate that it has a significant market share. We also market the Ulyanovsky brand in the Volga region, primarily in Ulyanovsk and the Ulyanovsk region, where we estimate that it has a large market share. We are developing the Salsky brand name in the Southern District of Russia, primarily in Krasnodar Krai and the Rostov region.

The following table sets forth the major categories of meat products that we produce and our estimated sales of those products:

	For the year ended December 31,		
	2005 ⁽¹⁾	2004 ⁽¹⁾	2003 ⁽¹⁾⁽²⁾
	(tonnes)		
Product			
Prepared meat products	126,726	126,385	134,137
Retail format meat	3,942	4,635	5,023
Meat raw materials	12,283	8,155	5,772
Other ⁽³⁾	19,022	28,385	33,401
Total	161,973	167,560	178,333

Notes:

- (1) Sales to external customers only.
- (2) Data include sales of CMPP for all of 2003. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Acquisitions of Interests in Subsidiaries."
- (3) Includes quick-frozen meat, skin, blood, bone flour, bone fat and other products.

Poultry

Our primary poultry products are chilled whole and cut poultry, and we also produce a range of frozen poultry products. We conduct our poultry operations at farming and processing clusters, one in each of the Moscow and Penza regions. The consolidated sales revenues of our poultry segment were U.S.\$126.8 million in the year ended December 31, 2005, as compared to U.S.\$101.8 million in the year ended December 31, 2004 (including intersegment sales).

We market our poultry products under a number of brand names, differentiated by product and market (price) and geographical segments. Our flagship brand is Petelinka, which we established in 2001 and have sought to position as a premium market segment brand in Moscow and the Moscow region, and in 2005 we started to expand the brand into the chilled poultry market in the Volga region. The Petelinka brand is particularly strong in Moscow, where it has a high level of customer loyalty and brand awareness. According to a survey conducted by Scanmarket, a Russian market research agency, in Moscow, in March and April 2005



approximately 80% of surveyed consumers were aware of the Petelinka brand, 75% of consumers have previously purchased Petelinka and 50% of consumers stated that they purchased Petelinka more often than other poultry products. According to the same survey, the next two closest competitors are Kaluzhskaya and St. Petersburg Poultry Plants were known to 50% and 48% of consumers, respectively, and have been previously purchased by 39% and 40% of consumers, respectively. Approximately 22% of consumers purchase the St. Petersburg Poultry Plant poultry products more often than other poultry products and 16% of consumers prefer the Kaluzhskaya Poultry Plant products to other poultry products. As a result of this high level of brand awareness, as well as the perception of high quality (and concentration in the higher-priced Moscow market), we believe that our Petelinka brand commands a price premium over the average Russian price for branded poultry products (according to IKAR). Petelinka branded products accounted for approximately 39% of our total sales revenue from poultry products in 2005.

We also market chilled and frozen poultry products under the Vasilievka brand name, primarily in the Penza region. We market Vasilievka as a medium-market segment brand. Vasilievka-branded products include both packaged products and unpackaged products that are packaged by retailers with the Vasilievka brand name.

We also market frozen poultry products under the Kurlyandia brand name in the low and medium-market segments primarily in Kazan, Moscow, Nizhny Novgorod, Perm, Penza, Saratov and Ulyanovsk. We also market premium-quality frozen ready-to-cook food products, such as cutlets made from poultry and other meat products, under the Domashny Restoran (Home Restaurant) brand name, and we market superpremium chilled poultry meat under the Domashnaya Kurochka brand. We currently plan to expand our sales of chilled poultry products under the Petelinka brand to other areas of Russia, including Samara and Kazan, and to position Vasilievka as a brand for chilled products in Penza and as a national brand for frozen poultry products of higher quality than our Kurlyandia brand.

We have entered into some private-label arrangements with leading Russian retailers. In such arrangements, we sell our products to the retailers, which they then market under the store's name. We expect that entering into private-label agreements will allow us to increase our market share of sales of our poultry products and further develop our business. At present, we have only used private-label arrangements with a few retail chains such as with Metro Cash & Carry.

We sell whole and cut chilled and frozen poultry products as well as frozen ready-to-cook poultry products such as cutlets. We are seeking to increase our sales of cut chilled poultry, as we believe that these products command the greatest price premium and have the most favorable market growth prospects as consumer preferences continue to shift in favor of higher value-added and premium products. The Petelinka and Vasilievka brand names account for almost all of our sales of chilled cut poultry, and the Kurlyandia brand currently accounts for most of our sales of frozen poultry.

The following table sets forth the sales of our major poultry end products in the periods indicated.

	Year ended December 31,					
	2005		2004		2003	
	Volume	Percentage	Volume	Percentage	Volume	Percentage
	(tonnes, except percentages)					
Chilled poultry, of which						
Cut	16,482	32.4	14,364	30.7	9,653	24.9
Whole	12,196	23.9	11,618	24.8	10,397	26.8
Frozen poultry, of which						
Cut	5,777	11.3	2,053	4.4	246	0.6
Whole	9,715	19.1	12,438	26.6	13,515	34.9
By-products (chilled and frozen) ⁽¹⁾	6,115	12.0	5,183	11.1	4,288	11.1
Other poultry products ⁽²⁾	670	1.3	1,145	2.4	650	1.7
Total	50,955	100.0	46,801	100.0	38,749	100.0

Notes:

- (1) Includes chicken stomachs, livers, hearts, feet and necks.
- (2) Includes marinated and smoked poultry products and meat raw materials.



Pork

We primarily sell live pigs, which we sell to processors and to our own and other meat processing facilities. However, with the launch of Lipetskmyasoprom, which started operations in February 2006, we intend to expand our pork production operations to include premium quality fresh chilled pork. We initially plan to market chilled pork products in Moscow, the Moscow and Lipetsk regions and in other regions where our trading companies operate.

Production Facilities

Meat processing

We produce our processed meat products at eight meat-processing plants. Three of our plants are located in Moscow and the Moscow region, and the others are located in other key markets in European Russia. Our production facilities engage in both primary processing of meat, which consists of producing both meat raw materials for further processing and retail format meat from live animals or large cuts of meat, in order to produce sausage, other prepared meat products and ready-to-cook meat products.

The following table summarizes certain key information with respect to our meat production facilities:

Facility	Location	Annual capacity ⁽¹⁾ (tonnes)	Production						
			2005		2004		2003		
			Prepared meat products	Fresh meat and retail format meat products ⁽²⁾	Prepared meat products	Fresh meat and retail format meat products ⁽²⁾	Prepared meat products	Fresh meat and retail format meat products ⁽²⁾	
CMPP	Moscow region	81,900	33,000	53,521	10,143	56,093	17,012	61,713	25,158
BMPP	Moscow region Cherkizovo-	61,200	—	38,879	—	36,662	—	37,256	—
	Kashira	9,936	—	6,476	—	7,140	—	7,075	—
	Penzensky	19,500	25,450	14,854	13,044	17,494	21,642	17,264	15,679
	Belmiaso	10,800	26,700	6,497	9,675	4,575	12,780	4,878	13,667
	Ulyanovsky	12,300	21,100	3,744	5,577	3,379	7,737	3,968	6,483
	Babaevsky	—	21,300	—	1,072	—	6,313	—	—
	Salsky	7,500	18,700	2,755	5,631	1,042	9,843	1,983	9,127
Total		203,136	146,250	126,726	45,142	126,385	75,327	134,137	70,114

Notes:

- (1) Capacity as of December 31, 2005. From time to time, we move certain items of production equipment between facilities in order to optimize our product mix. As a result, the stated production capacities of facilities may change over time.
- (2) Includes products used both in the production of prepared meat products and sold to third parties.

We undertake programs to improve the production efficiency of our facilities, including by implementing production cycle improvements, optimizing production across our facilities, implementing new standards for pork and beef-cutting that improve the output mix, and implementing the “lean meat method,” which seeks to optimize production costs based on the fat, protein, moisture and carbohydrate content of the input raw materials.

We have upgraded all of our meat processing plants in recent years with modern production lines and equipment manufactured by, among others, Alpina, Kremer Grebe, Cozzini, Wolfking, Vemag, Begarat, Townsend, Tiramat, Travaglini, Wematic, Metalchemia, Tiro, Lima, Lebensmitteltechnik, Tetra-Pak, Cryovac and Dixi-Union. Our current capital expenditure plans for our meat-processing plants are focused on maintenance, for example, installing new labeling and packaging equipment in order to better meet the requirements of modern retail format customers, which are increasingly important as a share of our sales. See “—Sales, Marketing and Distribution.” See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Requirements” for a discussion of capital expenditures in our meat processing segment.

Poultry

We concentrate our poultry production in two clusters where we raise our chickens, one in each of the Moscow and Penza regions, as well as processing facilities for chilled poultry products in each of the Moscow and Penza regions and for frozen poultry products in the Moscow region. The Moscow cluster includes the



Petelinskaya and Krugovskaya poultry farms, and the Penza cluster includes the Vasiljevskaya poultry farm. Our processing facilities consist of the Petelinsky Poultry Factory (“Petelinsky PF”).

The first stage in broiler production is the import of day-old breed-stock chicks of the French breed Isa, which we raise on separate production sites. At the age of approximately 70 days, we transfer the breed-stock chicks into the parent flock, and they begin producing eggs at the age of approximately 180 days. Egg production continues until the age of approximately 420 days, when the parent flock hens are killed. The eggs produced by the parent flock—the broiler eggs—are transferred to incubators where they remain for approximately 21 days. When these eggs hatch, we transfer them to broiler stock production sites, where they remain for a further approximately 38 to 40 days, until maturity, at which time we transfer them to the Petelinsky PF, for slaughter and processing into chilled and frozen poultry products. The broiler-stock production sites are equipped with modern machinery produced by manufacturers such as Big Dutchman, VAL and Chore-Time, which provide feeding, watering, lighting and ventilation systems and in most cases support the “deep litter” system, in which the broilers are contained within a house, but may move about freely within the house. The floor of the facility is covered with a five to ten cm deep layer of wood shavings. We use a “battery cage” system at our other facilities, in which the broilers are raised in cages.

We seek to adhere to modern bio-safety and other advanced production techniques in our poultry farming operations. These include a minimum five kilometer sanitation zone between each production site at a poultry farm; conducting each production stage at a different site; attention to the comfort of the stock, including air temperature, air circulation, population density and lighting; consistent and regularly-tested watering programs and balanced feeding with combined feed that has balanced contents of energy, protein, microelements, vitamins and amino acids to enhance productivity and reduce total costs.

We also implement strict measures to prevent the incidence and spread of diseases among our stock. We have implemented territorial separation and specialization at all of our facilities, in order to limit opportunities for the spread of disease between generations and between poultry being raised for sale and breed-stock. In addition to the minimum five kilometer sanitation zone between production sites, which we situate in consideration of prevailing wind patterns, we operate our facilities on an “all empty / all full” basis, meaning that at any particular time the entire facility contains poultry of the same age, no species from other batches are added, and the facility is emptied of all stock when the feeding period ends. The facility is then cleaned and disinfected in preparation for the arrival of the next group, thereby limiting opportunities for cross-contagion.

We also seek to limit the possibility for outside infection. In particular, we closely control access to our sites by visitors; limit the travel of our employees between our facilities; provide specialized clothing, including footwear, to our employees; require that deliveries be made only in disposable cases; prohibit our employees from traveling to countries in which certain diseases that affect pigs and poultry are found and have remedial processes in place in the event that diseases are suspected. We believe that these measures are consistent with international best practices with respect to disease prevention and concentration. See “—Health, Safety and Environment.”

Our poultry farming business is geographically divided into two clusters, one each in Moscow region and in the Penza region, each of which conducts a complete broiler production cycle.

The following table provides key information with respect to each of our poultry production facilities:

Facility	Location	Year ended December 31,		
		2005 ⁽¹⁾	2004 ⁽¹⁾	2003 ⁽¹⁾
(slaughter-weight tonnes)				
<i>Production facilities</i>				
Moscow cluster	Moscow region	21,766	18,256	15,036
Penza cluster	Penza region	19,005	14,464	10,633
Total		40,771	32,720	25,669

Note:

(1) Excludes by-products.

Moscow region

We currently operate eight production sites in the Moscow region. The facilities have the capacity to house approximately 400,000 breeders and 2.5 million broilers simultaneously. We conduct each phase of the broiler production process at separate production sites which are part of our Krugovskaya and Petelinskaya poultry



farms. We operate five sites for breed-stock and parent flock and three breeding sites for broilers. We also operate three incubators with a combined capacity of 44 million chicks annually, including a new incubator with an annual capacity of an additional 26 million chicks. We process the poultry that is produced at these facilities into chilled and frozen chicken products at Petelinsky PF. See “—Poultry Processing.”

During 2004, we started a project to increase the annual production capacity at our Moscow cluster from approximately 18,000 slaughter-weight tonnes to 44,000 slaughter-weight tonnes annually by 2007. This project includes the installation of new feeding, watering, ventilation and lighting equipment at poultry yards for growing replacement chicks, keeping parent flock and growing broiler chickens as well as a new incubator. In April 2006, we put into operation some of the new equipment and the new incubator at Petelinskaya.

Penza Region

We conduct a complete broiler production cycle at our Penza region cluster. We have 12 production sites in the Penza region. We conduct each phase of the broiler production process at separate production sites. Our operations in the Penza region are part of the Vasiljevskaya poultry farm. We operate five sites for breed-stock and parent flock and seven breeding sites for broilers. We also operate four incubators with a combined capacity of 41 million chicks annually, including a new incubator that we commenced in December 2005. We conduct processing operations at the Penza branch of Petelinsky PF.

In 2005, we started a project to increase the output of Vasiljevskaya in order to upgrade and expand production facilities and increase their capacity from approximately 19,000 slaughter-weight tonnes annually to approximately 44,000 slaughter-weight tonnes annually by 2007. This project includes the installation of new equipment at poultry yards for parent flock and growing broiler chickens, an incubator and a slaughtering facility.

Poultry Processing

We conduct all of our processing operations for chilled poultry at Petelinsky PF, which includes slaughter and processing facilities in both the Moscow and Penza regions. Petelinsky PF's facilities are equipped with equipment manufactured by, among others, the Dutch manufacturer Stork, which is one of the leading producers of poultry processing equipment in the world. Our production process for finished poultry products is almost fully automated, which improves the quality of the products and increases their shelf-life. We are currently upgrading the equipment at the plant in Penza in order to increase the processing capacity to increase the capacity of the plant from 4,000 head of poultry per hour to 6,000 head of poultry per hour by July 2006. We believe that the facilities in Moscow are sufficient to support an increase from the current capacity of 6,000 head per hour to 9,000 head of poultry per hour.

We also produce frozen poultry products at both branches of Petelinsky PF. Some of this equipment was previously operated by CJSC Krasnopolyanskaya Poultry Factory, but as part of our restructuring most of these assets were distributed to shareholders and we entered into a lease agreement for those assets formerly operated by Krasnaya Polyana that we continue to use in our operations. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Disposal of non-core operations” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Contractual obligations and commercial commitments” for a discussion of these lease arrangements.

Pork

We raise pigs at four pig-breeding and raising complexes located in the Moscow, Vologda and Lipetsk regions.

We produce parent stock of pigs at our production facility at Budenovets, and also purchase them from leading European pig-breeders such as PIC and DanBred. After a brood-sow reaches approximately 90 kilograms, at the age of approximately seven months, we transfer it to separate production sites at Kuznetsovsky Kombinat, Botovo and Lipetskmyasoprom. We quarantine the brood-sow for approximately 45 days, and then deliver it to an insemination site. A brood-sow remains at one of these sites for approximately 114 days, after which we transfer it to a delivery site. The average life-span of a brood-sow is approximately two to two and one-half years, and includes five to six generations of pigs. Following delivery, newborn pigs stay with their mothers for approximately 28 days. The pigs are then transferred to the raising site for approximately 56 days and subsequently to the fattening site for a further approximately 98 days. Once pigs reach the age of approximately 180 to 182 days and weigh approximately 110 to 115 kilograms, we deliver them to the slaughter facilities.



The following table provides information with respect to production at each of our pig production facilities:

Facility	Location	Pig Categories	For the year ended December 31,		
			2005	2004	2003
			(live-weight tonnes)		
Kuznetsovsky Kombinat	Moscow region	Grown pigs	2,887	4,603	6,466
Budenovets ⁽¹⁾	Moscow region	Brood-sows and grown pigs	862	303	357
Botovo ⁽²⁾	Vologda region	Grown pigs	3,935	6,189	6,041
Penzamyasoprom ⁽³⁾	Penza region	Grown pigs	3,980	380	—
Lipetskmyasoprom ⁽⁴⁾	Lipetsk region	Grown pigs	—	—	—

Notes:

- (1) Production includes both brood-sows and grown pigs. Brood-sows are used at our other production facilities in raising pigs for sale.
- (2) Acquired in July 2004. Production in 2004 following our acquisition amounted to 3,466 tonnes.
- (3) Established in November 2004, and distributed to shareholders in September 2005 as part of our restructuring. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Restructuring and Formation of the Company.”
- (4) Production started February 2006.

Kuznetsovsky Kombinat. Kuznetsovsky Kombinat was our first pig-breeding and pork production facility, and is located in the Naro-Fominsky area of the Moscow region. The plant produces fresh pork meat, a portion of which we use as inputs at our meat processing production units and most of which we sell to outside consumers.

We currently maintain only a relatively small number of pigs at Kuznetsovsky Kombinat, and we are now increasing production following the completion of the upgrade that we conducted from 2003 to 2005. From 2003 to 2005, we upgraded the facilities at Kuznetsovsky Kombinat to improve the operating efficiency and to implement more modern separation techniques, and introduced new breeds of pigs. As a result, we plan to expand production capacity at Kuznetsovsky Kombinat incrementally to over 9,750 live-weight tonnes per annum by the end of 2007.

Budenovets. Budenovets is an agricultural complex located in the Dmitrovsky area of the Moscow region that specializes in the production of the parent stock pigs used in pig breeding at our other pork production units. We anticipate that Budenovets will continue to supply pigs from its parent stock to our other pig-breeding facilities.

Botovo. Botovo is an agricultural complex located in Vologda. It supplies its production mainly to meat processing facilities in Cherepovets, Yaroslavl and Vologda. In 2005, we completed the first phase of the modernization and installed equipment manufactured by, among others, Intercool Food Technology LTD, Fog Agrotechnik Poland and DACS A/S. We expect that upon completion of this project, production capacity at Botovo will increase to over 7,100 live-weight tonnes by the end of 2007.

Lipetskmyasoprom. Lipetskmyasoprom was established in February 2005 to develop pig-farming in Lipetsk region. The facility is a newly-constructed pig farm constructed to modern international standards, and we believe it to be the first of its kind in Russia. We started operations at Lipetskmyasoprom in February 2006, and we expect that it will reach an annual capacity of approximately 26,000 live-weight tonnes in 2007, and full capacity of approximately 50,000 live-weight tonnes annually in 2009. We plan to produce chilled pork products from the Lipetskmyasoprom pigs, with the first such products to be produced in late 2006. See “—Products and branding—Pork.” The project, which we started to construct in June 2005, involves construction of four new integrated pig breeding farms, each of which will have a capacity of approximately 4,800 brood sows, in Lipetsk region. Each of these farms is to include separate breeding, rearing and fattening facilities. The Danish firm AIB Consult provided assistance with respect to the equipment installation, design of the farms and certain other matters. We have also purchased special breeds of brood-sows from the Danish company Dan-Bred, which is one of the leading European pig breeders.

We anticipate that our total capital expenditures on the development of the Lipetsk project will constitute over U.S.\$125 million through 2007. The financing for the project consists of a credit line from Gazprombank of up to RR1,452 million (U.S.\$50.5 million) that we received in September 2005, and we are seeking to conclude a further credit line from Gazprombank of up to RR2,800 million (U.S.\$97.3 million) in 2006 in order to complete the Lipetsk project and for our other pork development projects. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital resources.” The government of the Lipetsk



region has also provided assistance to us with respect to allocating land for constructing facilities and in organizing the construction process. The government of the Lipetsk region is also to provide subsidies to us per kilogram of live weight for the purchase of the parent stock of pigs and a direct reimbursement to us per kilogram of live-weight pork that we produce during the initial three-year period after the facility starts operations. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Requirements” for a discussion of our capital expenditures, and “Certain Regulatory Matters—State Support Programs” for a discussion of subsidies from the Lipetsk region administration.

We plan to expand our pig-breeding operations through the construction of new pig-breeding farms. On the basis of our own experience in pig farming and the results of studies conducted by us together with western experts, we have determined that it would be inefficient for us to develop our pig farming operations through acquisition and modernization of existing pig farming facilities in Russia, as they were constructed during the Soviet era and are generally economically inefficient, technologically outdated and incapable of producing sufficient quantities of high-quality pork to satisfy the market demand in Russia. We are currently considering the construction of additional pig farms in the Penza or Tambov regions, on a similar model to Lipetskmyasoprom, and we are currently discussing these projects with regional administrations. In each case, we intend to seek to obtain financial support from the relevant regional administration to construct and operate these facilities.

Pork Processing

We currently sell primarily live pigs from our pork operations, generally to local customers near our pig production facilities. Kuznetsovsky Kombinat also operates a small slaughter facility. We plan to begin construction during 2006 of a new processing facility for the production of pork products in Kashira, in the Moscow region, on the site of our existing Cherkizovo-Kashira meat processing plant located between Moscow and Lipetsk. If constructed, we expect that this facility would become operational in 2007.

Sales, Marketing and Distribution

We operate our own distribution system in order to help ensure that our products are distributed in adequate volumes in a timely manner to ensure availability and freshness. We established this system in response to the difficulties that we had faced in ensuring the effective distribution of our production, particularly in the 1990s. Our distribution system includes trading companies in various regions of Russia that market our products both to major chain retailers, other retailers and to independent distributors and wholesale distribution centers. We seek, where possible, to sell directly to end retail customers, and in Moscow and the Moscow region in particular such sales account for a high proportion of our sales of processed meat and poultry products. We operate separate distribution systems for our meat processing and poultry operations as a result of the differences between these products and approaches to their distribution.

Over the past several years, we have sought to increase the share of our sales that we make to major modern retail chains, such as Metro Cash & Carry, Auchan, Ramstor and Sedmoi Kontinent. This market segment has grown rapidly in Russia in recent years, and we believe that our ability to deliver large volumes of a wide range of products in a timely manner directly from our production facilities strengthens our relationships with these retailers. In addition, these retailers generally have adequate facilities to ensure that chilled meat products are displayed and sold to customers while remaining fresh.

As a further step in our corporate restructuring, we are considering the integration of our two principal trading companies, JSC Trade House of AIC Cherkizovsky (“Cherkizovsky Trade House”), through which we sell our processed meat products, and Petelino Trade House, through which we sell our poultry and pork products, into a unified company. By consolidating our main trading companies, we expect to be able achieve higher levels of organizational transparency, establish unified standards for sales and maintain higher standards of service.

Meat processing

Sales

We conduct our sales, marketing and distribution operations on a centralized basis for all of our production facilities through Cherkizovsky Trade House. We operate 11 trading companies throughout Russia that oversee the individual regional wholesale distributors of our products, approximately 8,700 square meters of cold storage warehouse capacity located at our production facilities and at trading companies throughout Russia, more than 300 trucks in Moscow and the Moscow region and more than 155 trucks outside of Moscow, each with a



capacity of from 1.5 tonnes to 20 tonnes, that transport our products from storage facilities to whole-sale distributors and directly to retailers. Our ability to transport our products directly to our customers helps us to maintain the quality of our products and timely distribution.

Approximately 68% of our sales by value consists of sales by Cherkizovsky Trade House, the trading company for our meat processing operations. We make approximately 32% of our sales by value directly to distributors from our production facilities. These sales primarily consist of sales of meat raw materials to other producers in Salsk, Labinsk and the Belgorod and Penza regions.

We sell our processed meat products throughout Russia, although the majority of our sales take place west of the Ural Mountains, as these regions are closer to our production facilities. For example, in 2005, the Central Federal District (excluding Moscow and the Moscow region) accounted for 36% of the total sales volume of our meat products; Moscow and the Moscow region accounted for 23% of the total sales volume of our meat products; the Southern Federal District accounted for 18% of the total sales volume of our meat products; the Volga and Urals region accounted for 19% of the total sales volume of our meat products; and the Siberian and Far Eastern Federal Districts accounted for a total of 4% of the total sales volume of our meat products. The Moscow and Moscow regions generally account for a somewhat greater share of our total revenue as a result of the generally higher share of premium products in our sales in Moscow, for example accounting for 34% of our total revenues from sales of meat products in 2005. None of our customers individually accounted for more than 3.5% of the total value of our sales of meat products in 2005, and our ten largest customers together accounted for approximately 19% of our total sales volume and approximately 16% of our total sales revenue from the sale of meat products.

Our sales contracts with major chain retailers are generally structured as framework agreements for a one year, two year or longer periods, and usually subject to automatic extension unless terminated by one of the parties. The agreements set forth the general terms and conditions on which we agree to deliver requested volumes according to an agreed price list within a set period after an order is placed. The price list may be varied based on market conditions, with the consent of the counterparty, and are generally on a "best price" basis. The contracts also generally include certain obligations with respect to advertising and other marketing activities, and include volume discounts based on total annual purchases. These contracts typically provide for payment within seven to thirty days of product delivery, and are denominated in rubles.

Marketing

We manage the sales and marketing operations for our Moscow and Moscow-region plants through our central sales and marketing departments. Our central marketing department develops plans with respect to the production volumes at the Moscow plants, our advertising activities and advertising budget and the development and marketing of new brands. This central marketing department also coordinates the actions of our sales and marketing representatives outside of the Moscow region at our local production facilities. The central marketing department is responsible for evaluating production volumes achieved in a particular region in prior periods, price ranges of our main competitors and customer preferences in the region and then formulating our sales and marketing initiatives.

We employ various marketing strategies for our products to increase brand-awareness and allow us to achieve a leading position with respect to competitors. We engage in promotional programs that include price discounts at retail stores, conduct advertising on television and organize public displays of our products. We also grant deferment of repayment and provide advertising materials to our wholesale distributors. We have also developed a number of incentive programs to promote sales of our products in regional markets, including bonuses that we award to sales representatives who achieve a certain annual volume of sales of a particular product in a given market. We are also seeking to develop new brands and products that are targeted at consumer preferences in a particular region as well as improving our existing brands.

From 2002 through 2004, we also engaged in several advertising campaigns for our meat products. For example, in 2002-2003, we conducted an advertising campaign to reposition our Cherkizovsky brand from a low-market segment brand to the medium-market segment brand for middle-class consumers. In 2003-2004, we conducted an advertising and marketing campaign for our Imperiya Vkusa brand in order to create national awareness for the brand among consumers in the low-market and medium-market segments. In 2003-2004, we also conducted a brand-awareness campaign for our Cherkizovsky brand products in order to promote the brand as a high-quality product line for middle class consumers. In 2004, we conducted an advertising campaign to establish Popurri as a brand of high-quality hot dogs for middle class consumers.



We also seek to apply new methods to improve the production efficiency and scope of distribution and target markets for our products. For example, we have introduced storage and packaging techniques that provide a longer shelf-life for our salami and sausage products, such as gas-packing, vacuum-packing and polyamide wrapping. These techniques have enabled us to transport our products into the various geographical markets, help preserve the freshness of products and help facilitate transportation, unloading and handling of our products. We have also introduced bulk packaging for products sold by weight, standardized weights for consumer and shipping packaging, and introduced specialized packaging for sliced and lower-weight products.

Distribution

Wholesale distributors account for the largest share of our sales. These distributors then generally redistribute our products to retailers. Particularly outside of Moscow, where distributors account for a larger share of our sales, we seek to assign dedicated sales representatives to work with these distributors, in order to help ensure that our products are marketed and distributed in accordance with our requirements. Sales directly to traditional retail formats, primarily small and traditional format retail grocery stores and kiosks, account for the next largest share of our sales. Sales directly to operators of modern retail format stores such as supermarkets and hypermarkets account for the next largest share of our total sales. In Moscow and the Moscow region, sales directly to modern retail format and other retailers account for a higher proportion of our sales, reaching nearly 80% of the total volume of our sales in 2005.

Our products are carried throughout our distribution regions by the major modern retail chains in Russia, including Metro Cash & Carry, Auchan, Ramstor, Sedmoi Kontinent, Paterson, Perekryostok, Pyaterochka and Magnit. We are seeking to increase the share of sales that we make directly to retailers (both modern format and other), as we believe that our wide product range and ability to supply a large volume of products in various regions of Russia—including, to an increasing extent, poultry and pork products—will enable us to compete more effectively and to counteract the increasing market power of the modern retail chains as they account for an increasing share of the Russian retail market. These formats also provide greater predictability with respect to volumes and distribution of consumer demand for our products and enable us to concentrate a larger share of our sales with a smaller number of counterparties, resulting in greater stability and lower distribution and marketing costs.

The following table presents the primary distribution channels through which we sell our processed meat products. As a result of changes in the structure of our sales and recording methodologies, comparable data is not available for 2003.

<u>Sales channel</u>	<u>2005</u>		<u>2004</u>	
	<u>Volume</u>	<u>Value</u>	<u>Volume</u>	<u>Value</u>
	<i>(tonnes, except percentages)</i>			
<i>Cherkizovsky Trade House, of which</i>	109,557	68%	112,972	68%
Wholesale distributors	72,915	67%	76,528	67%
Modern (chain) retail	13,220	12%	10,916	10%
Other	23,422	21%	25,528	23%
<i>Sales directly by production units</i>	52,416	32%	54,588	32%
Total	161,973	100%	167,560	100%

Poultry

We mainly produce chilled poultry meat designated for consumption within 500 kilometers of the production site. Therefore, we market our chilled poultry products primarily in the regions where we produce them: the Moscow and Penza regions, and other areas with the 500 kilometer distribution radius. We market our frozen poultry products throughout Russia.

We conduct sales of our poultry products (including both chilled and frozen poultry) on a centralized basis, through Petelino Trade House. Having our own trading house has allowed us to maintain consistent pricing policy, develop efficient marketing strategies, establish a system of direct distribution and help ensure that our requirements with respect to transportation and storage of chilled poultry are satisfied. Currently, we operate approximately 110 trucks to transport our chilled poultry products to customers. We ship our poultry products at night in order to ensure that the products are delivered to retail stores in one to two hours for stores in Moscow and the Moscow region and in eight to ten hours to the stores outside of the Moscow region. Our chilled and frozen poultry products are available in over 1,800 retail establishments in 14 regions of Russia.



We sell a high proportion of our poultry products to modern format retailers, which accounted for approximately 28% of the total volume of our sales in 2005. In 2005, approximately 59% of our total sales volume of poultry products to modern retail format consisted of chilled precut and 23% of chilled carcass products; the balance consisted of frozen carcass and precut products, frozen ready-to-cook products and other products. In 2005, approximately 53% of the total volume of our poultry sales were in Moscow and the Moscow region; approximately 15% of the total volume of our sales were in the Penza region; and approximately 24% of the total volume were in other regions of Russia. The balance consists mostly of sales through the trading companies of our meat processing segment (and are accounted for as intersegment sales from the poultry segment).

Our four largest customers together in 2005 accounted for approximately 23% of the total sales volume of our poultry production and 29% of our total sales revenue from poultry products.

The following table presents the primary distribution channels through which we sell our poultry products. As a result of changes in the structure of our sales and recording methodologies comparable data is not available for 2003.

<u>Sales channel</u>	2005		2004	
	<u>Volume</u>	<u>Share</u>	<u>Volume</u>	<u>Share</u>
	(tonnes, except percentages)			
Modern retail	14,137	27.7%	13,905	29.7%
Traditional retail	19,108	37.5%	12,773	27.3%
Distributors	9,793	19.2%	13,650	29.2%
Other ⁽¹⁾	7,917	15.6%	6,473	13.8%
Total	50,955	100.0%	46,801	100.0%

Notes:

⁽¹⁾ Consists of sales of poultry products to end customers through the meat processing segment as well as other distribution channels.

Pork

We currently market our pork meat primarily on local markets in Moscow region and Vologda, near our production facilities. We currently focus our operations on new projects in connection with pig raising and pork production, and particularly the development of our facilities at Botovo in Vologda and Lipetskmyasoprom in Lipetsk and the possible development of a new line of chilled pork products.

We conduct our sales of pork products on a centralized basis through the Petelino Trade House. We generally sell live pigs to other processors, usually in the regions near our pig-processing facilities. Although we currently sell primarily live pigs, in the near future, we plan to begin sales of premium chilled pork products and to expand our capacity to produce other processed pork products.

Our sales of live pigs amounted to 10,210, 4,460 and 6,682 live-weight tonnes in the years ended December 31, 2005, 2004 and 2003, respectively, as well as 933 tonnes and 4,062 tonnes of carcass meat in the years ended December 31, 2005 and 2004, respectively. The higher volumes in 2004 reflect our decision to slaughter existing pig herds at Kuznetsovsky Kombinat and Botovo.

Raw materials

Meat processing

The major costs of producing processed meat products are the costs of raw material inputs and packing, which together comprised approximately 87% of the total production cost for our meat processing segment in 2005. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Results of operations for the years ended December 31, 2005 and 2004—Cost of sales.”

We have sought to centralize purchases of raw materials for our meat processing activities in order to ensure a constant supply of raw materials to our production facilities at the best available prices, we conduct our purchases of raw materials for our meat processing plants through LLC Trading-Industrial Company Cherkizovo. We obtain our raw meat inputs from a mix of foreign suppliers, domestic suppliers and our own meat-processing units (primarily bone-in raw meat produced at BMPP and Babaevsky), which we adjust based on market conditions. The raw meat that we use in our meat processing operations is in the form of inputs for initial processing, which we either then sell to third parties as fresh meat products (retail format meat) or further process into sausage and other prepared meat products and ready-to-cook meat products.



In producing processed and semi-finished meat and poultry products, we make use of various meat inputs, including beef and pork bone-in meat, beef and pork meat blocks, pork plate, back fat, intestine products and ground poultry. We compile information about our requirements for raw materials and prices on a weekly basis in order to plan and order supplies of raw materials.

The table below provides a summary of meat inputs by type and origin of the meat raw material:

	Year ended December 31,					
	2005		2004		2003	
	(thousand tonnes)	(%)	(thousand tonnes)	(%)	(thousand tonnes)	(%)
Beef, of which	26,320	27.9	26,990	30.8	31,130	31.3
Imports ⁽¹⁾	1,510	5.7	690	2.6	1,520	4.9
Domestic supplies ⁽²⁾	24,810	94.3	26,300	97.4	29,610	95.1
Pork, of which⁽³⁾	30,690	32.5	32,640	37.2	40,900	41.1
Imports ⁽¹⁾	10,960	35.7	6,720	20.6	7,780	19.0
Domestic supplies ⁽²⁾	19,730	64.3	25,920	79.4	33,120	81.0
Poultry, of which	37,380	39.6	28,020	32.0	27,520	27.6
Imports ⁽¹⁾	4,350	11.6	4,630	16.5	10,490	38.2
Domestic ⁽²⁾	32,740	87.6	22,670	80.9	16,770	60.9
Poultry segment	290	0.8	720	2.6	260	0.9
Total	94,390	100	87,650	100	99,550	100

Notes:

- (1) Volumes imported directly using our quota allocations.
- (2) Includes volumes purchased from traders in Russia but which may have originated outside of Russia.
- (3) Includes small volumes from the pork segment, accounted for as intersegment sales.

We have historically been allocated licenses to import fresh or chilled and frozen beef, pork and poultry within Russia's import quotas for these products. These import licenses are generally allocated for a one-year period on the basis of historical volumes. By making use of these quotas, we are able to contract directly with foreign suppliers, helping us to secure the best terms for our imports of raw materials.

In recent years, we have sought to source a larger proportion of our raw material inputs from Russian suppliers, driven in particular by a generally less favorable pricing environment for imported meat, in particular as a result of the introduction of quotas on imports of beef, pork and poultry into Russia, and the availability of fresh meat supplied by Russian producers, whereas imported meat tends to be frozen. We have increased the proportion supplied by Russian suppliers, including our own production and traders (including those who deal in imported products), from 80.1% in 2003 to 82.2% in 2005, though the market remains highly fragmented and no single supplier accounts for more than 8% of our beef, pork and poultry inputs (except for our own agriculture operations). We select suppliers of our raw materials based on the price and quality relationship, the type of the product (for example, delicatessen pork meat is still primarily imported) and the impact of trade regulations.

Most of our agreements for the supply of meat raw materials, including live animals that we process at our slaughtering facilities, are short-term contracts, either for individual shipments or annual framework agreements with deliveries based on individual purchase orders. Most of these agreements require us to pre-pay for supplies. Some contracts, primarily those with traders in Russia that deal in imported meat, are U.S. dollar-linked (though payments are made in rubles), though most are ruble-denominated.

We obtain casing and packing materials from a number of Russian suppliers. We have mostly short-term contracts that are subject to automatic prolongation after their expiration provided that none of the parties has committed material violations. Most of these contracts provide for payment after shipment of the materials, though in some cases they require pre-payment.

We purchase non-genetically modified soy from LLC Protein Product, which markets production both of its affiliated and unaffiliated producers, and the Solae Company.

Poultry and Pork

The major raw material input in raising poultry is feed, which constitutes approximately two-thirds of the total cost of raising a broiler. The major cost of breeding pigs is also the cost of feed, which constitutes



approximately half of the total cost of raising a pig. Our total requirements for feed in 2005 amounted to approximately 190,416 tonnes, of which 132,227 tonnes was consumed by our poultry operations and 58,191 tonnes by our pork operations. We produced a total of 101,490 tonnes at our Mikhailovsky Feed Plant in 2005, and purchased a total of 94,877 tonnes from third parties. We purchase a major portion of feed for our pig and poultry raising operations from local feed producers in the Moscow region primarily due to the relative inefficiency of transporting feed from our feed production facility to our pork and poultry production sites. We also consume only the highest quality components of our own feed production and sell the lower quality parts to other local feed consumers. In 2005, we sold approximately 5,950 tonnes of our own feed production. By producing our own feed, we believe that we maintain better control over the cost, availability and quality of feed, thereby improving the quality and health of our poultry and pigs.

The Mikhailovsky Feed Plant was constructed in December 1984. Following our acquisition of the plant, we modernized it in 2003 with equipment produced by the Dutch manufacturer Van Aarsen and installed a computerized feed portioning system, and the current production capacity is approximately 150,000 tonnes of feed annually. We currently plan to expand the capacity of the plant in line with our increased poultry production, and plan to invest approximately U.S.\$5 million in 2006 in order to increase the production capacity to 240,000 tonnes in 2006 and to 360,000 tonnes in 2007. We are also planning to construct in 2006 a new feed plant in the Liptesk region with a total annual capacity of up to 350,000 tonnes. We produce feed according to specific formula that takes into account the age and purpose of poultry and pork.

We produce feed for our poultry and pigs from grain, soybean, concentrate, mineral elements, vegetable oil and other ingredients. During the feed production cycle, we mill, mix and then granulate these components. Our main supplier of soybean meal is Peptron LLC, from which we have obtained our soybean meal supply since 2001. We purchase grain mainly from local suppliers in the Penza region in August or September of every year, and then store it at our own warehouses. We purchase concentrate from LLC Yantarniy Kolos, in Saratov.

We also purchase feed from LLC IstraZernoprodukt and other producers. Under these agreements we make payments within 14 business days following delivery of the feed.

We also purchase broilers raised by other producers, primarily for use in producing frozen poultry products. Our purchases amounted to 1,045, 5,261 and 5,883 tonnes in the years ended December 31, 2005, 2004 and 2003, respectively. We plan to reduce the volume of these purchases as our own boiler production capacity increases. See “—Production Facilities—Poultry.”

Health, Safety and Environment

We believe that we are in compliance with applicable environmental legislation, and are not aware of any past, current, pending or potential environmental claims against us. We did not record any liabilities associated with environmental costs as of December 31, 2005, 2004 or 2003. We do not carry third-party liability insurance in respect of environmental damage.

Operational principles

We observe the following biological and veterinary safety requirements in our poultry and pig-farming operations, which we believe enables us to produce poultry and pork products of high quality.

Comfort. Creating a comfortable environment within the poultry and pig houses stimulates the healthy growth and development of poultry and pigs. We seek to maintain a comfortable environment for our stock based on the combination of air temperature, air circulation, illumination and humidity levels within the house, through installation of electronically managed heat generators, ventilation and lighting systems.

Traceability. We seek to maintain control over all stages of the production process, from the production of fodder through breeding, processing and distribution. By maintaining such control, we are able to ensure that our products are of a satisfactory and high quality.

Balanced feed. The use of fodder that is balanced not only in respect of energy and protein, microelements and vitamins, but also in respect of available amino-acids, promotes productivity increases and reduces feed-related expenditures. We produce feed according to specially calculated formulas using modern equipment with multilevel computer systems of dosing and mixing allowing for gradual introduction of small doses of the necessary elements into the feed.



Territorial separation and specialization. The territorial separation and specialization of sites helps to prevent the transfer of diseases from older pigs and poultry to younger pigs and poultry and from the parent flock to the broiler flock or to poultry kept at the raising zone. Bio-safety guidelines call for sufficient numbers of production sites and sanitary zones between them of not less than five kilometers. We locate all stages of production for our poultry and pork production operations at separate production sites. To prevent possible contamination, we also consider the direction of winds when we choose the location of our production sites.

All full / all empty. The principle of “all full / all empty” involves filling the entire production site with poultry or pigs of the same generation, not blending poultry or pigs from other flocks, and then refreshing the site upon completing the growth period, such that the entire facility is occupied by only a single generation of animals. In doing so, we are able to keep a site unoccupied for several weeks for cleaning and disinfection, helping to restrict the circulation of pathogens.

Preventative measures

We also undertake a number of prophylactic measures to ensure the safety of our facilities and to prevent the spread of disease. We divide these into organizational and veterinary measures, all of which are intended to prevent the spread of infection on the territory of pig and poultry houses.

The organizational measures that we undertake include:

- Strict access control to our facilities;
- Limitations on the number of visitors;
- Prohibiting staff from moving from one production site to another;
- Ensuring the effective operations of all veterinary and sanitary stations;
- Providing staff with work shoes and clothing;
- Shipping products only in disposable packages;
- Limiting visits to our sites by foreign delegations; and
- Prohibiting visits by our staff to countries where pig and poultry diseases are recorded.

The veterinary measures that we undertake include:

- Regular procedures to eliminate potential carriers of diseases (e.g., mice, insects);
- Regular monitoring and examination of blood samples of our pig and poultry stocks;
- On-going clinical examination and qualified veterinary care of the stock; and
- Vaccination in accordance with prescribed procedures.

We also seek to operate our agricultural facilities in accordance with international best practices, in order to limit the susceptibility to and spread of disease in our herd. See “—Production Facilities—Poultry” and “—Production Facilities—Pork.”

An environmental evaluation was conducted at our meat processing facilities in 2004 related to the current and past operations of these facilities in order to assess facility compliance with Russian as well as European Union and World Bank environment, health and safety (the “EHS”) standards, assess specific risks associated with past and current operations and make recommendations for the improvement of EHS management. The completed evaluation included recommendations for improvements in such areas as waste water management, air emissions and the development of a more comprehensive environmental management to assist in reducing fresh water use and energy consumption and further reduce waste production. The terms of our loan agreement with the EBRD require that we implement these recommendations in accordance with national requirements for public disclosure and consultation, and also provide to the EBRD an annual environmental report that includes information on the implementation of the environmental action plan. We are also required to notify the EBRD of any material incidents or accidents likely to have an effect on the environment or worker and public safety of our meat processing facilities. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital resources” for a further discussion of this loan agreement.



Avian Influenza

Avian influenza is an infectious disease of birds caused by type A strains of the influenza virus. Domestic poultry is susceptible to infection with avian influenza viruses, which cause two distinct forms of disease—one common and mild, the other rare and highly lethal. Highly pathogenic avian influenza, first identified in Italy in 1878, is characterized by sudden onset of severe disease, rapid contagion, and a mortality rate that can approach 100% within 48 hours. To date, all documented outbreaks of the highly pathogenic form of avian influenza have been caused by viruses of the H5 and H7 subtypes. Most virus strains of the H5 and H7 subtypes have the potential to become highly pathogenic. In addition to being highly contagious among poultry, avian influenza viruses are readily transmitted from farm to farm by the movement of live birds, people (especially when shoes and other clothing are contaminated), and contaminated vehicles, equipment, feed and cages. To date, all reported human infections of avian influenza have been traced to outbreak of H5N1 avian influenza in poultry, and there have not yet been any reported cases of transmission between humans.

Since the middle of 2003, more than ten Asian countries have reported outbreaks of highly pathogenic avian influenza, including Cambodia, China, India, Indonesia, Japan, the Republic of Korea, Laos, Malaysia, Mongolia, Thailand and Vietnam. In late July 2005, the virus spread beyond its original focus in Asia to affect poultry and wild birds in Russia and adjacent parts of Kazakhstan. In October 2005, the virus was reported in Croatia, Romania and Turkey, and Ukraine reported its first outbreak in domestic birds. Avian influenza continued to spread in 2006, and through April was reported to have reached, among other countries, Albania, Austria, Azerbaijan, Bosnia, the Czech Republic, Egypt, France, Germany, Greece, India, Italy, Nigeria, Poland, Serbia, Slovenia and the United Kingdom. Most of these more recent outbreaks were detected and reported quickly, and have generally been limited to wild and household poultry, though the infection of a turkey farm in France in February 2006 signalled that the disease may be spreading to commercial operations in Europe.

In Russia, as of August 2005, avian influenza in poultry caused by the H5N1 virus has been detected among individual farmers' flocks in the Altai Krai and the Omsk region and the Novosibirsk, Tyumen, Kurgan and Chelyabinsk regions. In February 2006, outbreaks of avian influenza were reported in Dagestan and Krasnodar, in the south of Russia including at poultry farms, and by March 2006 it was reported that more than one million poultry in Russia had died or been killed. In March 2006, outbreaks of avian influenza were reported in Adygeya, Chechnya, Kabardino-Balkariya, Kalmykiya, Northern Osetia (Alania) and in the Astrakhan, Chelyabinsk, Stavropol and Volgograd regions. In all the affected regions, the outbreaks occurred in the proximity of natural water bodies where wild migratory waterfowl nest. Poultry in the affected regions in Russia have been placed under quarantine by orders of the respective regional administrative bodies. In March 2006, the Russian government announced that it was launching a program to vaccinate all poultry in Dagestan, Krasnodar and Stavropol against avian influenza, which will reportedly be completed by July 2006.

In August 2005, Rosptitseyuz, a trade organization for poultry farmers in Russia, recommended the following precautionary measures in order to limit the risk of and damage from outbreaks of avian influenza in Russia:

- establish commissions in charge of ensuring compliance with the “closed facility” regime at each poultry farm;
- prohibit visits by outsiders to the production units of plants and their branches;
- suspend or cancel all travel by poultry farm employees to foreign countries and regions of Russia where avian flu has been recorded;
- strengthen controls at check-points for entry of people and transport to the production units;
- disinfect roads within the production unit territory;
- develop and implement measures for the disinfection of vehicles that carry raw materials and products outside the plant;
- organize decontamination centers and disinfection barriers;
- carefully and regularly examine the quality of raw materials used to produce fodder, particularly that which is produced in risk zones;
- prevent scattering of grain and feed materials and access of wild birds thereto;
- maintain an appropriate regime of bird feeding, watering and maintenance;
- coordinate with the veterinary services contracts for the supply of raw materials from other countries;
- avoid using equipment and spare parts from regions of Russia and countries affected by avian influenza;



- bar access to poultry farms of employees who keep poultry at their private farms;
- inform the public of the potential danger of contact with wild birds and to recommend maintaining poultry in fenced-off premises;
- consider providing individual farmers with 10-15 day old vaccinated breed-stock poultry;
- that individual farmers enter into veterinary service agreements with local state veterinary service;
- strengthen measures on the prevention of entry to the plants and production units and liquidation of wild birds;
- organize sample collections of blood serum of wild birds to monitor the presence of antibodies to the influenza virus;
- increase attention to the clinical condition of poultry;
- send samples of the blood serum of wild birds to laboratory facilities for further monitoring;
- purchase diagnostic equipment for further examination of blood serum for the presence of antibodies to the influenza virus;
- create a two-month reserve of disinfection remedies;
- prepare preventive measures for employees of the facilities within the risk zone to prepare for the possibility of avian flu outbreak; and
- sell products in disposable packaging.

Where applicable, we have sought to implement these measures by our facilities. See also “Risk Factors—Outbreaks of disease could adversely affect our business, financial condition and results of operations.”

Trademarks and Patents

We have registered certain trademarks associated with our products in Russia. In particular, we have registered the Cherkizovsky, Biruliovsky, Imperiya Vkusa, Pyat’ Zvezd, and Myasnaya Guberniya names for the products produced by our Moscow and Moscow region production units and Belmiaso and Penzensky and names for the products produced by our production units located in other Russian cities. In February 2006 we also entered into an agreement for the use of the Popurri brand. We have also registered certain of the trademarks that we use in our poultry and pork production operations, including the Petelinka, Vasilievka, Kurlyandia and Domashny Restoran names. We believe that registering these trademarks facilitates the marketing of our processed meat products throughout Russia and promotes brand recognition.

Research and Development

We regularly seek to improve operations at our facilities, principally by improving operating and production efficiency and developing new product formulations. Most of such efforts constitute incremental improvements to current activities. As part of our ordinary course of business we also seek to develop new product lines and packaging and distribution techniques in order to respond to changing consumer preferences. We do not believe that our research and development activities are material to our results of operations.

Insurance

As of December 31, 2005, we had partial insurance coverage for our major plant facilities of our meat processing segment totaling approximately 80% of the net book value of the segment’s property, plant and equipment as of that date. This insurance does not cover lost profits resulting from any interruption to our operations. We also carry insurance covering a part of the value of our poultry and pig stock, but we do not carry third party liability insurance in respect of environmental damage. See “Risk Factors—Risks Relating to our Business and Industry—Our insurance coverage may be inadequate, as a result of which the loss or destruction of our assets could have a material adverse effect on our financial condition and results of operations.”

The terms of our loan agreements with the EBRD and Raiffeisenbank require that we maintain insurance against loss, damage and liability with respect to five of our meat processing plants. The EBRD and Raiffeisenbank are joint loss payees under these policies and receive any payments thereunder before it may be



released to us as long as no event of default or potential event of default (as defined in the relevant loan agreements) has occurred and is continuing. Insurance proceeds in excess of specified amounts for each claim must be used for the replacement and/or repair of the facilities at the relevant facilities, and amounts paid annually in excess of certain annual thresholds may be used, at the sole discretion of the EBRD and Raiffeisenbank, towards either reconstructing facilities or the prepayment of the outstanding principal amounts under the loan agreements. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital resources” for a further discussion of these loan agreements.

Litigation and Investigations

We are not currently, and have not been involved in, any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware) that may have or have had in the twelve months before the date of this Prospectus, a significant effect on our or the Company’s financial position or profitability. As of the date of this Prospectus, we are not aware that any such proceedings are pending or threatened.

Employees

At December 31, 2005, 2004 and 2003, we employed 12,066, 14,720 and 14,675 persons, respectively. The reduction in the number of our employees in 2005 reflects our restructuring and the spin-off of non-core operations. The following table presents the numbers of employees and their primary operational functions as of the dates indicated.

	As of December 31,		
	2005	2004	2003
Meat Processing, of which	7,203	7,406	8,851
Production	5,002	5,554	8,052
Trading	2,201	1,852	799
Poultry	4,039	4,692	4,715
Pork	824	2,622	1,109
Total	12,066	14,720	14,675

In addition to paying what we believe to be regionally competitive salaries, we provide other benefits for our employees, including on-site medical and sports facilities. Labor unions are present at most of our plants, and provide certain social benefits for the employees. At most of our production facilities, the employees have entered into collective agreements with the employers, and nearly 80% of our employees were party to such agreements as of December 31, 2005. Most of the collective agreements are for periods of from one to three years.



RELATED PARTY TRANSACTIONS

The following sets forth our transactions with related parties for the years ended December 31, 2005, 2004 and 2003. For further details of these transactions, see note 30 to the Combined and Consolidated Financial Statements.

In the ordinary course of our business, we have engaged, and continue to engage, in transactions with members of the Control Group and parties under common control with Cherkizovsky Group Limited, our principal shareholder (see “Principal and Selling Shareholders”). We do not believe that these transactions, individually or in the aggregate, are material to our financial condition or results of operations. We expect to continue to enter into such transactions in the future.

As part of our corporate restructuring and the formation of the Company, we disposed of certain operations formerly conducted by us to our shareholders, and we have leased back certain items of property, plant and equipment formerly operated by these entities that are necessary for our continuing operations. In addition, in October 2005 we distributed to members of the Control Group our 74% interest in Rastovtsy, an agricultural production enterprise that is not involved in our core operations. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Disposal of non-core operations.”

Our transactions with related parties in the years ended December 31, 2005, 2004 and 2003 consisted principally of the following:

- Transactions with the Control Group, primarily debt financing to us and guarantees of our indebtedness to third parties provided to us by members of the Control Group.
- Transactions with entities disposed of to shareholders relate mostly of purchases of raw materials during the fourth quarter of 2005 from CJSC Penzamyasoprom and LLC RAO Penzenskaya Grain Company and sales of mixed fodder to CJSC Penzamyasoprom. We also purchased fixed assets from these entities in the course of our restructuring, and have entered into lease agreements for the use of certain items of property, plant and equipment owned by these companies that are necessary to our continuing operations. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Disposal of non-core operations” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Contractual obligations and commercial commitments” for a discussion of these leases.
- Transactions with other related parties primarily relate to purchases of information technology and security services from entities under common control with Cherkizovsky Group Ltd., our principal shareholder.

We seek to conduct all transactions with members of the Control Group and other related parties on market terms or terms no less favorable and in accordance with relevant legislation. However, there can be no assurance that any or all of these transactions have been or will be conducted on market terms, or that we will be able to enter into such transactions on comparable terms or at all, in the future. See “Risk Factors—Risks Relating to Our Business and Industry—A challenge by minority shareholders to our past or future approval of transactions among our subsidiaries that require special approval in accordance with Russian legislation could adversely affect our results of operations” for a discussion of applicable Russian requirements. See also “Risk Factors—Risks Relating to Our Business and Industry—Our controlling beneficial shareholders have the ability to exert significant influence over us, and their interests may conflict with those of other holders of our shares and GDRs.”



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

	<u>Entities disposed of to shareholders</u>	<u>Control group</u>	<u>Other related parties</u>	<u>Total</u>
	(thousands of U.S. dollars)			
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 ⁽¹⁾	428	66	—	494
Other payables	1,894	—	84	1,978
Current portion of long-term loans payable ⁽¹⁾	—	752	—	752
Long-term notes payable	—	3,559	—	3,559
Long-term loans payable ⁽¹⁾	122	1,663	—	1,785
Long-term payables to shareholders related to lease agreements ⁽²⁾	—	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

Notes:

- (1) These loans bear interest at below-market rates.
- (2) See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Restructuring and Formation of the Company” for a discussion of these transactions.

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

	<u>Entities disposed of to shareholders</u>	<u>Control Group</u>	<u>Other related parties</u>	<u>Total</u>
	(thousands of U.S. dollars)			
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 ⁽¹⁾	—	338	—	338
Other payables	—	34	—	34
Current portion of long-term loans payable ⁽¹⁾	—	121	20	141
Long-term notes payable	—	3,692	—	3,692
Long-term loans payable ⁽¹⁾	—	2,862	—	2,862
Activities				
Sales	—	—	5	5
Rent income from related party	—	—	4	4
Purchase of IT Services	—	—	4,662	4,662
Purchases of security services	—	—	44	44

Note:

- (1) These loans bear interest at below-market rates.



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

	<u>Entities disposed of to shareholders</u>	<u>Other related parties</u>	<u>Control Group</u>	<u>Total</u>
	(thousands of U.S. dollars)			
Balances				
Trade receivables	—	—	358	358
Long-term loans receivable	—	186	—	186
Trade payables	—	—	79	79
Short-term loans ⁽¹⁾	—	802	—	802
Current portion of long-term loans payable ⁽¹⁾	—	105	19	124
Long-term notes payable	—	3,788	—	3,788
Long-term loans payable ⁽¹⁾	—	2,795	—	2,795
Activities				
Sales	—	—	11	11
Purchases of IT Services	—	—	476	476
Purchases of security services	—	—	330	330
Other Purchases	—	—	10	10

Notes:

(1) These loans bear interest at below-market rates.



DIRECTORS AND MANAGEMENT

Board of Directors

The current members of the Company's Board of Directors are as follows:

<u>Name</u>	<u>Position⁽¹⁾</u>	<u>Year of Birth</u>
Igor E. Babaev	Chairman of the Board of Directors	1949
Sergei I. Mikhailov	Chief Executive Officer; Director	1978
Yuri N. Dyachuk	Director; Head of Legal Department	1967
Esben Juhl	Director	1955
Samuel B. Lipman	Director	1947
Musheg L. Mamikonian	Director	1959
Evgeny I. Mikhailov	Director; Chairman of the Board of Directors, AIC Mikhailovsky	1982

Note:

(1) The term of each of our directors expires upon re-election of the Board of Directors held at the next annual meeting of shareholders.

Igor E. Babaev is Chairman of the Board of Directors. Since 1998, Mr. Babaev has served as Chief Executive Officer of AIC Cherkizovsky and AIC Mikhailovsky. Mr. Babaev also serves as a member of the Board of Directors of CJSC AIC Ptitseprod ("Ptitseprod"). Mr. Babaev joined CMPP in 1988 as chief engineer, and became President and Member of the Board of Directors of CMPP in 2000. Prior to joining CMPP, Mr. Babaev served as engineer and senior engineer at Essentuki Canning Plant. He also served as Head of the Production Division of Nalchik Meat Processing Plant, engineer-in-chief of Stavropol Meat Canning Plant, chief engineer-technologist of Simferopol Poultry Processing Plant and engineer-in-chief of NPO Komplex of the Gosagroprom of the USSR. He graduated from Krasnodar Polytechnic Institute in 1971 and received a Ph.D. degree from Moscow Technological Institute of Meat and Milk Processing Industry in 1980. Mr. Babaev holds an honorary distinction of the "Honored Worker of the Food Industry of the Russian Federation." He has been an acting member of Russian Engineering Academy since 1994.

Sergei I. Mikhailov is a member of the Board of Directors and Chief Executive Officer. Mr. Mikhailov also serves as President and a member of the Board of Directors of Cherkizovsky Group Ltd., the Selling Shareholder, and a member of the Board of Directors of Ptitseprod. He has served as Deputy President and Chief Operating Officer of CMPP since 2000. In 2004, Mr. Mikhailov joined AIC Cherkizovsky as Deputy President of the Marketing and Sales Department. In 2004, he was appointed General Director of Cherkizovsky Trade House. From 1998 to 2001, he served as a director and founder of the telecommunications company aTelo, Inc., in the United States. In 1998, he worked as a financial analyst at Goldman Sachs and in 1999 was a financial analyst at Morgan Stanley. He received a B.S. degree in Finance from Georgetown University (Washington, D.C.) in 2000.

Yury N. Dyachuk is a member of our Board of Directors. He has served as Head of our Legal Department since 2006. Mr. Dyachuk has been practicing law for 11 years and served as Head of Legal sub-divisions within our Group for ten years. In 2005, he served as our senior counsel and was in charge of the restructuring of the Cherkizovo Group, having previously served as Head of the Legal Department of AIC Cherkizovsky since 2001 and Head of the Legal Department of CMPP from 1996 to 2000 and a member of the legal department at CMPP from 1995 to 1996. Mr. Dyachuk graduated from the Moscow State Law Academy with a specialization in Civil Law in 1995.

Esben Juhl is a member of the Board of Directors. From May 2000 until present, Mr. Juhl has been Managing Director of AIB Consult, a Danish agricultural consulting company. From 1990 to 2000, Mr. Juhl served as Director with Globe Meat Technology, Ltd., Denmark. From 1988 to 1990, he served as projects director with Gerekem International Ltd. He graduated from the agricultural department of Bygholm University in Copenhagen, Denmark in 1978.

Samuel B. Lipman has been a member of the Board of Directors since April 2006. Mr. Lipman also currently serves as President of The Lipman Company founded by him in 1997, which provides consulting services in relation to the broiler industry management. Mr. Lipman served as Chief Executive Officer of Limited Liability Company Broiler Buduschego, a Russian subsidiary of U.S. enterprise Stromyn Breeders, Ltd., from 2004 to 2006. From 2003 to 2006, Mr. Lipman served as President of Stromyn Breeders, LLC. Mr. Lipman founded and was President and Chief Executive Officer of Golden Rooster LLC in Lipetsk, Russia, from 1996 to 2000. Mr. Lipman graduated from Colby College with a Bachelor of Arts degree in English in 1972.



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

Evgeny I. Mikhailov is a member of the Board of Directors. Mr. Mikhailov also serves as Vice-President and a member of the Board of Directors of Cherkizovsky Group Ltd., the Selling Shareholder, and a member of the Board of Directors of Ptitseprod. He has also served as Chairman of the Board of Directors of OJSC AIC Mikhailovsky since 2004. He joined OJSC AIC Mikhailovsky as Deputy General Director in 2004. In 2002, he worked as a financial analyst at Morgan Stanley and in 2001, served as an assistant to the Vice-President at aTelo, Inc. in Washington, D.C. He received a B.S. degree in Economics from the University of California, Los Angeles, in 2004.

The business address for the Board of Directors is Ul. Permskaya, 5, 107143 Moscow, Russian Federation.

Senior Management

The current members of our senior management are as follows:

<u>Name</u>	<u>Position</u>	<u>Year of Birth</u>
Sergei I. Mikhailov	Chief Executive Officer ⁽¹⁾ ; Member of the Board of Directors	1978
Ludmila I. Mikhailova	Chief Financial Officer	1976
Dmitry S. Pankratov	Chief Operating Officer	1967
Naum A. Babaev	Head of Strategy and Business Development	1977

Note:

(1) Mr. Mikhailov’s term as Chief Executive Officer expires on September 6, 2006, unless terminated early by an extraordinary meeting of shareholders.

Sergei I. Mikhailov’s biography is provided above under “Board of Directors.”

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

Dmitry S. Pankratov has served as our Chief Operating Officer since February 2006. From 1993 to 2006, he served as Commercial Director and Deputy Chief Executive Officer in charge of marketing, sales and logistics, at LLC Meat Processing Plant CampoMos. From 1992 to 1993, Mr. Pankratov was Director of Limited Liability Company Industrial-Commercial Enterprise Stadivas, and in 1991, he served as an economist at Rospchelovodsoyuz. He graduated from the Faculty of Economics of the K.A. Timiryazev Moscow Agricultural Academy in 1991, and in 2004 he received an Executive Master of Business Administration degree from Antwerp University Business School.

Naum A. Babaev is our Head of the Strategy and Business Development. Mr. Babaev has been a member of the Board of Directors of AIC Mikhailovsky since 2002. Since 2002, Mr. Babaev has been a member of the Board of Directors of OJSC Luninsky Elevator, and since 2000 he has been First Deputy Chief Executive Officer of CJSC Krasnopolyanskaya Poultry Factory. Since 2000, he has served as First Deputy Chief Executive Officer of AIC Mikhailovsky. In 2002, Mr. Babaev assisted in the establishment of the European Poultry Club (the



“EPC”), an international organization founded by leaders in poultry farming from more than ten countries, and has served as an elected Member and Vice-President of the Board of the EPC. From 1996 to 2000, Mr. Babaev served as a financial analyst at CMPP. Mr. Babaev graduated from the Financial Academy of the Government of the Russian Federation in 1999.

The business address for our senior management is Ul. Permskaya, 5, 107143 Moscow, Russian Federation.

Remuneration of Directors and Management

The aggregate amount of remuneration (including salary and bonuses) paid by us to the members of our Board of Directors and senior management as a group for services in all capacities provided to us during the year ended December 31, 2005 was approximately U.S.\$1.04 million and U.S.\$273,000 (in the case of our senior management excluding Mr. Sergei Mikhailov, who is also a member of our Board of Directors), respectively. In addition, compensation received by Lidia Mikhailova, who resigned from her position as a member of our Board of Directors on April 14, 2006, for services provided to us during the year ended December 31, 2005 amounted to U.S.\$656,000. Employment contracts with our directors do not provide for special benefits upon termination of employment, and we do not provide any pension or retirement benefits to our directors or senior management.

Stock Bonus and Option Plans

We intend to establish equity incentive plan for our officers, directors and key employees. When we establish this plan, we intend to set aside our shares in an amount not exceeding 2.5% of our outstanding shares following the completion of the Offering.

Interests of Directors and Management

Certain members of our Board of Directors are beneficial owners of our shares. See “Principal and Selling Shareholders.” As of the date of this Prospectus, none of our directors or executive officers has any options with respect to our shares.

The Chairman of our Board of Directors, Mr. Igor Babaev, is the father of Mr. Sergei Mikhailov, who is our Chief Executive Officer and a member of our Board of Directors, and Mr. Evgeny Mikhailov, who is also a member of our Board of Directors. Messrs. Igor Babaev, Sergei Mikhailov and Evgeny Mikhailov are also closely related to Ms. Ludmila Mikhailova, our Chief Financial Officer, and Mr. Naum Babaev, our Head of our Strategy and Business Development.

Certain of the members of our Board of Directors and senior management serve as directors and executive officers of companies that are affiliated with us, including in particular the companies that we distributed to shareholders in the course of our restructuring. In the ordinary course of our business we engage in transactions with some of these affiliates including purchases of raw materials such as wheat and sales of pig feed, and we have also leased certain items of property, plant and equipment from these companies. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Restructuring and Formation of the Company” for a discussion of our restructuring and these transactions. In addition, as part of our restructuring and the formation of the Company as our holding company we discontinued certain operations that were formerly conducted by us and distributed the corresponding entities to shareholders. We then entered into lease agreements for certain items of property, plant and equipment that are necessary for our continuing operations. These affiliates and certain of our directors and senior management have also provided loans and guarantees of certain of our third-party debts. See “Related Party Transactions.”

As a result of the foregoing, potential conflicts of interest between these directors’ and officers’ duties to us and their private interests or other duties could arise. Under Russian legislation, certain transactions defined as “interested party transactions” require approval by our disinterested directors or shareholders. See “Description of Share Capital and Certain Requirements of Russian Legislation—Interested Party Transactions.” As of the date of this Prospectus, there were no outstanding loans granted by us to our directors and executive officers and no guarantees provided for their benefit. Prior to the creation of the Company, Mr. Musheg L. Mamikonian, who is a member of our Board of Directors, was at times considered to be a member of the Control Group. Mr. Mamikonian does not currently have any ownership interest in the Company.



Corporate Governance

Our shares have been listed on the MSE and RTS since April 5, 2006 and April 10, 2006, respectively, and, as a result, we are required to comply with a number of corporate governance requirements within one year from the listing date. Such requirements, *inter alia*, include the: (1) obligation to have at least one independent director, (2) formation of an audit committee within the Board of Directors, (3) adoption of a bylaw on insider trading and (4) implementation of internal control procedures. We expect to be in full compliance with these requirements by April 2007.

In April 2006, we formed an Audit Committee, which is headed by Esben Juhl and also includes Samuel B. Lipman and Musheg L. Mamikonian. The purpose of this committee is to assist our Board of Directors with its oversight responsibilities regarding the quality and integrity of our financial statements, our compliance with legal and regulatory requirements, the qualifications and independence of the independent auditors and the performance of our internal audit function and independent auditor. In addition to our Audit Committee, we maintain a revision commission in accordance with the requirements of the Joint Stock Companies Law. See “Description of Capital Stock and Certain Requirements of Russian Legislation.”

Litigation Statement about Directors and Officers

At the date of this prospectus, none of our directors or executive officers for at least the previous five years:

- has any convictions in relation to fraudulent offenses; nor
- has held an executive function in the form of a senior manager or a member of the administrative, management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; nor
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.



PRINCIPAL AND SELLING SHAREHOLDERS

The table below sets forth certain information regarding the ownership of the Shares by our principal shareholders, Board of Directors and senior management (i) as of the date of this Prospectus and (ii) after the completion of the Offering, as adjusted to give effect to the sale of the Shares in the Offering and the subscription for and issuance to the selling shareholder of the New Shares. Information as to beneficial interests has been provided to the Company by Cherkizovsky Group Limited, CJSC AIC Ptitseprod and OJSC AIC Mikhailovsky and their respective shareholders. All information given in this section for share ownership after the Offering assumes that the Over-allotment Option is exercised in full.

Shareholder	Before the Offering		After the Offering	
	Number of Shares	Percentage of Share Capital	Number of Shares	Percentage of Share Capital
Cherkizovsky Group Limited ⁽¹⁾	271,116	82.60%	213,679	54.01%
Renaissance Securities (Cyprus) Limited ⁽²⁾	28,884	8.80%	28,884	7.30%
CJSC AIC Ptitseprod ⁽³⁾	9,367	2.86%	9,367	2.37%
Igor E. Babaev ⁽⁴⁾	5,548	1.69%	5,548	1.40%
OJSC AIC Mikhailovsky ⁽⁵⁾	5,222	1.59%	5,222	1.32%
Pacific Agro Ltd. Corp.	2,618	0.80%	2,618	0.66%
Morgan Stanley Bank AG	2,298	0.70%	2,298	0.58%
Sergei I. Mikhailov ⁽⁴⁾⁽⁶⁾	1,781	0.54%	1,781	0.45%
Lidia I. Mikhailova	919	0.28%	919	0.23%
Evgeny I. Mikhailov ⁽⁴⁾	403	0.12%	403	0.10%
Other ⁽⁷⁾	60	0.02%	10,049	2.54%
ING Bank (Eurasia) ZAO ⁽⁸⁾	—	—	114,875	29.04%
Total	328,216	100.00%	395,643	100.00%

Notes:

- (1) Each of Mr. Igor Babaev, the Chairman of our Board of Directors, Mr. Sergei Mikhailov, our Chief Executive Officer and a member of our Board of Directors, Mr. Evgeny Mikhailov, a member of our Board of Directors, and Ms. Lidia Mikhailova has a 25% beneficial interest in Cherkizovsky Group Limited.
- (2) Shares are held pursuant to share repurchase transactions between Cherkizovsky Group Limited and Renaissance Securities (Cyprus) Limited, one of the Underwriters in the Offering. On March 30, 2006, Cherkizovsky Group Limited entered into a global master repurchase agreement in the form of The Bond Market Association/International Securities Market Association Global Master Repurchase Agreement (2000 Version) with Renaissance Securities (Cyprus) Limited and Morgan Stanley & Co. International Limited. On May 5, 2006, the shares held by Morgan Stanley & Co. International Limited were transferred to Renaissance Securities (Cyprus) Limited. Under the terms of the transactions, unless this agreement is terminated early at the option of Renaissance Securities (Cyprus) Limited, Cherkizovsky Group Limited will repurchase the shares on the earlier of (a) June 30, 2006 and (b) the 40th day following completion of the Offering.
- (3) Mr. Sergei Mikhailov beneficially owns 33.34% of Ptitseprod, and each of Mr. Evgeny Mikhailov and Ms. Lidia Mikhailova beneficially owns 33.33%.
- (4) Member of our Board of Directors.
- (5) Mr. Evgeny Mikhailov beneficially owns 33.34% of OJSC AIC Mikhailovsky, and each of Mr. Sergei Mikhailov and Ms. Lidia Mikhailova beneficially owns 33.33%.
- (6) Member of our Senior Management.
- (7) Amounts after the Offering include Shares sold in the form of Shares.
- (8) As custodian for the depositary, JPMorgan Chase Bank, N.A.

The total beneficial ownership of the Company by members of the Control Group, consisting of Mr. Igor Babaev, Mr. Sergei Mikhailov, Mr. Evgeny Mikhailov and Ms. Lidia Mikhailova, is 89.68% prior to the Offering, and will be 59.88% after the Offering. The total ownership interest of Mr. Babaev, consisting of a 25% interest in Cherkizovsky Group Limited and the shares he holds directly, represents a 22.34% beneficial interest in the Company prior to the Offering and a 14.90% beneficial interest in the Company after the Offering; the total ownership interest of Mr. Sergei Mikhailov, consisting of a 25% interest in Cherkizovsky Group Limited, a 33.34% interest in Ptitseprod, a 33.33% interest in OJSC AIC Mikhailovsky and the shares he holds directly, represents a 22.68% beneficial interest in the Company prior to the Offering and will represent a 15.18% beneficial interest in the Company after the Offering; the total ownership interest of Mr. Evgeny Mikhailov, consisting of a 25% interest in Cherkizovsky Group Limited, a 33.33% interest in Ptitseprod, a 33.34% interest in OJSC AIC Mikhailovsky and the shares he holds directly, represents a 22.26% beneficial interest in the Company prior to the Offering and will represent a 14.83% beneficial interest in the Company after the Offering; and the total ownership interest of Ms. Lidia Mikhailova, consisting of a 25% interest in Cherkizovsky Group



Limited, a 33.33% interest in Ptitseprod, a 33.33% interest in OJSC AIC Mikhailovsky and and the shares she holds directly, represents a 22.40% beneficial interest in the Company prior to the Offering and will represent a 14.96% beneficial interest in the Company after the Offering. The interests in Cherkizovsky Group Limited of its shareholders are held directly.

None of our shareholders has voting rights different from any other holders of our shares. We are not aware of any arrangements that may result in a change of control of the Company. Cherkizovsky Group Limited, and its beneficial owners, may be able to exert a significant influence on us. See “Risk Factors—Risks Relating to Our Business and Industry—Our controlling beneficial shareholders have the ability to exert significant influence over us, and their interests may conflict with those of other holders of our shares and GDRs.” See also “Description of Capital Stock and Certain Requirements of Russian Legislation—Interested Party Transactions” for a discussion of certain limitations on transactions with our shareholders.

Except as indicated, all of our shareholders acquired their interests during our corporate restructuring in 2005. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Restructuring and Formation of the Company.”



CERTAIN REGULATORY MATTERS

Principal Regulatory Authorities

The principal authorities with regulatory oversight over our business include the Ministry of Agriculture and the Ministry of Health Protection and Social Development (the “Ministry of Health”). The Ministry of Agriculture is responsible for developing policies as well as adopting rules in relation to the food production and processing industry. The Federal Veterinary Service, which is under the supervision of the Ministry of Agriculture, regulates the use of fertilizers, agricultural chemicals and pesticides, quarantine and plant protection and also controls the quality and safety of food production as well as the veterinary and sanitary conditions for food production and food products.

The Ministry of Health generally regulates and supervises the quality and safety of food products in the Russian Federation. The Federal Service for Protection of Consumers’ Rights and Well-Being, which is under the supervision of the Ministry of Health, is responsible for monitoring compliance with health legislation, rules on hygiene and protection of consumers’ rights. In addition, the Federal Agency for Standardization and Metrology establishes obligatory and quality standards for food production and food products.

In addition to these authorities, our business and operations are also regulated by the Ministry of Economic Development and Trade, which is responsible for the development of policies and regulation of, among other matters, the export and import of agricultural products, as well as other federal executive bodies and agencies having general authority over matters such as taxation, insurance and financial recovery.

Applicable Food and Health Legislation

The Russian Federation has enacted specific legislation regulating the quality and safety of food products and operation of enterprises that are engaged in production and distribution of food products. The key legislation is as follows:

- Federal Law No. 29-FZ, dated January 2, 2000 “On the Quality and Safety of Food Products” establishes the general framework for production and distribution of food, such as certification and registration of new food products, quality assurance, safety and sanitary requirements, as well as the requirements for packaging, storage and transportation.
- Federal Law No. 52-FZ, dated March 30, 1999 “On Sanitary and Epidemiological Well-Being of the Population” requires food products and food production technologies to meet certain sanitary and health requirements and to have no harmful effects. Pursuant to this law, products that do not conform to sanitary rules and represent danger to consumers must be withdrawn immediately from production or sale.
- Federal Law No. 2300-I, dated February 7, 1992 “On the Protection of Consumers’ Rights” sets out basic principles of sales of goods (including food products) to consumers and protection of their rights.
- Government Regulation No. 988, dated December 21, 2000 “On the State Registration of the New Food Products, Materials and Goods,” commencing January 2004, requires food manufacturers intending to develop and offer new food products to file an application for the registration of such products in an official state register. The regulation makes it illegal to manufacture, import or circulate products that are subject to such registration but have not been so registered.
- Government Regulation No. 883, dated November 22, 2000 “On State Supervision and Monitoring of Quality and Safety of Food Products and Human Health” establishes the system for monitoring the quality and safety of food products.
- Government Regulation No. 1013, dated August 13, 1997 “On the Adoption of the List of Products Works and Services subject to Mandatory Certification requires the certification of meat and meat products, including poultry and pork. Failure to mark a product with a conformity symbol carries possible civil and criminal sanctions.
- Order of the Federal Service for Protection of Consumers’ Rights and Well-Being No. 776, dated November 21, 2005 “On the Sanitary-Epidemiological Expertise of Types of Activity (Works, Services), Products, Project Documentation” establishes procedures for sanitary and epidemiological evaluation of products. In accordance with this order, sanitary and epidemiological assessment are made of samples of each product. Products that have not undergone such evaluation may not be produced, shipped, used, sold or certified.



A number of other regulations also apply to food products. For example, special sanitary requirements for the storage, production, labeling, transportation and sale of food products are established by state standards, sanitary rules and norms, hygienic norms and other documents and manuals.

In addition, depending on the location, certain local laws and regulations may set additional requirements for enterprises that are engaged in food production and distribution. For example, in Moscow, the Law of the City of Moscow No. 13, dated May 24, 2000 "On the Quality and Safety of Food Products" establishes a system of supervisory bodies and rules of certification and quality and safety control of food products sold in Moscow.

Certification of Meat Products

Product certification is a procedure whereby an agency authorized by the government confirms that a product complies with certain standards and requirements. Meat products, including poultry and pork, are subject to mandatory certification. Conformity symbols evidencing that the manufacturer has undergone certification procedures should be printed on a product's packaging. Failure to mark a product with a conformity symbol carries possible civil and criminal sanctions.

Packaging and Labeling Requirements

Manufacturers and suppliers of all types of packaging materials used in the meat production, including poultry and pork, must provide certificates of conformity and hygiene certificates for packaging materials, as well as certain technical documentation. This technical documentation must contain information showing that the packaging materials are made from components authorized for contact with the food products and that such packaging materials meet quality and safety standards.

The packaging of finished products must include information such as the name of the product, its certification, instructions for use, net mass, volume, quantity of the product, ingredients, nutritional value, storage conditions, shelf life and the name and address of the manufacturer.

Production Safety and Transportation

Our facilities are subject to various regulations and requirements concerning workplace health and safety. These requirements address, among other things, the working conditions in our facilities (including hygiene) as well as the safety of the production process. Meat products, including poultry and pork must be transported in specially equipped vehicles for which sanitary registration documents are required.

State Support for Agriculture

Foreign Trade

The export of food products from the Russian Federation is primarily regulated by the Federal Law No. 164-FZ dated December 8, 2003 "On Fundamental Principles of Regulation of Foreign Trade Activity." Under this law the import and export of goods generally are not subject to quantitative restrictions. The Government in certain cases has the right to impose temporary restrictions or bans on the export of goods to alleviate shortages in the domestic market for food and other necessary products. Import and export duties can be imposed for purposes of regulating foreign trade, including protecting the domestic market and stimulating structural changes in the economy.

The export of agricultural products from the Russian Federation is also subject to certain international treaties of the Russian Federation. There are a number of general trade and special treaties with Cuba, the United States, Canada, the European Union and countries of the Commonwealth of Independent States.

Imports of meat products, including poultry and pork into the Russian Federation are subject to import duties levied by the customs authorities in accordance with the Russian Customs Code. Federal Law No. 5003-I, dated May 21, 1993 "On Customs Tariffs" establishes the general framework for the introduction and application of customs duties; the Government determines the rates of customs duties in respect of specific goods, including poultry, pork and other meat products. Government Regulation No. 830, dated November 30, 2001 "On Customs Tariff of the Russian Federation and Classification of Goods Applicable to Foreign Economic Activities" establishes the system for customs tariffs and specifies the rates of duties on goods imported to Russia.



Food products that are considered dangerous may be temporarily restricted or completely prohibited from import into the Russian Federation pursuant to a decision of a Federal Service for Protection of Consumers' Rights and Well-Being.

The Russian Government has also adopted policies to support livestock agricultural producers by placing restrictions on imports of low cost meat, poultry and pork from European Union countries, the United States and other non-CIS countries.

On December 5, 2005, the Government adopted Regulation No. 732 "On the Import of Beef, Pork and Poultry in 2006-2009" (the "Regulation No. 732") that established quotas on beef, pork and poultry imports for 2006 through 2009. Annual import quotas are set on a pro-rata basis and are allocated by the Ministry for Economic Development and Trade. Import licenses are generally allocated for a period of one year on the basis of historical imports, and may be exercised at the licensee's discretion. In addition, Regulation No. 732 establishes the minimum and maximum tariff rates for the import of beef, poultry and pork. Imports in excess of the import quotas are subject to increased tariff rates.

The following table indicates the volumes of approved import quotas under Regulation No. 732 that are effective from January 1, 2006.

	For the year ended December 31,			
	2006	2007	2008	2009
	(thousand tonnes)			
Product				
Fresh or Chilled Beef, <i>of which</i>	27.8	28.3	28.9	29.5
European Union	27.3	27.8	28.4	29.0
Other	0.5	0.5	0.5	0.5
Frozen Beef, <i>of which</i>	435.0	440.0	445.0	450.0
European Union	343.7	347.6	351.6	355.5
United States	17.9	18.1	18.3	18.5
Paraguay	3.0	3.0	3.0	3.0
Other	70.4	71.3	72.1	73.0
Pork, <i>of which</i>	476.1	484.8	493.5	502.2
European Union	240.5	244.9	249.3	253.4
United States	54.8	49.0	49.8	50.7
Paraguay	1.0	1.0	1.0	1.0
Other	179.8	189.9	193.4	197.1
Poultry, <i>of which</i>	1130.8	1171.2	1211.6	1252.0
European Union	220.6	228.6	236.4	244.4
United States	841.3	871.4	901.4	931.5
Paraguay	5.0	5.0	5.0	5.0
Other	63.9	66.2	68.8	71.1

On April 27, 2006, the Russian government cancelled existing poultry import licenses on veterinary grounds, halting imports of poultry products into Russia until the licenses are reissued.



Prior to the enactment of Regulation No. 732, the volumes of approved import quotas were allocated as follows.

Product	For the year ended December 31,		
	2003	2004	2005
	(thousand tonnes)		
Fresh or Chilled Beef, of which	11.5	27.5	27.5
European Union ⁽¹⁾	—	27.0	27.0
Other states	—	0.5	0.5
Frozen Beef, of which	315.0	420.0	430.0
European Union ⁽¹⁾	—	331.8	339.7
United States	—	17.2	17.7
Paraguay	—	3.0	3.0
Other states	—	68.0	69.6
Pork, of which	337.5	450.0	467.4
European Union ⁽¹⁾	—	227.3	236.0
United States	—	42.2	53.8
Paraguay	—	1.0	1
Other states	—	179.5	176.6
Poultry,⁽²⁾ of which	744.0	1050.0	1090.0
European Union ⁽¹⁾	139.9	205.0	205.0
United States	553.5	771.9	811.9
Brazil	33.3	—	—
China	3.1	—	—
Paraguay	—	5	5
Other	14.2	68.1	68.1

Notes:

- (1) Includes Hungary, Cyprus, Lithuania, Latvia, Malta, Poland, Slovakia, Slovenia, Czech Republic and Estonia for 2004.
- (2) Effective from April 2003.

State Support Programs

The Government has adopted agricultural policies with the stated objective of stimulating production growth, primarily through the provision of financial assistance to the sector.

In addition to the import quotas described above, the Government has established subsidized lending programs for agricultural production enterprises, which provide for the compensation by either federal or regional authorities of the interest expenses incurred by eligible borrowers. In particular, starting from 2001, federal authorities of the Russian Federation may reimburse agricultural enterprises for interest payable under loans in the amount of up to two-thirds of the official CBR refinancing rate. Regional authorities may also reimburse borrowers in an amount of up to one-third of the official CBR refinancing rate. The CBR's refinancing rate has declined from 18% in the beginning of 2003 to 12% at the end of 2005. In order for a borrower to receive compensation from the relevant budget, the loan must be granted for the purchase of modernization, reconstruction or building of stock or similar purposes. The borrower must also be in good financial condition and have a good credit history, as determined by the relevant authority providing compensation.

Agricultural enterprises also benefit from decreased profit tax rates. According to legislation that took effect on April 17, 2006 and applies retroactively to January 1, 2006, the profit tax rates for agricultural enterprises (the general profit tax rate is 24%) are:

<u>Years</u>	<u>Profit tax rate</u>
2004 – 2007	0%
2008 – 2009	6%
2010 – 2011	12%
2012 – 2014	18%
From 2015	24%

Under prior legislation, the 0% rate also applied from 2003 through 2005.



The Russian Government has also established a special financial rehabilitation program in accordance with Federal Law No. 83-FZ “On Financial Rehabilitation of Agricultural Entities” dated July 9, 2002 to recover loans previously extended from the Russian federal budget and extra-budgetary funds to agricultural entities incapable of servicing their debt obligations in a timely manner. The law establishes the procedures for restructuring an agricultural entity’s debts to the Russian Federation, regional governments, state non-budgetary funds, local authorities, as well as other lenders. The law allows such entities to write-off penalty amounts and fines, suspend debt repayments for at least five years or installment payments over at least four years and establishes procedures for writing-off the principal and interest on such debt.

Government authorities may also provide direct subsidies to enterprises that engage in certain production activities. These subsidies are generally established by regional administrations to encourage specific types of activity in the particular region. For example, in December 2004, the Lipetsk regional legislature adopted a program to support agricultural programs in the Lipetsk region from 2005 through 2007. The program provides for direct subsidies from the Lipetsk regional budget of up to RR2.7 billion (U.S.\$93.8 million) from 2005 to 2007. The subsidies are to be allocated on the basis of tenders, and may be provided in the form of co-financing for purposes of construction and modernization of pig farms, subsidies for each kilogram of live weight of pork produced or subsidies for the acquisition of breed-stock of young pigs. In March 2005, we entered into a cooperation agreement with the Administration of the Lipetsk region in connection with our Lipetskmyasoprom project, pursuant to which we receive subsidies from the regional administration.



DESCRIPTION OF CAPITAL STOCK AND CERTAIN REQUIREMENTS OF RUSSIAN LEGISLATION

We describe below our common registered stock, the material provisions of our charter in effect on the date of this Prospectus and certain requirements of Russian legislation.

Our Purpose

Article 2 of our charter provides that our primary purpose is to earn profit by conducting entrepreneurial activity.

Description of Share Capital

General

Pursuant to our charter, we have the right to issue registered common shares, preferred shares and other securities provided for by the legislation of the Russian Federation with respect to securities.

Under Russian legislation, charter capital refers to the aggregate nominal value of the issued and outstanding shares. Before the offering, our capital stock consists of 328,216 issued, fully paid and outstanding common shares, each with a nominal value of 1 ruble, which totals RR 328,216 of charter capital. The issuance of our shares was registered by the FSFM on October 17, 2005. In addition, the Company is authorized to issue an additional 218,810 shares of common stock, including the New Shares that are to be issued in the Offering. When issued, the New Shares will be identical to, and fully fungible with, our currently issued and outstanding shares. The Company is authorized to issue preferred shares not exceeding 25% of its capital stock. Preferred shares may only be issued pursuant to a resolution of the general meeting of shareholders.

We are an open joint stock company with fewer than 1,000 holders of voting shares for the purposes of certain provisions of the Federal Law on Joint Stock Companies described below. We expect that we will continue to have fewer than 1,000 holders of voting shares for the purposes of these provisions immediately following the Offering, as the Depositary will be considered under Russian law as the holder of all of the shares represented by the GDRs.

Rights Attaching to Shares

Pursuant to our charter, we have the right to issue registered common shares, preferred shares, and other securities provided for by legal acts of the Russian Federation with respect to securities. Preferred shares may be issued only after a corresponding resolution of the general meeting of shareholders.

We have issued only common shares. Holders of our common shares have the right to vote at all our general meetings of shareholders. As required by the Law on Joint Stock Companies and our charter, all of our common shares have the same par value and thus grant to the shareholders who own them identical rights. Each fully paid common share, except for treasury shares, gives its holder the right to:

- freely transfer the shares without consent of other shareholders;
- receive dividends;
- participate in shareholders' meetings and vote on all matters of shareholder authority;
- transfer voting rights to its representative on the basis of a power of attorney;
- elect candidates to the board of directors and the revision commission;
- if holding, alone or with other holders, over 2% of the outstanding common shares, within 30 days after the end of our fiscal year, make proposals for the annual shareholders' meeting and propose candidates to the board of directors and the revision commission;
- if holding, alone or with other holders, over 10% of the outstanding common shares, demand from the board of directors the calling of an extraordinary shareholders' meeting or an unscheduled audit by the revision commission or an independent auditor;
- demand, under the circumstances enumerated below, repurchase by us of all or some of the shares owned by them at their fair market value, as long as the shareholder voted against or abstained from voting on the decision approving an action with respect to:
 - reorganization;



- conclusion of a major transaction; or
- amendment of our charter that restricts the shareholder's rights.
- upon liquidation, receive a proportionate amount of our property after our obligations are fulfilled;
- have free access to company documents and receive copies for a reasonable fee and, if holding alone or with other shareholders over 25% of the outstanding common shares, have free access to our accounting documents; and
- exercise other rights of a shareholder provided for in our charter and under Russian legislation.

Preemptive Rights

Our charter grants to our existing shareholders a preemptive right to purchase shares or convertible securities issued pursuant to an open subscription in an amount proportionate to their existing shareholding. In addition, the Federal Law On Joint Stock Companies provides shareholders with a preemptive right to purchase shares or convertible securities issued under a closed subscription if the shareholders voted against or did not participate in the voting on the decision approving such subscription. The preemptive right does not apply to a closed subscription to existing shareholders, provided that each such shareholder may acquire a whole number of shares or convertible securities being placed in an amount proportionate to their existing holdings of such securities.

Share Acquisition above Certain Thresholds and Anti-Takeover Protection

The Federal Law on Joint Stock Companies provides that any person that intends to purchase (either alone or together with its affiliates) 30% or more of the outstanding ordinary shares of a company having more than 1,000 ordinary shareholders, must give at least 30 but no more than 90 days' prior written notice of its intent to the company.

In addition, a person that has acquired (either alone or together with its affiliates) 30% or more of the outstanding ordinary shares of a company with more than 1,000 ordinary shareholders, shall, within 30 days of such acquisition, offer to purchase the ordinary shares (or securities convertible into such shares) from all the other shareholders at a market price that shall not be lower than the average price of the shares for the six months preceding the proposed acquisition date. This mandatory buy-out offer may be waived either by the company's charter or a shareholders' resolution. The Company's charter currently waives this obligation. However, in order to comply with the listing requirements, the Company is required to amend its Charter within one year of admission to listing on the RTS or MSE, respectively, or by April 2007. Both of these rules apply to each 5% increase over the 30% level. Failure to observe any of these requirements may result in the acquiror being able to vote only the shares purchased in compliance with such rules.

As of July 1, 2006, when the Amended Federal Law on Joint Stock Companies takes effect, the new rules will apply to acquisition of shares in open joint stock companies. A person intending to purchase more than 30% of the voting shares (taking into account those it already holds together with its affiliates) will have the right to make a public offer to all the shareholders of the company (voluntary offer). Within 35 days after acquisition by any means of more than 30%, 50% or 75% of such shares the acquirer will have an obligation to make a public offer to purchase the remaining shares from the shareholders (compulsory offer). The acquirer's payment obligations arising from both voluntary and compulsory offers shall be secured in each case by an irrevocable bank guarantee effective within at least six months after the expiration date of the relevant acceptance period.

At any time after the company receives a voluntary or a compulsory offer and until 25 days prior to the expiration of the relevant acceptance period, any person will have the right to make a competing offer (that satisfies the requirements for voluntary or compulsory offer respectively) to purchase the number of shares and at the price that are greater than or equal to those offered in the respective voluntary or compulsory offer. Any shareholder may revoke its previous acceptance of the respective offer and accept the competing offer. A copy of the competing offer shall be sent to the person who made the respective voluntary or compulsory offer so that such person could amend its offer by increasing the purchase price and/or shortening the settlement period.

If as a result of either the voluntary or the compulsory offer the acquirer purchases more than 95% of the voting shares, it will have an obligation to (i) notify all the other shareholders (within 35 days after acquisition of shares above such threshold) of their right to sell their shares and other securities convertible into such shares, and (ii) purchase their shares upon request of each minority shareholder. Instead of giving such notice, the acquirer will have the right to deliver a buy-out demand, binding on the minority shareholders, that they sell their shares.



Generally, these buy-out mechanisms will become effective as of July 1, 2006 and will be available to the persons that will have acquired such shares pursuant to a voluntary or a compulsory offer after such date. In addition, during one year after the effective date of a federal law on appraiser's liability insurance (which is not adopted yet) such mechanisms will be available to the majority shareholders that own as of July 1, 2006 more than (a) 95% of the voting shares or (b) 85% of such shares but will acquire more than 95% of the same through a voluntary offer made after such date. However, in each such case both a report of an independent appraiser and an expert opinion of a self-regulatory organization of appraisers will be required to determine the purchase price.

Dividends

The Federal Law on Joint Stock Companies and our charter set forth the procedure for determining the dividends that we distribute to our shareholders. According to our charter, we may distribute dividends based on our first quarter, six months, nine months or annual results according to Russian accounting standards. The board of directors recommends dividends to a shareholders' meeting by a majority vote of the board of directors, and approved by the shareholders' meeting by a majority vote. A decision on quarterly, six month and nine month dividends must be taken within three months of the end of the relevant period; a decision on annual dividends must be taken at the annual general shareholders' meeting. The dividend approved at the shareholders' meeting may not be more than the amount recommended by the board of directors. Dividends are distributed to holders of our shares as of the record date for the shareholders' meeting approving the dividends. See "—General Meetings of Shareholders—Notice and Participation." Under our charter, dividends are paid in money or other property. Dividends are not paid on treasury shares.

The Federal Law on Joint Stock Companies allows dividends to be paid out only of net profits calculated under Russian accounting standards and as long as the following conditions have been met:

- the charter capital of the company has been paid in full;
- the value of the company's net assets is not less (and would not become less as a result of the proposed dividend payment) than the sum of the company's charter capital, the company's reserve fund and the difference between the liquidation value and the par value of the issued and outstanding preferred shares of the company;
- the company has repurchased all shares from shareholders having the right to demand repurchase; and
- the company is not, and would not become as a result of the payment of dividends, insolvent.

Distributions on Liquidation to Shareholders

Under Russian law, liquidation of a company results in its termination without the transfer of rights and obligations to other persons as legal successors. Our charter allows us to be liquidated either by a three-quarters shareholders' meeting vote or by a court order.

Following a decision to liquidate us, the right to manage our affairs would pass to the liquidation commission which, in case of a voluntary liquidation, is appointed by the shareholders' meeting and, in an involuntary liquidation, is appointed by the court. Creditors may file claims within a period to be determined by the liquidation commission, but which should be at least two months from the date of publication of the notice of liquidation by the liquidation commission.

The Civil Code gives creditors the following order of priority during liquidation:

- individuals owed compensation for injuries or deaths;
- employees;
- secured creditors;
- federal and local governmental authorities claiming taxes and similar payments to the budgets and non-budgetary funds; and
- other creditors in accordance with Russian legislation.

The Federal Law on Insolvency (Bankruptcy) prescribes a somewhat different order of priority with respect to creditors' claims in the event of an involuntary liquidation in the event of insolvency.



The assets of a company remaining upon liquidation are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders having the right to demand repurchase;
- payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares, if any; and
- payments to holders of common and preferred shares on a pro rata basis.

Liability of Shareholders

The Civil Code and the Federal Law on Joint Stock Companies generally provide that shareholders in a Russian joint stock company are not liable for the obligations of the joint stock company and bear only the risk of loss on their investment. This may not be the case, however, when a person or entity has a capacity to be making decisions on behalf of an entity, and the person or entity capable of making such decisions is called an effective parent. The entity on whose behalf such decisions may be made is called an effective subsidiary. The effective parent bears joint and several liability for the transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for under the charter of the effective subsidiary or pursuant to a contract between an effective parent and effective subsidiary, and
- the effective parent gives obligatory directions to the effective subsidiary.

Thus, a shareholder of an effective parent is not itself liable for the debts of the effective parent's effective subsidiary, unless that shareholder is itself an effective parent of the effective parent.

Accordingly, holders of our shares (including holders of GDRs representing interests in our shares) will not be personally liable for our debts or those of our effective subsidiaries unless you control our business.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt resulting from the action or inaction of an effective parent. This is the case no matter how the effective parent's capability to determine decisions of the effective subsidiary arises, whether through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent that caused the effective subsidiary to take any action or fail to take any action knowing that such action or failure to take action would result in losses.

Share Capital Increase

We may increase our charter capital by issuing new shares or by increasing the nominal value of already issued shares using the company's net income.

Generally, a decision to increase the charter capital by issuing additional shares or increasing the nominal value of issued shares requires a majority vote of a shareholders' meeting. In addition, the issuance of shares above the number provided for by our charter necessitates a charter amendment, which requires a three-quarters majority vote of a shareholders meeting.

The Federal Law on Joint Stock Companies requires that newly issued shares be sold at market value determined by the board of directors, except in limited circumstances where fees up to 10% are paid to intermediaries, in which case the fees paid may be deducted from the price. The price may not be set at less than the nominal value of the shares. The board of directors and an independent appraiser value any in-kind payments for the new shares.

Russian securities regulations prescribe specific procedures for the registration and issuance of shares of a joint stock company. These procedures generally require prior registration of a share issuance with the FSFM, public disclosure of information relating to the share issuance and registration and public disclosure of the results of the placement following placement of the shares.

Our shareholders approved the issuance of the New Shares on March 23, 2006. We submitted the necessary documents for the registration of the New Shares to the FSFM on March 28, 2006 and the FSFM registered the issuance of New Shares on April 24, 2006. We intend, after the completion of this offering, to comply with all other filing requirements.



Capital Decrease; Share Buy-Backs

The Federal Law on Joint-Stock Companies does not permit a company to reduce its charter capital below the minimum charter capital required by law, which is 100,000 rubles for an open joint stock company. Our charter requires that any decision to reduce our charter capital, whether through the repurchase and cancellation of shares or a reduction in the nominal value of the shares, be by a majority vote of a shareholders' meeting. Additionally, within 30 days of a decision to reduce our charter capital, we must issue a written notice to our creditors and publish this decision. Our creditors would then have the right to demand, within 30 days of publication or receipt of our notice, repayment of all amounts due to them, as well as compensation for damages.

The Federal Law on Joint Stock Companies allows the shareholders or the board of directors to authorize the repurchase of up to 10% of our shares in exchange for cash. The repurchased shares either must be resold within one year of their repurchase or the shareholders must decide to cancel such shares and then either decrease the charter capital or increase the nominal value of the remaining shares to preserve the total amount of the charter capital.

The Federal Law on Joint Stock Companies allows us to repurchase our shares only if, at the time of repurchase, our charter capital has been paid in full; we are not and would not become, as a result of the repurchase, insolvent; the value of our net assets is not less (and would not become less, as a result of the proposed repurchase) than the sum of our charter capital, the reserve fund and the difference between the liquidation value and the par value of our issued and outstanding preferred shares; and we have repurchased all shares from shareholders having the right to demand a repurchase of their shares under the legislation protecting rights of the minority shareholders, as described immediately below.

The Federal Law on Joint Stock Companies and our charter provide that our shareholders may demand repurchase of all or some of their shares so long as the shareholder demanding the repurchase voted against or did not participate in the voting on the decision approving a reorganization, the conclusion of a major transaction, as defined under Russian law or amendment of our charter in a manner which results in the restrictions of the shareholder's rights.

We may spend up to 10% of our net assets calculated under Russian accounting standards for a share redemption demanded by the shareholders. If the value of shares in respect of which shareholders have exercised their right to demand repurchase exceeds 10% of our net assets, we will repurchase shares from each such shareholder on a pro-rata basis.

Registration and Transfer of Shares

Russian legislation requires that a joint stock company maintain a register of its shareholders. Ownership of our registered shares is evidenced solely by entries made in such register. Any of our shareholders may obtain an extract from our register certifying the number of shares that such shareholder holds. Since December 2005, OJSC United Registration Company (OAO ORK) has maintained our shareholder register.

The purchase, sale or other transfer of shares is accomplished through the registration of the transfer in the shareholder register, or the registration of the transfer with a depository if shares are held by a depository. The registrar or depository may not require any documents in addition to those which are required under Russian law in order to transfer the shares in the register. Refusal to register the shares in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder, is void and may be challenged.

General Meetings of Shareholders

Procedure

The powers of a shareholders' meeting are set forth in the Federal Law on Joint Stock Companies and in our charter. A shareholders' meeting may not decide issues that are not included in the list of its competence by the Federal Law on Joint Stock Companies and our charter. Among the issues with respect to which the shareholders have exclusive power to make decisions are:

- charter amendments;
- initiation of reorganization or liquidation;
- election of the members of the board of directors;
- determination of the number, nominal value, type of authorized shares and rights granted by such shares;



- changes in the company's charter capital;
- appointment and removal of an external auditor and the members of the company's revision commission and counting commission;
- approval of certain interested parties transactions and major transactions;
- distribution of profits; and
- redemption by the company of issued shares in cases provided under the Federal Law on Joint Stock Companies.

Voting at a shareholders' meeting is generally executed according to the principle of one vote per common share, with the exception of the election of the board of directors, which is done through cumulative voting. Decisions are generally passed by an affirmative vote of a majority of the voting shares present at a shareholders' meeting. However, Russian law requires a three-quarters affirmative vote of the voting shares present at a shareholders meeting to approve the following:

- charter amendments;
- reorganization or liquidation;
- major transactions involving a company's assets in excess of 50% of the balance sheet value of the assets of the company;
- determination of the number, nominal value, and type of authorized shares and the rights granted by such shares;
- redemption by the company of issued shares;
- any issuance of shares or securities convertible into shares by closed subscription; or
- issuance by open subscription of shares or securities convertible into common shares constituting 25% or more of the number of issued common shares.

The quorum requirement for our shareholders meetings is met if more than 50% of the issued voting shares are present. If the 50% quorum requirement is not met, another shareholders meeting with the same agenda may (or, in the case of an annual meeting, must) be scheduled and the quorum requirement is satisfied if at least 30% of the issued voting shares are present at that meeting.

The annual shareholders meeting must be convened by the board of directors between March 1 and June 30 of each year, and the agenda must include the following items:

- determination of the number and election of members of the board of directors;
- approval of the annual report, balance sheet and profit and loss statement;
- approval of any distribution of profits, including approval of annual dividends, if any;
- approval of an independent auditor for statutory accounts; and
- approval of a revision commission.

The general shareholders' meeting also approves compensation for members of our board of directors. A shareholder or a group of shareholders owning in the aggregate at least 2% of the issued voting shares may introduce proposals for the agenda of the annual shareholders' meeting and may nominate candidates for the board of directors and the revision commission. Any agenda proposals or nominations must be provided to the company no later than 30 days after the end of the financial year.

Extraordinary shareholders' meetings may be called by the board of directors on its own initiative, or at the request of the revision commission, the independent auditor of the statutory accounts or a shareholder or group of shareholders owning in the aggregate at least 10% of the issued voting shares as of the date of the request.

A general meeting of shareholders may be held in the form of a meeting or by an absentee ballot. The form of a meeting contemplates the adoption of resolutions by the general meeting of shareholders through the joint personal attendance of the shareholders or their authorized representatives for the purpose of discussing and voting on the issues on the agenda, provided that if a ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may consider the issues presented in the ballot and mail the



ballot back to the company without personally attending the meeting. The absentee ballot contemplates the determination of the shareholders' opinions on the issues on the agenda by means of a written poll.

The following issues cannot be decided by a shareholders' meeting held by the means of an absentee ballot:

- election of directors;
- election of a revision commission;
- approval of a company's independent auditor for statutory accounts; and
- approval of the annual report, balance sheet, profit and loss statement under Russian law, and distributions of profits, including approval of annual dividends, if any.

Notice and Participation

Under our charter, all shareholders entitled to participate in a given general shareholders' meeting must be notified of a meeting, whether the meeting is to be held in a direct or remote format, no less than 30 days prior to the date of the meeting. However, if it is an extraordinary shareholders' meeting to elect the board of directors by cumulative vote, shareholders must be notified at least 50 days prior to the date of the meeting.

Only those items that are set out in the agenda may be voted upon at a general shareholders' meeting.

The list of persons entitled to participate in a general shareholders' meeting is to be compiled on the basis of data in our register of shareholders on the date established by the board of directors, which date may neither be earlier than the date of adoption of the resolution to hold a general shareholders' meeting nor more than 50 days before the date of the meeting or, in the case of a shareholders' meeting to elect the board of directors by cumulative voting, not later than 65 days before the date of the meeting.

The right to participate in a general meeting of shareholders may be exercised by a shareholder by (a) personally participating in the discussion of the agenda items and voting thereon, (b) sending an authorized representative to participate in the discussion of the agenda items and to vote thereon, (c) an absentee ballot or (d) delegating the right to fill out an absentee ballot to an authorized representative.

Board of Directors

Our charter provides that our entire board of directors may be re-elected at each annual general shareholders' meeting and that our board of directors is elected through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of voting shares held by such shareholder multiplied by the number of persons to be elected to our board of directors, and the shareholder may give all such votes to one candidate or spread them between two or more candidates. Before the expiration of their term, the directors may be removed as a group at any time without cause by a majority vote of a shareholders' meeting.

The Federal Law on Joint Stock Companies requires at least a five-member board of directors for an open joint stock company with less than 1,000 holders of common shares, a seven-member board of directors for an open joint stock company with more than 1,000 holders of common shares and at least a nine-member board of directors for an open joint stock company with more than 10,000 holders of common shares. Only natural persons (as opposed to legal entities) may be on the board. Members of the board of directors are not required to be shareholders of the company. The actual number of directors is determined by the company's charter or by a decision of the shareholders' meeting. Our charter provides that the number of members on our board of directors must consist of at least five members. Currently, our board of directors consists of seven members.

The Federal Law on Joint Stock Companies prohibits a board of directors from acting on issues that fall within the exclusive competence of the general shareholders' meeting. Our board of directors may direct the general management of the company and has the exclusive power to decide the following issues:

- determination of our business priorities;
- convening of shareholders' meetings, including setting a date and time, approving the agenda, and determining the date of record for the shareholders entitled to participate, except in certain circumstances specified under the Federal Law on Joint Stock Companies;
- placement of our bonds and other securities, except in certain circumstances specified under the Federal Law on Joint Stock Companies and our charter;



- determination of the price of our property and of our securities to be placed or repurchased, as provided for by the Federal Law on Joint Stock Companies;
- repurchase of our shares, bonds and other securities in certain cases provided for by the Federal Law on Joint Stock Companies;
- election and early termination of powers of our sole executive body (general director) and establishment of compensation for our sole executive body (general director);
- recommendations on the amount of dividends and the payment procedure;
- the use of our reserve fund and other funds;
- the creation of branches and representative offices;
- approval of internal documents, except for those documents whose approval falls within the competence of the company's general shareholders' meeting or general director;
- approval of major and interested party transactions in certain cases as provided for by the Federal Law on Joint Stock Companies;
- increase of our charter capital by the issuance of additional shares within the limits of our authorized charter capital, except in circumstances specified under the Federal Law on Joint Stock Companies and our charter;
- approval of decisions regarding securities issuances and prospectuses relating to such securities, as well as of reports on the results of such share issuances, except in certain circumstances specified under the Federal Law on Joint Stock Companies;
- decision on our participation in other organizations, with the exception of participation in holding companies, commercial or industrial groups where a shareholders' vote is required by our charter; and
- approval of our share registrar; and
- other issues, as provided for by the Federal Law on Joint Stock Companies and our charter.

Our charter generally requires a majority vote of the directors present for an action to be approved, with the exception of actions for which Russian legislation requires a qualified or unanimous vote, such as approval of major transactions or interested party transactions, as described herein. A board meeting is considered duly assembled and legally competent to act when a majority of our board members are present.

General Director

The Company's general director is in charge of our day-to-day business operations. The general director exercises executive authority over all our activities, except for issues assigned to the exclusive competence of the general shareholders' meeting and the board of directors. Under our charter, the board of directors elects the general director for a period of up to five years.

Revision Commission

Our revision commission, whose activities are governed by our charter and revision commission regulations, oversees and coordinates audits of our financial and economic activity. The principal duties of the revision commission are to ensure that our activities comply with applicable Russian legislation and do not infringe shareholders' rights, and that our accounting and reporting do not contain any material misstatements. The general shareholders' meeting elects the revision commission members for one year. Members of our board of directors and our general director may not be appointed to the revision commission.

Our revision commission currently consists of the following three members:

Sergey E. Baranyuk has been a member of the revision commission since 2005. He has been working as a financial analyst at Cherkizovsky Trade House since of 2004. From 2001 to 2003, he served as a financial analyst at CMPP. Mr. Baranyuk graduated from Dashkova's Moscow Humanitarian Institute with a specialization in finance and lending in 1999.

Irina Y. Kondratova has been a member of the revision commission since 2005. She has also served as a financial analyst at Cherkizovsky Trade House and as a deputy director of the finances and regional development division at AIC Cherkizovsky since 2005. Ms. Kondratova served as a financial analyst at AIC Cherkizovsky



from 2004 to 2005, as a financial analyst at CJSC Eko-Torg from 2003 to 2004, and as an economist at BMPP from 2001 to 2003. She graduated from the Moscow State University of Applied Biotechnology with a specialization in economics and management in 1999.

Lyubov N. Maximenko has been a member of the revision commission since 2005. She has also served as an accountant at CMPP since 2000. Ms. Maximenko graduated from Moscow Technological Institute of the Meat and Milk Industry with a specialization in economics in 1984.

Interested Party Transactions

Under the Federal Law on Joint Stock Companies, certain transactions defined as “interested party transactions” require approval by disinterested directors or shareholders of the company. “Interested party transactions” include transactions involving a member of the board of directors or a member of any executive body of the company, any person that owns, together with any affiliates, at least 20% of a company’s issued voting stock or any person who is able to direct the actions of the company, if that person, or that person’s spouse, parents, children, adoptive parents or children, brothers or sisters or affiliates, is:

- a party to, or a beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- the owner of at least 20% of the issued voting shares of a legal entity that is a party to, or a beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- a member of the board of directors or a member of any management body of a company that is a party to, or a beneficiary of, a transaction with the company, whether directly or as a representative or intermediary.

The Federal Law on Joint Stock Companies requires that an “interested party transaction” by a company with more than 1,000 shareholders be approved by a majority vote of the independent directors of the company who are not interested in the transaction. An “independent director” is a person who is not, and within the year preceding the decision was not, the general director, a member of any executive body or an affiliate of the company. Additionally, such person’s spouse, parents, children, adoptive parents or children, brothers or sisters may not occupy positions in the executive bodies of the company. For companies with 1,000 or fewer shareholders, an interested party transaction must be approved by a majority vote of the directors who are not interested in the transaction if the number of these directors is sufficient to constitute a quorum.

Approval by a majority of shareholders who are not interested in the transaction is required if:

- the value of such transaction or a number of interrelated transactions is 2.0% or more of the balance sheet value of the company’s assets determined under Russian accounting standards;
- the transaction or a number of interrelated transactions involves the issuance, by subscription, of voting shares or securities convertible into voting shares, or secondary market sale of such securities, in an amount exceeding 2.0% of the company’s issued voting stock;
- the number of directors who are not interested in the transaction is not sufficient to constitute a quorum; or
- all the members of the board of directors of the company are interested parties, or none of them is an independent director.

Approval by a majority of shareholders who are not interested in the transaction may not be required for an interested party transaction if such transaction is substantially similar to the transactions concluded by the company and the interested party in the ordinary course of business before such party became an interested party with respect to the transaction.

The approval of interested party transactions is not required in the following instances:

- the company has only one shareholder that simultaneously performs the functions of the executive body of the company;
- all shareholders of the company are deemed interested in such transactions;
- the transactions arise from the shareholders executing their preemptive rights to purchase newly issued shares of the company;
- the transactions arise from the repurchase, whether mandatory or not, by the company of the issued shares;



- where the company is merging with another company, when the latter owns more than three-fourths of the voting capital stock of the company; or
- the transactions are mandatory for a company pursuant to Russian legislation and must be concluded on the basis of fixed prices and tariffs adopted by the relevant authorized state body.

Major Transactions

The Federal Law on Joint Stock Companies defines a “major transaction” as a transaction, or a series of transactions, involving the acquisition or disposal, or a possibility of disposal, of property having a value of 25% or more of the balance sheet value of the assets of a company as determined under Russian accounting standards, with the exception of transactions completed in the ordinary course of business or transactions involving the placement of common shares or securities convertible into common shares.

Major transactions involving assets ranging from 25% to 50% of the balance sheet value of the assets of a company require unanimous approval by all members of the board of directors or, failing to receive such approval, a simple majority vote of a general shareholders’ meeting. Major transactions involving assets in excess of 50% of the balance sheet value of the assets of a company require a three-quarters majority vote of a shareholders’ meeting.

Reserve Fund

Russian legislation requires that each joint stock company establish a reserve fund to be used only to cover the company’s losses, redeem the company’s bonds and redeem the company’s shares in cases where other funds are not available. Our charter provides for a reserve fund of 5% of our charter capital, funded through mandatory annual transfers of at least 5% of our net profits until the reserve fund has reached the 5% requirement.

Approval of the Federal Antimonopoly Service of the Russian Federation

Pursuant to Russian antimonopoly legislation, transactions involving companies with a combined value of assets that exceeds a certain threshold or companies registered as having more than a 35% share of the particular market, and which would result in a shareholder (or a group of affiliated shareholders) holding more than 20% of the voting capital stock of the company must be approved in advance by the Federal Antimonopoly Service of the Russian Federation.

Because Russian law may not recognize the rights of beneficial owners of our GDRs, the Depositary may be required to obtain approval for the deposits of our shares that would exceed 20% of our voting capital stock as well as for any subsequent deposits.

Exchange Controls

The Federal Law on Currency Regulation and Currency Control, which came into effect on June 18, 2004, empowers the Government of Russia and the CBR to regulate and restrict certain foreign currency operations, including certain types of payments in foreign currency, operations involving foreign securities (including GDRs) and domestic securities (including our common shares), as well as certain types of settlements in rubles between residents and non-residents of Russia. As the regulatory regime is relatively recent and untested, the implementation is still evolving. However, it has generally been less restrictive than the laws and regulations it replaced.

Capital Import and Export Restrictions

Pursuant to the Federal Law on Currency Regulation and Currency Control, the Government of Russia and the CBR have the power to restrict, in particular, the following operations:

- investments (not involving the acquisition of securities) by Russian residents into participatory interests in joint ventures with foreign investors or acquired from foreign investors;
- the acquisition of Russian securities by foreign investors and foreign securities by Russian investors;
- the grant or receipt of loans and credits between residents and non-residents of Russia; and
- payments for export-import transactions with settlement over 180 days (and in limited cases, from three to five years) following completion.



Restrictions that can be introduced include:

- a requirement to perform the operations listed above through special bank accounts with authorized Russian banks, or the requirement to use a special account; and
- a requirement to deposit in a special non-interest bearing account with an authorized Russian bank, prior to the performance of the operations listed above, a monetary sum in rubles of:
 - up to 100% of the amount of the foreign currency operation in question for a period of time not exceeding 60 days;
 - up to 50% of the amount of the foreign currency operation in question for a period of time not exceeding two years; or
 - to 20% of the amount of the foreign currency operation in question for a period of time not exceeding one year.

As of the date hereof, the requirement to use a special account has been introduced in respect of acquisitions of Russian securities by foreign investors and foreign securities by Russian investors and in respect of the grant or receipt of loans and credits between residents and non-residents of Russia. In particular, the following operations are subject to the requirement to use special accounts:

- the receipt by residents of Russia of foreign currency loans and credits with maturities of less than three years granted by non-residents of Russia;
- the acquisition of foreign securities (such as GDRs) by Russian investors from non-residents of Russia; and
- the acquisition of Russian securities (such as our shares) by foreign investors from residents of Russia.

As of the date hereof, the deposit requirement has been introduced, in particular, in respect of:

- the receipt by residents of Russia of foreign currency loans and credits with maturities of less than three years in the amount of 2% of the loan/credit for one year granted by non-residents of Russia; and
- the acquisition of foreign securities (such as GDRs) for foreign currency consideration by Russian investors from non-residents of Russia in the amount of 25% of the sum paid for the securities for 15 days.

While restrictions imposed on foreign currency operations are currently limited in scope, the statutory powers of the government and the CBR enable them to:

- increase or decrease the amount and/or time period of the deposit requirements; and/or
- extend the deposit requirements and other restrictions to other types of foreign currency operations specified by the Federal Law on Currency Regulation and Currency Control.

Additionally, Russian companies must repatriate 100% of their receivables from the export of goods and services (with a limited number of exceptions covering, in particular, certain types of secured financing). Prior to May 10, 2006, Russian companies were also required to convert 10% of export receivables in foreign currency into rubles within seven business days of the date on which they were received. Furthermore, certain types of cross-border operations are required to be performed only in rubles, including, for example, transactions with domestic securities, such as our shares, between residents and non-residents of Russia.

Provisions on the remittance of dividends, interest or other payments to non-residents

In its Information Letter No. 31 of March 31, 2005, the CBR declared that, for currency control purposes, Russian companies may pay dividends in foreign currency to their shareholders who are not Russian residents. We believe that this declaration has not yet been widely tested in practice and we can give no assurance that it will not be reversed in the future. If Russian companies were again required to pay all dividends on common shares in rubles, current Russian legislation would permit such ruble funds to be converted into U.S. dollars by the Depositary without restriction. The CBR has the right to introduce a 100% reserve requirement for the acquisition of foreign currency for a period of up to 60 calendar days.

The ability to convert rubles into U.S. dollars is subject to the availability of U.S. dollars in Russia's currency markets. Although there is an existing, albeit limited, market within Russia for the conversion of rubles into U.S. dollars, including the inter-bank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is no market for the conversion of rubles into foreign currencies outside of Russia and no viable market in which to hedge ruble- and ruble-denominated investments.



Notification of Foreign Ownership

Foreign persons registered as individual entrepreneurs in Russia who acquire shares in a Russian joint stock company and foreign companies, regardless of whether they are registered with the Russian tax authorities, that acquire shares in a Russian joint stock company may need to notify the Russian tax authorities within one month following such acquisition. The procedure for notifying the Russian tax authorities by foreign companies that are not registered with the Russian tax authorities at the time of their share acquisitions is unclear. Other than this notification requirement, there are no requirements or restrictions with respect to the foreign ownership of our shares.



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TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The following terms and conditions (subject to completion and amendment and excepting sentences in italics) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt certificate:

The Global Depositary Receipts (“GDRs”) represented by this certificate are issued in respect of equity Shares of nominal value 1 Ruble each (the “Shares”) in OPEN JOINT STOCK COMPANY “CHERKIZOVO GROUP” (the “Company”), with 150 GDRs issued in respect of one Share, pursuant to and subject to an agreement dated 27 March 2006, and made between the Company and JPMorgan Chase Bank, N.A. as depositary (the “Depositary”) for the “Regulation S Facility” and the “Rule 144A Facility” (such agreement, as amended from time to time, being hereinafter referred to as the “Deposit Agreement”). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed ING Bank (Eurasia) ZAO as Custodian (as defined below) to receive and hold on its behalf the Share certificates in respect of certain Shares (the “Deposited Shares”) and all rights, securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the “Deposited Property”). The Depositary shall hold Deposited Shares for the benefit of the Holders (as defined below) in proportion to the number of Shares in respect of which the GDRs held by them are issued. In these terms and conditions (the “Conditions”), references to the “Depositary” are to JPMorgan Chase Bank, N.A. and/or any other Depositary which may from time to time be appointed under the Deposit Agreement, references to the “Custodian” are to ING Bank (Eurasia) ZAO or any other Custodian from time to time appointed under the Deposit Agreement and references to the “Office” mean, in relation to the Custodian, its office at 36 Krasnoproletarskaya Str., Moscow 127473, Russia (or such other office as from time to time may be designated by the Custodian with the approval of the Depositary).

The Offering comprises the Shares to be sold by the Selling Shareholder at an Offer Price of U.S.\$2,287.50 per Share and U.S.\$15.25 per GDR, to be delivered in the form of up to 109,881 Shares or up to 14,983,800 GDRs. A maximum of 99,892 Shares is being offered in the form of GDRs. The Selling Shareholder has also committed to use approximately U.S.\$146.2 million of the net proceeds of the Offering to it to subscribe for 67,427 New Shares at a price of U.S.\$2,169 per New Share. It is expected that listing of the GDRs will take place on or about May 15, 2006. Prior to listing, it is expected that conditional dealings will be permitted by the London Stock Exchange in accordance with its rules. It is expected that unconditional dealings in the GDRs will commence on or about May 15, 2006. Transactions will normally be effected for settlement in U.S. dollars and for delivery on the third working day after the date of the transaction.

The GDRs will upon issue be represented by interests in a Regulation S Master GDR, evidencing Regulation S GDRs, and by interests in a Rule 144A Master GDR, evidencing Rule 144A GDRs (as each such term is defined in the Deposit Agreement). The GDRs are exchangeable in the circumstances set out in “Summary of Provisions Relating to the GDRs while in Master Form” for a certificate in definitive registered form in respect of GDRs representing all or part of the interest of the Holder in the relevant Master GDR.

References in these Conditions to the “Holder” of any GDR shall mean the person registered as Holder on the books of the Depositary maintained for such purpose. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificate in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Office of the Custodian. Holders are deemed to have notice of and be bound by all of the provisions of the Deposit Agreement. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement.

Holders of GDRs are not party to the Deposit Agreement which specifically disallows application of the Contracts (Rights of Third Parties) Act 1999 and thus, under English Law, have no contractual rights against, or obligations to, the Company or Depositary. However, the Deed Poll executed by the Company in favor of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the “Depositary” in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any Holder of a GDR or any other person.

1. Deposit of Shares and Other Securities

- (A) After the initial deposit of Shares by the Company in respect of each GDR, unless otherwise agreed by the Depositary and the Company and permitted by applicable law, only the following may be deposited under the Deposit Agreement in respect of such GDR:
- (i) Shares issued as a dividend or free distribution on Deposited Shares pursuant to Condition 5;



- (ii) Shares subscribed or acquired by Holders from the Company through the exercise of rights distributed by the Company to such persons in respect of Deposited Shares pursuant to Condition 7;
 - (iii) securities issued by the Company to the Holders in respect of Deposited Shares as a result of any change in the nominal value, sub-division, consolidation or other reclassification of Deposited Shares or otherwise pursuant to Condition 10. References in these Conditions to “Deposited Shares” or “Shares” shall include any such securities, where the context permits; and
 - (iv) (to the extent permitted by applicable law and regulation) any other Shares in issue from time to time.
- (B) The Depositary will issue GDRs in respect of Shares accepted for deposit under this Condition. Under the Deposit Agreement, the Company must inform the Depositary if any Shares issued by it which may be deposited under this Condition do not, by reason of the date of issue or otherwise, rank *pari passu* in all respects with the other Deposited Shares. Subject to the provisions of Conditions 5, 7 and 10, if the Depositary accepts such Shares for deposit it will arrange for the issue of temporary GDRs in respect of such Shares which will form a different class of GDRs from the other GDRs until such time as the Shares which they represent become fully fungible with the other Deposited Shares.
- (C) The Depositary will refuse to accept Shares for deposit whenever it is notified in writing by the Company that the Company has restricted the transfer of such Shares to comply with ownership restrictions under applicable Russian law or that such deposit would result in any violation of any applicable Russian laws or governmental or stock exchange regulations. The Depositary may also refuse to accept Shares for deposit in certain other circumstances as set out in the Deposit Agreement.
- (D) Subject to the limitations set forth in the Deposit Agreement, the Depositary may (but is not required to) issue GDRs prior to the delivery to it of Shares in respect of which such GDRs are to be issued and/or deliver Deposited Property prior to the receipt and cancellation by it of GDRs issued in respect thereof.

Deposited Property means and includes the Deposited Shares and all and any rights and other securities, property and cash for the time being held by the Custodian or the Depositary or their respective agents and attributable to the Deposited Shares pursuant to the provisions of this Agreement together with any right of the Depositary or the Custodian to receive Deposited Shares or any such rights, interests and securities, property and cash as aforesaid other than any right of the Depositary or the Custodian against any pre-release to receive any Shares, cash or GDRs pursuant to the contract governing the pre-release (as defined in Clause 3.11 of the Deposit Agreement).

Schedule 4, Part B, provides, among other things, that the person providing such certificate is a qualified institutional buyer (as defined in Rule 144A under the Securities Act (a “QIB”)) or is acting for the account of another person and such person is a QIB or that the person providing such certificate is outside the United States, and in either case will comply with restrictions on transfer set forth under “Transfer Restrictions.”

2. Withdrawal of Deposited Property

- (A) Deposited Property may not be withdrawn until the Depositary has received a written confirmation from the Company that the Shares are listed on the Russian Stock Exchange(s). The Depositary shall notify the Holders of such listings in accordance with Condition 23 as soon as is practically possible after receiving such written confirmation. Subject as set out above, any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence that such person is the Holder of, and entitled to, the relative GDR as the Depositary may reasonably require at the specified office of the Depositary or any Agent accompanied by:
- (i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Office of the Custodian, or (at the request, risk and expense of the Holder) at the specified office from time to time of the Depositary or any Agent (located in Chaseside-Dorset Building, Floor G, Bournemouth BH7 7DB, United Kingdom or such other place as permitted under applicable law from time to time) to, or to the order in writing of, the person or persons designated in such order and a duly executed and completed certificate substantially in the form set out in Schedule 4, Part B, to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs;



- (ii) the payment of such fees, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement; and
- (iii) the surrender (if appropriate) of GDR certificates in definitive registered form to which the Deposited Property being withdrawn is attributable.

In connection with a deposit of Shares, pursuant to Clause 3.2 of the Deposit Agreement the person depositing such shares is required to provide certain certifications to the Depositary. These include, among others, including, inter alia, a certificate in the form of Schedule 3 of the Deposit Agreement, in the case of a deposit of Shares into the Regulation S facility, or in the form of Schedule 4, Part A, of the Deposit Agreement in the case of a deposit of Shares into the Rule 144A facility. Schedule 3 provides, among other things, that the person providing such certificate is located outside the United States, and Schedule 4, Part A, provides, among other things, that the person providing such certificate is a QIB or is acting for the account of another person and such person is a QIB and in either case will comply with restrictions on transfer set forth under "Transfer Restrictions."

- (B) Certificates for withdrawn Deposited Shares will contain such legends, including the legends described under "Transfer Restrictions", and withdrawals of Deposited Shares may be subject to such transfer restrictions or certifications, as the Company or the Depositary may from time to time determine to be necessary for compliance with applicable laws.
- (C) Upon production of such documentation and the making of such payment as aforesaid in accordance with paragraph (A) of this Condition, the Depositary will direct the Custodian by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Office to, or to the order in writing of, the person or persons designated in the accompanying order:
 - (i) a certificate for, or other appropriate instrument of title to, the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and
 - (ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof as aforesaid;

provided that the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

- (a) will direct the Custodian to deliver the certificates for, or other instruments of title to, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraph (C)(i) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its Agent and is attributable to such Deposited Shares); and/or
- (b) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied by such instruments of transfer in blank or to the person or persons specified in such order and such other documents, if any, as are required by law for the transfer thereto),

in each case to the specified office from time to time of the Depositary or, if any, any Agent (located in Chaseside-Dorset Building, Floor G, Bournemouth BH7 7DB, United Kingdom or such other place as is permitted under applicable law from time to time) as designated by the surrendering Holder in such accompanying order as aforesaid.

- (D) Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.
- (E) The Depositary may suspend the withdrawal of all or any category of Deposited Property during any period when the register of shareholders or other relevant holders of other securities of the Company is closed, generally or in one or more localities, or in order to comply with any applicable Russian law or governmental or stock exchange regulations. The Depositary shall restrict the withdrawal of Deposited Shares whenever it is notified in writing by the Company that such withdrawal would result in a breach of ownership restrictions under applicable Russian law or governmental resolution or the Company's Charter or for any other reason. To the extent that it is in its opinion practicable for it to do so, the



Depository will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Company in writing that the Deposited Shares or GDRs or any depository receipts representing Shares are listed on a U.S. Securities Exchange or quoted on a U.S. automated inter dealer quotation system unless accompanied by evidence satisfactory to the Depository that any such Shares are eligible for resale pursuant to Rule 144A.

3. Transfer and Ownership

GDRs are in registered form, with 150 GDRs issued in respect of one Share. Title to the GDRs passes by registration in the records of the Depository. The Depository will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in a violation of applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, any certificate issued in respect of it) and no person will be liable for so treating the Holder.

So long as Rule 144A GDRs are “restricted securities” within the meaning of Rule 144 under the United States Securities Act of 1933, as amended (the “**U.S. Securities Act**”), interests in such Rule 144A GDRs corresponding to the Master Rule 144A GDR may be transferred to a person whose interest in such Rule 144A GDRs is to be represented by the Master Regulation S GDR only upon receipt by the Depository of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the U.S. Securities Act. Issuance of Rule 144A GDRs, including in connection with the transfer of an interest in Regulation S GDRs to a person whose interest is to be represented by the Master Rule 144A GDR, shall be subject to the terms and conditions of the Deposit Agreement, including delivery of the duly executed and completed written certificate and agreement required under the Deposit Agreement by or on behalf of each person who will be the beneficial owner of such Rule 144A GDRs certifying that such person is a QIB and agreeing that it will comply with the restrictions on transfer set forth therein and to payment of the fees, charges and taxes provided therein.

4. Cash Distributions

Whenever the Depository shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property in a currency other than United States dollars, the Depository, its Agent or Custodian shall as soon as practicable convert the same into United States dollars in accordance with Condition 8. The Depository shall, if practicable in the opinion of the Depository, give notice to the Holders of its receipt of such payment in accordance with Condition 23, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the date, determined by the Depository, for such payment and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares represented by the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11; provided that:

- (a) in the event that the Depository is aware that any Deposited Shares shall not be entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and
- (b) the Depository will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depository and any balance remaining shall be retained by the Depository beneficially as an additional fee under Condition 16(A)(iv).

5. Distributions of Shares

Whenever the Depository shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend in, or free distribution or bonus issue of, Shares, the Depository shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, additional GDRs representing an aggregate number of Shares received pursuant to such dividend or distribution by an increase in the number of GDRs evidenced by the Master GDR or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; provided that, if and in so far as the Depository deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, owing



to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall sell such Shares so received (either by public or private sale and otherwise at its discretion, subject to Russian laws and regulations) and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

6. Distributions Other than in Cash or Shares

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; provided that, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof in such manner as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale of the securities or property so received, or any part thereof (either by public or private sale and otherwise at its discretion, subject to applicable laws and regulations), and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the Holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders in accordance with Condition 23 of such offer or invitation specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, give details of how the Depositary proposes to distribute the rights or the proceeds of sale. The Depositary will deal with such rights in the manner described below:

- (i) if, at its discretion, the Depositary shall be satisfied that it is lawful and reasonably practicable and, to the extent that it is so satisfied, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and in the case of Shares so subscribed or acquired to distribute them to the Holders entitled thereto by an increase in the numbers of GDRs evidenced by the Master GDR or an issue of certificates in definitive form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or
- (ii) if, at its discretion, the Depositary shall be satisfied that it is lawful and reasonably practicable and to the extent that it is so satisfied, the Depositary shall distribute such securities or other assets by way of rights or the rights themselves to the Holders entitled thereto in proportion to the number of Deposited Shares represented by the GDRs held by them respectively in such manner as the Depositary may at its discretion determine; or
- (iii) if and in so far as the Depositary is not satisfied that any such arrangement and distribution to all or any Holders is lawful and reasonably practicable (including, without limitation, owing to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or is so satisfied that it is unlawful, the Depositary will, provided that Holders have not taken up rights through the Depositary as provided in (i) above, sell such rights (either by public or private sale and otherwise at its discretion subject to Russian laws and regulations) and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto except to the extent prohibited by applicable law.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in (i),



(ii) or (iii) above the Depositary shall permit the rights to lapse. In the absence of its own wilful default, negligence or bad faith the Depositary will not be responsible for any failure to determine that it may be lawful or practicable to make rights available to Holders or owners of GDRs in general or to any Holder or owner of GDRs in particular.

The Company has agreed in the Deposit Agreement that it will, unless prohibited by applicable law, give its consent to, and, if requested, use all reasonable endeavours (subject to the next paragraph) to facilitate any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4, 5, 6, 7 or 10.

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Conditions 4, 5, 6, 7 or 10 or the securities to which such rights relate, in order for the Depositary to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities represented by such rights, the Depositary will not offer such rights or distribute such securities or other property to Holders of GDRs unless and until the Company procures at the Company's expense, the receipt by the Depositary of an opinion from counsel satisfactory to the Depositary that the necessary registration has been effected or that the offer and sale of such rights, securities or property to Holders of GDRs are exempt from registration. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and they shall not be liable for any losses, damages or expenses resulting from any failure to do so.

8. Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank, by sale or in any other manner that it may determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary, with the assistance of the Company, shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may consider desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency (without liability to any person for interest thereon) for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may in its absolute discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance on non-interest bearing accounts for the account of, the Holders entitled thereto and notify the Holders accordingly.

9. Distribution of any Payments

(A) Any distribution of cash under Conditions 4, 5, 6, 7 or 10 will be made by the Depositary to those Holders who are Holders of record on the record date established by the Depositary for that purpose (which shall be the same date as the corresponding record date set by the Company or as near as practicable to any record date set by the Company) for that purpose and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDR, according to usual practice between the Depositary and Clearstream Banking, societe anonyme ("**Clearstream, Luxembourg**"), Euroclear Bank S.A./N.V., as operator of the Euroclear System ("**Euroclear**") or DTC, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with



the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law in respect of such GDR or the relative Deposited Property.

- (B) Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the entitled Holder on the record date established by the Depositary for that purpose (which shall be the same date as the corresponding record date met by the Company or as near as practicable thereto), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Company when the Depositary shall retain the same) return the same to the Company for its own use and benefit and the Depositary shall have no obligation therefor or liability with respect thereto.

10. Capital Reorganisation

Upon any change in the nominal value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital or upon any reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders in accordance with Condition 23 and, at its discretion, may treat such event as a distribution and comply with the relevant provisions of Conditions 4, 5, 6 and 9 with respect thereto or may execute and deliver additional GDRs in respect of Shares or may call for the surrender of outstanding GDRs to be exchanged for new GDRs which reflect the effect of such change or to be stamped in the appropriate manner so as to indicate the new number of Shares and/or the new securities evidenced by such outstanding GDRs or may adopt more than one of these courses of action.

11. Taxation and Applicable Laws

- (A) Payments to Holders of dividends or other distributions made to Holders on or in respect of the Deposited Shares will be subject to deduction of Russian and other withholding taxes, if any, at the applicable rates.
- (B) If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Russia in order for the Depositary to receive from the Company Shares to be deposited under the Conditions or in order for Shares, other securities or other property to be distributed or otherwise dealt with under Conditions 4, 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company, to the extent permitted by applicable law, shall apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such law. In this connection, the Company has undertaken in the Deposit Agreement, to the extent reasonably practicable and that it does not involve unreasonable expense on behalf of the Company, to take such action as may be required in obtaining or filing the same. The Depositary shall not distribute GDRs, Shares, other securities or other property or cash to be deposited under the Conditions or make any offer of any such rights or sell any securities represented by any such rights with respect to which it has been informed in writing that such authorisation, consent or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain any such authorisation, consent or permit or to file any such report except in circumstances where the same may only be obtained or filed by the Depositary without, in the opinion of the Depositary, unreasonable burden or expense.

12. Voting Rights

- (A) As soon as practicable after receipt from the Company of notice of any meeting at which the holders of Shares are entitled to vote, or of solicitation of consents or proxies from holders of Shares or other Deposited Property, the Depositary shall fix the record date in respect of such meeting or solicitation of consent or proxy. The Depositary shall, if requested by the Company in writing in a timely manner (the Depositary having no obligation to take any further action if the request shall not have been timely received by the Depositary prior to the date of such vote or meeting) and at the Company's expense



and provided no U.S. legal prohibitions, English legal prohibitions (including, without limitation, the listing rules and prospectus rules of the UK Financial Services Authority and the admission and disclosure standards of the London Stock Exchange) or Russian legal prohibitions (including without limitation the rules of Russian Stock Exchange(s) on which the Shares are listed), exist, distribute to Holders as of the record date: (a) such notice of meeting or solicitation of consent or proxy, (b) a statement that the Holders at the close of business in New York on the record date will be entitled, subject to any applicable law, the provisions of the Deposit Agreement, the Charter and the provisions of or governing the Deposited Property (which provisions, if any, shall be summarised in pertinent part by the Company), to instruct the Depository as to the exercise of the voting rights, if any, pertaining to the Shares or other Deposited Property represented by such Holder's GDRs, and (c) a brief statement as to the manner in which such voting instructions may be given. Voting instructions may be given only in respect of a number of GDRs representing an integral number of Shares or other Deposited Property. Upon the timely receipt from a Holder of GDRs as of the GDR record date of voting instructions in the manner specified by the Depository, the Depository shall endeavor, insofar as practicable and permitted under applicable law, the provisions of the Deposit Agreement, the Charter and the provisions of the Deposited Property, to vote or cause the Custodian to vote the Shares and/or other Deposited Property (in person or by proxy) represented by such Holder's GDRs in accordance with such instructions.

- (B) Neither the Depository nor the Custodian shall, under any circumstances, exercise any discretion as to voting, vote any number of Shares other than an integral number thereof or vote Shares in a manner that would be inconsistent with any applicable law, and neither the Depository nor the Custodian shall vote or attempt to exercise the right to vote the Shares or other Deposited Property represented by GDRs except pursuant to and in accordance with instructions from Holders. If the Depository timely receives voting instructions from a Holder which fail to specify the manner in which the Depository is to vote the Deposited Property represented by such Holder's GDRs, the Depository will deem such Holder to have instructed the Depository not to vote the Deposited Property with respect to the items for which the Holder has failed to specify the manner in which the Depository is to vote. Deposited Property represented by GDRs for which no specific voting instructions are received by the Depository from the Holder shall not be voted. The Company agrees to provide timely notice to the Depository which will enable the timely notification of Holders as to any change in its Charter resulting in limitations on the ability of the Depository to vote a particular GDR according to the voting instructions received in regard to such GDR.
- (C) Notwithstanding anything else contained in the Deposit Agreement, the Depository shall not have any obligation to take any action with respect to any meeting, or solicitation of consents or proxies, of holders of Deposited Property if the taking of such action would violate U.S. legal prohibitions, English legal prohibitions (including, without limitation, the listing rules and prospectus rules of the UK Financial Services Authority and the admission and disclosure standards of the London Stock Exchange) or Russian legal prohibitions (including without limitation the rules of Russian Stock Exchange(s) on which the Shares are listed). The Company agrees that it shall not establish internal procedures that would prevent the Depository from complying with, or that are inconsistent with, the terms and conditions of Clause 7 of the Deposit Agreement.

13. Documents to be Furnished, Recovery of Taxes, Duties and Other Charges

The Depository shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR shall be payable by the Holder thereof to the Depository at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. In default thereof, the Depository may, for the account of the Holder, discharge the same out of the proceeds of sale on any stock exchange on which the shares may from time to time be listed and subject to Russian law and regulations, of an appropriate number of Deposited Shares (being an integral multiple of the number of Shares in respect of which a single GDR is issued) or other Deposited Property and subsequently pay any surplus to the Holder. Any such request shall be made by giving notice pursuant to Condition 23.

14. Liability

- (A) In acting hereunder the Depository shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust



for or with the Holders or the owners of GDRs except that any funds received by the Depositary for the payment of any amount due, in accordance with these Conditions, on the GDRs shall be held by it in trust for the relevant Holder until duly paid thereto.

- (B) None of the Depositary, the Custodian, the Company, nor any of their agents, officers, directors or employees nor any Agent shall incur any liability to any other of them or to any Holder or owner of a GDR if, by reason of any provision of any present or future law or regulation of Russia or any other country or of any relevant governmental authority or by reason of the interpretation or application of any such present or future law or regulation or any change therein or by reason of any other circumstances beyond their control or, in the case of the Depositary, the Custodian, any of their agents, officers, directors or employees or any Agent, by reason of any provision, present or future, of the Charter of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor (save in the case of wilful default, negligence or bad faith) shall any of them incur any liability to any Holder, owner of a GDR or person with an interest in any GDR by reason of any non-performance or delay, caused as aforesaid, in performance of any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed, or by reason of any exercise of, or failure to exercise, caused as aforesaid, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).
- (C) None of the Depositary, the Custodian nor any Agent shall be liable (except by reason of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of a GDR, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs purporting to be such and subsequently found to be forged or not authentic.
- (D) The Depositary and each of its Agents (and any holding, subsidiary or associated company of the Depositary) may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates or in relation to the Deposited Property (including, without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commission and other charges for business transacted and acts done by it as a bank or in any other capacity, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and any sales of property) without accounting to Holders or owners of GDRs, or any other person for any profit arising therefrom.
- (E) The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5, 6, 7, 10, 13 or 21 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures, but shall have no liability (in the absence of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be possible. In the absence of its own wilful default, negligence or bad faith the Depositary will not be responsible for any failure to determine that it may be lawful or practicable to make rights available to Holders in general or to any Holder in particular pursuant to Condition 7.
- (F) The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.
- (G) The Depositary shall, subject to all applicable laws, have no responsibility whatsoever to the Company, any Holder or owner of GDRs as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.
- (H) In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22, be obliged to have regard to the consequence thereof for the Holders or owners of GDRs or a person with an interest in a GDR or any other person.



- (I) Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its reasonable opinion, necessary to comply with any such law, directive or regulation.
- (J) The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfer thereof.
- (K) The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by the Board of Directors of the Company or by a person duly authorised by the Board of Directors of the Company or such other certificate from persons specified in Condition 14(J) which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence of or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.
- (L) Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement, except to the extent that such loss or damage arises from its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees.
- (M) No provision of the Deposit Agreement or the Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured.
- (N) The Depositary may, in the performance of its obligations hereunder instead of acting personally, employ and pay an agent, whether a lawyer or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.
- (O) The Depositary shall not be liable to any person if incorrect, false or misleading information derives from an inspection of the Register.

15. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or in replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the holder) at the specified office of any Agent.

16. Depositary's Fees, Costs and Expenses

- (A) The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:
 - (i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Initial Offering) or for the cancellation of GDRs upon the withdrawal of Deposited Property U.S.\$0.05 or less per GDR issued or cancelled;
 - (ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;
 - (iii) for issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs (including, but not limited to, printing costs) and expenses involved;



- (iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of U.S.\$0.02 or less per GDR per annum for each such dividend or distribution;
- (v) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution (except where converted to cash): U.S.\$0.05 or less per outstanding GDR for each such issue of rights, dividend or distribution;
- (vi) for the operation and maintenance costs associated with the administration of the GDRs: an annual fee of U.S.\$0.02 per GDR; and
- (vii) for the issue of GDRs pursuant to a change for any reason in the number of Shares represented by each GDR, regardless of whether or not there has been a deposit of Shares to the Custodian or the Depository for such issuance: a fee of U.S.\$0.05 or less per GDR (or portion thereof),

together with all expenses, transfer and registration fees, taxes, duties and charges payable by the Depository, any Agent or the Custodian in connection with any of the above including, but not limited to charges imposed by a central depository and such customary expenses as are incurred by the Depository in the conversion of currencies other than U.S. dollars into U.S. dollars and fees imposed by any relevant regulatory authority.

- (B) The Depository is entitled to receive from the Company such fees, taxes, duties, charges, costs, expenses and other payments as specified in a separate agreement between the Company and the Depository concerning such fees, taxes, duties, charges, costs, expenses and other payments.

17. Agents

- (A) The Depository shall be entitled, with the approval of the Company, to appoint one or more agents (the “Agents”) for the purpose, *inter alia*, of making distributions to the Holders.
- (B) Notice of appointment or removal of any Agent providing services outside of the ordinary course of business or of any change in the specified office of the Depository will be duly given by the Depository to the Company.

18. Listing

The Company has undertaken in the Deposit Agreement to use its best endeavours to obtain and thereafter maintain, so long as any GDR is outstanding, a listing for the GDRs on the Official List of the UK Listing Authority and admission to trading on the market for listed securities of the London Stock Exchange and a listing of the Shares on at least one Russian Stock Exchange. For that purpose the Company will pay all fees and sign and deliver all undertakings required by the UK Listing Authority, the London Stock Exchange and the Russian Stock Exchange in connection therewith. In the event that a listing on the Official List of the UK Listing Authority and admission to trading on the market for listed securities of the London Stock Exchange are not maintained, the Company has undertaken in the Deposit Agreement to use its best endeavours to obtain and maintain a listing of the GDRs on another international recognised investment exchange in Europe designated as a “recognised investment exchange” for the purposes of the United Kingdom Financial Services and Markets Act 2000.

19. The Custodian

The Depository has, pursuant to the Deposit Agreement, agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depository to receive and hold) all Deposited Property other than cash for the account and to the order of the Depository in accordance with the applicable terms of the Deposit Agreement, which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian. The Custodian shall be responsible solely to the Depository; provided that, if at any time the Depository and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. Upon the removal of, or upon receiving notice of the resignation of the Custodian, the Depository shall promptly appoint a successor custodian (approved by the Company), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement. Whenever the Depository in its discretion determines that it is in the best interest of the Holders to do so, it may, after prior consultation with the Company, if



practicable, terminate the appointment of the Custodian and, in the event of the termination of the appointment of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved by the Company), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change as soon as is practically possible following such change taking effect in accordance with Condition 23. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as herein specified; provided that, in the case of such temporary deposit in another place, the Company shall have consented to such deposit and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if, and to the extent that, the obtaining of such insurance is reasonably practicable and the premiums payable are, in the opinion of the Depositary, of a reasonable amount.

20. Resignation and Termination of Appointment of the Depositary

- (A) Unless otherwise agreed to in writing between the Company and Depositary from time to time, the Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 90 days' notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving 90 days' notice in writing to the Company and the Custodian. In addition, the Depositary and the Company agree to consult and attempt to resolve in good faith any matters in relation to the services to be provided by the Depositary to the Company under the Deposit Agreement. Within 30 days after the giving of such notice, notice thereof shall be duly given by the Depositary to the Holders and to the UK Listing Authority and the London Stock Exchange.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in the relevant notice provided that no such termination of appointment or resignation shall take effect until the appointment by the Company of a successor depositary, the grant of such approvals as may be necessary to comply with applicable laws and with the Charter for the transfer of the Deposited Property to such successor depositary, the acceptance of such appointment to act in accordance with the terms thereof by the successor depositary and the payment to the Depositary of all fees, taxes, duties, charges, costs, expenses and other payments as agreed by the Depositary and the Company in any agreement concerning such fees, taxes, duties, charges, costs, expenses and other payments. The Company has undertaken in the Deposit Agreement to use its best endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the successor depositary to the Holders in accordance with Condition 23 and to the UK Listing Authority and the London Stock Exchange.

- (B) Upon the termination of appointment or resignation of the Depositary, the Depositary shall, against payment of all fees, expenses and charges owing to it by the Company under the Deposit Agreement, deliver to its successor depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all Deposited Property held by it under the Deposit Agreement. Upon the date when such termination of appointment or resignation takes effect, the Deposit Agreement provides that the Custodian shall be deemed to be the Custodian thereunder for such successor depositary and shall hold the Deposited Property for such successor depositary and the Depositary shall thereafter have no obligation thereunder.

21. Termination of Deposit Agreement

- (A) Subject as set out below, either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 days of the date on which the Depositary has given notice pursuant to Condition 20 that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23.

If the Company terminates the Deposit Agreement, it will (unless the termination is due to the wilful default, negligence or fraud of the Depositary) be obligated, prior to such termination, to reimburse to the Depositary all amounts owed to the Depositary as set out in the Deposit Agreement and in any agreement between the Depositary and the Company.



- (B) During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of paragraph (D) of Condition 2 and upon compliance with Condition 2, and further upon payment by the Holder of any sums payable by the Depositary to the Custodian in connection therewith for such delivery and surrender but otherwise in accordance with the Deposit Agreement.
- (C) If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, pro rata to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligations to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.
- (D) The Company has agreed not to appoint any other depositary for the issue of depositary receipts so long as JPMorgan Chase Bank, N.A. is acting as Depositary under the Deposit Agreement.

22. Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22 and Clause 12 of the Deposit Agreement) may at any time and from time to time be amended by written agreement between the Company and the Depositary and if required, the Russian Federal Service (or its successor organisation) in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary and any amendment (except as aforesaid) which shall increase or impose fees or charges payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders of the outstanding GDRs until the expiry of three months after such notice shall have been given. During such period of three months, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 2, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, free of the charge specified in paragraph (A)(i) of Condition 16 for such delivery and surrender but otherwise in accordance with the Deposit Agreement. Each Holder at the time when any such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 2, the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders or beneficial owners if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares provided that temporary GDRs will represent such Shares until they are so consolidated.

23. Notices

All notices to Holders shall be validly given if mailed to them at their respective addresses in the register of Holders maintained by the Depositary or furnished to them by electronic transmission as agreed between the Company and the Depositary and, so long as the GDRs are listed on the Official List of the UK Listing Authority and admitted to trading on the market for listed securities of the London Stock Exchange and if and to the extent that the rules of the UK Listing Authority or the London Stock Exchange so require, all notices to be given to Holders generally will also be published in a leading daily newspaper having general circulation in the UK. Any such notice shall be deemed to have been given on the later of such publication and the seventh day after being so mailed.

All notices required to be given by the Company to the Holders pursuant to any applicable laws, regulations or other agreements shall be given by the Company to the Depositary and upon receipt of any such notices, the Depositary shall forward such notices to the Holders. The Depositary shall not be liable for any notices required to be given by the Company which the Depositary has not received from the Company, nor shall the Depositary be liable to monitor the obligations of the Company to provide such notices to the Holders.



24. Reports and Information on the Company

- (A) The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language by mail, or one copy by facsimile or electronic transmission as agreed between the Company and the Depositary (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of any financial statements or accounts that it makes generally available to its shareholders, including but not limited to any financial statements or accounts that may be required by law or regulation or in order to maintain a listing for the GDRs on the Official List of the UK Listing Authority and admission to trading on the market for listed securities of the London Stock Exchange, or another other stock exchange, in accordance with Clause 10(a) and Condition 24, as soon as practicable following the publication or availability of such communications. If such communication is not furnished to the Depositary in English, the Depositary shall, at the Company's expense, arrange for an English translation thereof to be prepared.
- (B) The Depositary shall, upon receipt thereof, give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.
- (C) For so long as any Rule 144A GDRs or shares represented thereby are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, during any period in which it is neither a reporting company under, and in compliance with the requirements of, Section 13 or 15(d) of the Exchange Act nor exempt from the reporting requirements of the Exchange Act by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement and the Deed Poll to provide, at its expense, to any Holder, owner of Rule 144A GDRs or of the Rule 144A Master GDRs or the beneficial owner of an interest in such GDRs, and to any prospective purchaser of Rule 144A GDRs or shares represented thereby designated by such person, upon request of such owner, beneficial owner, Holder or prospective purchaser, the information required by Rule 144A(d)(4)(i) and otherwise to comply with Rule 144A(d)(4). If at any time the Company is neither subject to and in compliance with Section 13 or 15(d) of the Exchange Act nor exempt pursuant to Rule 12g3-2(b) under the Exchange Act, the Company shall immediately so notify the Depositary and the Depositary may so notify Holders in writing at the Company's expense. The Company has authorised the Depositary to deliver such information as furnished by the Company to the Depositary during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144A(d)(4) to any such Holder, owner of Rule 144A GDRs, beneficial owner of an interest in Rule 144A GDRs or shares represented thereby or prospective purchaser at the request of such person. The Company has agreed to reimburse the Depositary for its reasonable expenses in connection with such deliveries and to provide the Depositary with such information in such quantities as the Depositary may from time to time reasonably request. Subject to receipt, the Depositary will deliver such information, during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144(A)(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

25. Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary such number of copies of any notice to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, and any other material (which in the opinion of the Company contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company's expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. The Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to paragraph (A) of Condition 9, and shall make the same available to Holders in such manner as it may determine.

26. Moneys Held by the Depositary

The Depositary shall be entitled to deal with moneys received by it, in respect of or in connection with the Deposited Property in the same manner as other moneys paid to it as a banker to its customers and shall not



be liable to account to the Company or any holder or any other person for any interest on any moneys paid to it by the Company for the purposes of the Deposit Agreement, except as otherwise agreed.

27. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

28. Disclosure of Beneficial Ownership, Other Information and Ownership Restrictions

- (A) The Depositary may from time to time request Holders or former Holders to provide information as to the capacity in which they hold or held GDRs and regarding the identity of any other persons then or previously interested in such GDRs and the nature of such interest and various other matters. Each such Holder agrees to provide any such information reasonably requested by the Depositary pursuant to the Deposit Agreement whether or not still a Holder at the time of such request.
- (B) To the extent that provisions of or governing any Deposited Property, the Charter or applicable law may require the disclosure of, or limitations in relation to, beneficial or other ownership of Deposited Property and other securities of the Company, the Holders, owners of GDRs and beneficial owners, as the case may be, shall comply with the Depositary's instructions to Holders, owners and beneficial owners, as the case may be, of GDRs in respect of such disclosure or limitation, as may be forwarded to them from time to time by the Depositary, to the extent they have knowledge of the identity of such owners or beneficial owners.

29. Governing Law

- (A) The Deposit Agreement and the GDRs are governed by, and shall be construed in accordance with, English law. The rights and obligations attaching to the Deposited Shares will be governed by Russian law. The Company has submitted in respect of the Deposit Agreement and these Conditions to the jurisdiction of the English courts. The Company has also agreed in the Deed Poll to allow the Holders to elect that disputes are resolved by arbitration.
- (B) The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs (“**Proceedings**”) may be brought in such courts. This submission is made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not.)
- (C) The Depositary irrevocably appoints the Managing Director for the time being of JPMorgan Chase Bank, N.A., currently situated at 60 Victoria Embankment, Floor 3, London EC4Y 0JP as its authorised agent for service of process in England. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Company of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

30. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce these terms and conditions under the Contracts (Rights of Third Parties) Act 1999 except and to the extent (if any) that these terms and conditions expressly provide for such Act to apply.



SUMMARY OF PROVISIONS RELATING TO THE GDRS WHILE IN MASTER FORM

The GDRs will initially be evidenced by (i) a single Master Regulation S GDR in registered form and (ii) a single Master Rule 144A GDR in registered form. The Master Regulation S GDR will be deposited with JPMorgan Chase Bank, N.A. as common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of Chase Nominees Limited. The Master Rule 144A GDR will be registered in the name of Cede & Co., as nominee for DTC, and will be held by the Depositary as Custodian for DTC. The Master Regulation S GDR and the Master Rule 144A GDR (collectively the “Master GDRs”) contain provisions that apply to the GDRs while they are in master form, some of which modify the effect of the Conditions of the Global Depositary Receipts set out in this Offering Circular. The following is a summary of certain of those provisions. Unless otherwise defined herein, the terms defined in the Conditions shall have the same meaning herein.

The Master GDRs will only be exchanged for certificates in definitive registered form evidencing GDRs in the circumstances described in (i), (ii), (iii) or (iv) below in whole but not, except in the case of (iii) or (iv) below, in part. The Depositary will irrevocably undertake in the Master GDRs to deliver certificates evidencing GDRs in definitive registered form in exchange for the relevant Master GDR to persons entitled to interests in this Master GDR within 60 days in the event that:

- (i) Euroclear or Clearstream, Luxembourg, in the case of the Master Regulations GDR, or DTC (or any successor to DTC), in the case of the Master Rule 144A GDR advises the Company in writing that it is unwilling or unable to continue as depositary and a successor depositary is not appointed within 90 calendar days; or
- (ii) Euroclear or Clearstream, Luxembourg, in the case of the Master Regulation S GDR, or DTC, in the case of the Master Rule 144A GDR, is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and, in each case, no alternative clearing system satisfactory to the Depositary is available within 45 days; or
- (iii) in the case of Master Rule 144A GDR, DTC or any successor ceases to be a “clearing agency” registered under the Exchange Act; or
- (iv) the Depositary has determined that, on the occasion of the next payment in respect of the GDRs, the Company, the Depositary or its Agent would be required to make any deduction or withholding from any payment in respect of the GDRs which would not be required were the GDRs in definitive form; or
- (v) the Holder gives notice to the Depositary of its desire to exchange a part or the whole of the Master GDR for certificates evidencing GDRs in definitive registered form.

Any such exchange shall be at the expense (including printing costs) of the Holder in the case of such appropriate part or at the expense of the Holders in case of exchange of the whole of the Master GDR for the definitive GDRs.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through DTC, Euroclear or Clearstream, Luxembourg.

Upon any exchange of a part of a Master GDR for a certificate evidencing a GDR or GDRs in definitive form or any distribution of GDRs pursuant to Conditions 3, 5, 6, 7 or 10, or any reduction in the number of GDRs evidenced thereby following any withdrawal of any Deposited Property pursuant to Condition 2, or any increase in the number of GDRs following the deposit of Shares pursuant to Condition 1, the relevant details shall be entered on the Register of the Depositary, whereupon the number of GDRs represented by the Master GDR shall be reduced or increased (as the case may be) for all purposes by the amount so exchanged and entered on the Register, provided always that if the number of GDRs evidenced by the Master GDR is reduced to zero the Master GDR shall continue in existence until the obligations of the Company under the Deposit Agreement and the obligations of the Depositary pursuant to the Deposit Agreement and the Conditions have terminated.

Payments and Distributions

Payments of cash dividends and other amounts (including cash distributions) will, in the case of GDRs represented by the Master Regulation S GDR, be made by the Depositary through Euroclear and Clearstream, Luxembourg and, in the case of GDRs represented by the Master Rule 144A GDR, will be made by the Depositary through DTC, on behalf of persons entitled thereto upon receipt of funds therefore from the Company. A free distribution or rights issue of Shares to the Depositary on behalf of the Holders will result in the record maintained by the Depositary being marked up to reflect the enlarged number of GDRs represented by the relevant Master GDR.



Surrender of GDRs

Any requirement in the Terms and Conditions of the GDRs relating to the surrender of a Regulation S GDR to the Depositary shall be satisfied by the production by Euroclear or Clearstream, Luxembourg, and relating to the surrender of a Rule 144A GDR to the Depositary shall be satisfied by the production by DTC, on behalf of a person entitled to an interest therein, of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream, Luxembourg, in the case of the Master Regulation S GDR, or by DTC in the case of the Master Rule 144A GDR. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all money or other property payable or distributable in respect of the Deposited Property represented by such GDRs.

Notices

For as long as the Master Regulation S GDR is registered in the name of the common depositary for Euroclear and Clearstream, Luxembourg and the Master Rule 144A GDR is registered in the name of DTC (or its nominee), notices to Holders may be given by the Depositary by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg with respect to the Master Regulation S GDR and to DTC with respect to the Master Rule 144A GDR for communication to persons entitled thereto in substitution for delivery of notices in accordance with Condition 23, except that so long as the GDRs are listed on the Official List maintained by the UK Listing Authority and admitted for trading on the market for listed securities of the London Stock Exchange and the Rules of the UK Listing Authority or the London Stock Exchange so require, notices shall also be published in a leading newspaper having general circulation in the United Kingdom.

Information

For so long as any of the GDRs or the Shares remain outstanding and are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, if at any time the Company is neither subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the Exchange Act, nor exempt from such reporting requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed to supply to the Depositary such information in the English language and in such quantities as the Depositary may from time to time reasonably request, as is required to be delivered to any Holder or beneficial owner of GDRs or to any holder of Shares or prospective purchaser designated by such Holder, beneficial owner or holder pursuant to a Deed Poll executed by the Company in favour of such persons and the information delivery requirements of Rule 144A(d)(4) under the Securities Act, as amended, to permit compliance with Rule 144A in connection with resales of GDRs or Shares or interests therein in reliance on Rule 144A under the Securities Act and otherwise will comply with the requirements of Rule 144A(d)(4) under the Securities Act.

Governing Law

The Master GDRs shall be governed by and construed in accordance with English law.



TAXATION

The following summary of material Russian, United Kingdom and United States tax consequences of ownership of Shares and GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the Shares and holders of GDRs. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of Shares or GDRs. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of Shares or GDRs, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of the date of this Prospectus, and of any actual changes in applicable tax laws after such date.

Russian Federation

The following is a summary of certain Russian tax considerations relevant to payments to Russian resident and non-resident holders of the GDRs and Shares and to the purchase, ownership and disposition of GDRs and Shares by their Russian resident and non-resident holders. The summary is based on the laws of Russia in effect on the date of this prospectus as well as the Convention between the United States of America and the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital (the “United States-Russia Tax Treaty”) and the Convention between the Government of the Russian Federation and the Government of the United Kingdom and Northern Ireland on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital Gains (the “United Kingdom-Russia Tax Treaty”) all as in effect on the date of the prospectus. All of the foregoing is subject to change, possibly on a retroactive basis, after the date of the prospectus. The discussion with respect to Russian legislation is based on our understanding of current Russian law and Russian tax rules, which are subject to frequent change and varying interpretations. See “Risk Factors—Risks Relating to the Russian Federation—Legislative and Legal Risks—Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity in Russia and thus could have a material adverse effect on our business and the value of investments in Russia” and “Risk Factors—Risks Relating to the Russian Federation—Legislative and Legal Risks—Weaknesses and changes in the Russian tax system could materially adversely affect our business and the value of investments in Russia.”

The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of the Russian Federation. Nor does the summary seek to address the availability of double tax treaty relief, and it should be noted that there may be practical difficulties involved in claiming relief under an applicable double tax treaty. Prospective investors should consult their own advisers regarding the tax consequences of investing in the Shares and GDRs. No representations with respect to the Russian tax consequences to any particular holder are made hereby.

The Russian tax rules applicable to GDRs are characterized by uncertainties and by an absence of interpretative guidance. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change than in a jurisdiction with more developed capital markets and more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectors.

For the purposes of this summary, a “non-resident holder” means (i) a physical person, actually present in the Russian Federation for less than 183 days in a given calendar year (excluding days of arrival into Russia, but including days of departure from Russia) or (ii) a legal person or organization, in each case not organized under Russian law, that holds and disposes of GDRs otherwise than through a permanent establishment in Russia.

For the purposes of this summary, a “Russian resident holder” means (i) a physical person, actually present in the Russian Federation for 183 days or more in a given calendar year (excluding days of arrival into Russia, but including days of departure from Russia) or (ii) a legal person or organization, in each case organized under Russian law, or (iii) a legal person or organization, in each case organized under a foreign law, that holds and disposes of GDRs or Shares through its permanent establishment in Russia.

For the purposes of this summary of Russian tax considerations, a “U.S. holder” is a resident of the United States for the purposes of the United States-Russia Tax Treaty that is fully eligible for benefits under this Treaty



and holds the shares or GDRs. Subject to certain provisions of the United States-Russia Tax Treaty relating to limitations on benefits, a holder of GDRs generally will be a U.S. holder if it is:

- liable, under the laws of the United States, for U.S. federal income tax (other than taxes in respect only of income from sources in the United States or capital situated therein) by reason of its domicile, residence, citizenship, place of incorporation, or any other similar criterion (and, for income derived by a trust or estate, residence of the person liable for tax with respect to such income); and
- not also a resident of the Russian Federation for purposes of the United States-Russia Tax Treaty.

For the purposes of this summary of Russian tax considerations, a “U.K. holder” is a resident of the United Kingdom for the purposes of the United Kingdom-Russia Tax Treaty that is fully eligible for benefits under this Treaty and holds shares or GDRs. A holder of GDRs will generally be a U.K. holder if it is:

- liable, under the laws of the United Kingdom, for U.K. tax (other than taxes in respect only of income or capital gains from sources in the United Kingdom) by reason of its domicile, residence, place of management, or any other similar criterion; and
- not also a resident of the Russian Federation for Russian tax purposes.

The benefits under the United States-Russia Tax Treaty and the United Kingdom-Russia Tax Treaty discussed herein are not generally available to U.S. or U.K. persons who hold shares or GDRs in connection with the conduct of a business in the Russian Federation through a permanent establishment as defined in the relevant tax treaty. Subject to certain exceptions, a U.S. or U.K. person’s permanent establishment under the relevant tax treaty is a fixed place of business through which such person carries on business activities in the Russian Federation (generally including, but not limited to, a place of management, a branch, an office and a factory). Under certain circumstances, a U.S. or U.K. person may be deemed to have a permanent establishment in the Russian Federation as a result of activities carried on in the Russian Federation through agents of the U.S. or U.K. person. This summary does not address the treatment of those holders.

Investors that are resident in the U.S. or U.K. for tax purposes and do not have a permanent establishment in the Russian Federation can be U.S. or U.K. holders if they are the beneficial owners of the Shares or GDRs.

Taxation of dividends

A Russian company that pays dividends is generally obliged to act as a tax agent to withhold tax on the dividends and remit the amount of tax due to the Russian Federation state budget. However, the applicable withholding tax rate will depend on the status of the dividend’s recipient.

Russian resident holders

Shares

Dividends paid to a holder of our Shares that is a Russian legal entity or who is an individual and Russian tax resident will be subject to Russian withholding tax at the rate of 9%.

According to written clarifications issued by the Russian tax authorities, it may be possible to claim that the 9% withholding tax rate should apply to dividends paid to a Russian permanent establishment of a foreign legal entity (or organization), based on non-discrimination provisions of a double tax treaty between Russia and the country of tax residency of the respective foreign legal entity. However, as the Russian Tax Code does not specifically provide for the application of the reduced tax rate in such situations and non-discrimination cases are still very rare in Russian tax practice, no assurance can be given that the claims for application of the 9% tax rate would not be challenged by the Russian tax authorities.

GDRs

There are uncertainties in relation to withholding tax on dividends payable to Russian resident holders of GDRs. In the absence of any official interpretative guidance on the beneficial ownership concept in Russia and the fact that the Depositary (and not the holders of the GDRs) is the legal holder of the shares under Russian law, we will likely withhold tax at a domestic rate of 15% applicable to dividends payable to non-resident holders (as described below). There is also no established procedure for refund of tax withheld from dividends payable through the Depositary to Russian resident holders of GDRs. In view of the foregoing, Russian residents are urged to consult their own tax advisers regarding the tax treatment of the purchase, ownership and disposition of the GDRs.



Non-resident holders

Shares

Dividends paid to a non-resident holder of our common shares generally will be subject to Russian withholding tax, which will be withheld by us acting as a tax agent. The applicable tax rate on dividends will depend on whether the dividend recipient is a legal entity (or organization) or an individual. Dividends paid to a non-resident holder that is a legal entity (or organization) generally will be subject to Russian withholding tax at a rate of 15%. Dividends paid to non-resident individual holders will be subject to Russian withholding tax at a rate of 30%.

Withholding tax on dividends may be reduced under the terms of a double tax treaty between the Russian Federation and the country of tax treaty residence of the non-resident holder of our common shares. The United States Russia Tax Treaty, provides for reduced withholding rates on dividends paid to U.S. holders who are beneficial owners of the dividends. Under this treaty, a 5% rate applies to dividends paid to U.S. holders that are companies owning 10% or more of the entity's voting shares and a 10% rate applies to dividends paid to U.S. holders that own less than 10% of the entity's voting shares. The United Kingdom-Russia Tax Treaty, also provides for a 10% withholding rate on dividends paid to U.K. holders who are beneficial owners of the dividends and are subject to taxation with respect to these dividends in the United Kingdom.

With respect to U.S. or U.K. holders of Shares (individuals), the Company is able to act as a tax agent and withhold personal income tax at the rate of 30%, established for non-residents. Advance treaty relief will not be possible and must be obtained by submitting a tax return and supporting documentation in accordance with the procedures described under “—Tax treaty procedures.”

GDRs

Notwithstanding the foregoing, treaty relief may not be available to non-resident holders of GDRs. In 2005, the Ministry of Finance expressed an opinion that GDR holders (rather than Depository) should be treated as the beneficial owners of dividends for the purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that tax residencies of the GDR holders are duly confirmed. However, in the absence of any specific provisions in Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, it is unclear how Russian tax authorities and courts would ultimately treat the GDR holders in this regard. Moreover, from a practical perspective, it may not be possible for the Depository to collect residence confirmations from all GDR holders and submit such information to us and, in addition, we may be unaware of the exact amount of income payable to each holder.

Therefore, with respect to U.S. or U.K. holders (legal entities or organizations), we may be obligated to withhold income tax at the rate of 15% from dividend payments made to the Depository, unless prior to making such dividend payments to the Depository, we are provided with confirmation that U.S. or U.K. holders are beneficial owners of dividends within the meaning of the United States-Russia Tax Treaty and the United Kingdom Tax Treaty, respectively, and all administrative requirements for claiming treaty benefits are met. See “—Tax Treaty Procedures.” Although non-resident holders of GDRs may apply for a refund of a portion of the tax withheld under the applicable tax treaty, the procedure to do so may be time consuming, and we cannot assure you that the Russian tax authorities will grant a refund. See “—Tax treaty procedures.”

With respect to U.S. or U.K. holders (individuals) of GDRs, we may also be obligated to withhold income tax at the rate of 15% from dividend payments made to the Depository. We will not act as a tax agent for U.S. or U.K. holders (individuals) of GDRs and we will not be able to withhold personal income tax with respect to the above payment. In practice, it may be impossible to apply a beneficial withholding tax rate in advance with respect to payments made in favor of individuals, as documentation is to be first provided to the tax authorities to obtain their approval for the double tax treaty relief. U.S. or U.K. holders (individuals) of GDRs will then be obliged to submit an annual personal tax return to the Russian tax authorities. When submitting the tax return, U.S. or U.K. holders (individuals) may claim application of the reduced rates established by the U.S.-Russia Tax Treaty and the U.K. Tax Treaty, respectively, provided the procedures described in “—Tax Treaty Procedures” below are complied with. Obtaining the respective approvals from the tax authorities may be time-consuming and burdensome. In practice, the 15% tax withheld from payment of dividends to the Depository may not be refunded by the tax authorities, as the tax authorities will be unlikely to treat the 15% income tax as a tax liability of individual holders. Therefore it is possible that the U.S. or U.K. holders (individuals) may be subject to up to a 45% tax burden on their share of dividends.



Taxation of capital gains

Russian resident holders

Legal entities and organizations. Capital gains arising from the sale of Shares or GDRs by any non-individual Russian resident holder will be taxable at the regular Russian tax rate of 24%. Russian tax legislation contains a requirement that profit arising from operations with securities quoted on a stock exchange must be calculated and accounted for separately from profit from operations with securities that are not quoted on a stock exchange and from operating profit. Therefore, Russian resident holders that are not individuals may be able to apply losses arising in respect of the Shares or GDRs only to offset capital gains, or as a carry forward to offset future capital gains, from the sale, exchange or other disposition of securities quoted on a stock exchange. Special tax rules apply to Russian legal entities that hold a dealer license.

Individuals. Capital gains arising from the sale, exchange or other disposition of Shares or GDRs by individuals who are Russian resident holders must be declared on the holder's annual tax declaration and are subject to personal income tax at a rate of 13%.

The tax base in respect of sale of the securities by an individual is calculated as sale proceeds less documentary confirmed expenses related to purchase of these securities (including cost of securities and expenses associated with purchase, keeping and sale of these securities). If it is impossible to confirm the expenses with the appropriate documents then such individual can decrease the tax base by the amount of the property deduction: (i) if the individual owned the securities for less than three years, the property deduction cannot exceed RR125,000; and (ii) if the ownership period is three years and more the property deduction covers the full amount of income from the securities sale. However, practical application of the property deduction is currently unclear and investors should take independent tax advice with respect to tax consequences of receipt of proceeds from disposal of the shares.

As the Russian legislation related to taxation of income derived by Russian resident holders (including legal entities, organizations and individuals) from sale, exchange or other disposition of GDRs is not entirely clear, we urge Russian residents to consult their own tax advisers regarding the tax treatment of the purchase, ownership and disposition of the GDRs.

Non-resident holders

Legal entities and organizations. Under current Russian legislation, capital gains arising from the sale, exchange or other disposition of Shares or GDRs by non-resident holders (legal entities or organizations) should not be subject to tax in Russia if immovable property located in Russia constitutes 50% or less of our assets. We believe that immovable property located in Russia does not currently, and will not, constitute more than 50% of our assets. However, because the determination of whether more than 50% of our assets consist of immovable property located in Russia is inherently factual and is made on an on-going basis, and because the relevant legislation and regulations are not entirely clear, there can be no assurance that immovable property located in Russia does not currently, or will not, constitute more than 50% of our assets.

If more than 50% of our assets were to consist of immovable property located in Russia, non-resident holders (legal entities or organizations) of our Shares or GDRs (except as described below) will be subject to a 20% withholding tax on the gross proceeds from sale, exchange or other disposition of GDRs or 24% withholding tax on the capital gain realized from sale, exchange or other disposal, being the difference between the sales price and acquisition costs of Shares or GDRs. However, as far as the GDRs are concerned, so long as the GDRs remain listed on the London Stock Exchange, gains arising from the sale, exchange or other disposition of GDRs on the London Stock Exchange by non-resident holders (legal entities or organizations) should not be subject to taxation in Russia.

Where the shares or GDRs are sold by the U.S. or U.K. holders (organizations or legal entities) to persons other than a Russian company or a foreign company with a registered permanent establishment in Russia, even if the resulting capital gain is considered taxable Russian source income, there is currently no mechanism under which the purchaser will be able to withhold the tax and remit it to the Russian budget.

Individuals. According to Russian tax legislation, taxation of income for non-residents (individuals) will depend on whether this income is received from Russian or non-Russian sources. Russian tax law gives no clear indication as to how the sale of shares or GDRs should be treated in this regard; however, the practical approach is to consider the place of sale, *i.e.*, the sale of shares or GDRs outside of Russia by non-resident holders



(individuals) should not be considered Russian source income and, therefore, should not be taxable in Russia. As there is no definition of what should be considered to be a “sale in Russia,” the Russian tax authorities have a certain amount of flexibility in concluding whether a transaction occurs in or outside Russia. The sale, exchange or other disposal of Shares or GDRs by non-resident holders who are individuals in Russia will be considered Russian source income and will be subject to tax at the rate of 30% on the difference between the sales price and acquisition value of GDRs or underlying Shares and other documented expenses, such as depositary expenses and broker fees, among others. However, the acquisition price can only be deducted at the source of payment if the sale was made by a non-resident holder through a professional dealer or broker that is a Russian legal entity or a foreign company with a permanent establishment in Russia. Such professional dealer or broker should also act as a tax agent and withhold the applicable tax. The tax agent will be required to report to the Russian tax authorities on income realized by the non-resident individual and tax withheld upon the sale of shares or GDRs by April 1 of the year following the reporting year. Otherwise, if the sale is made to other legal entities and individuals, generally no withholding needs to be made and the non-resident holder will have an obligation to file an annual tax return, report his or her income realized and apply for a deduction of acquisition expenses (which includes filing of support documentation). Although the Russian tax code imposes the tax agent responsibility only on professional brokers or dealers, in practice, the tax authorities may require Russian legal entities or foreign companies with a permanent establishment in Russia that are not professional dealers or brokers to act as tax agents and withhold the applicable tax when purchasing securities from non-resident individuals.

A non-resident holder may be exempt from Russian withholding tax on the sale, exchange or other disposition of Shares or GDRs under the terms of a double tax treaty between the Russian Federation and the country of residence of the non-resident holder. Under the United States—Russia Tax Treaty, U.S. holders are exempt from the withholding tax on capital gains from sale of shares or GDRs unless 50% or more of the assets of the issuer are represented by immovable property located in Russia. The United Kingdom—Russia Tax Treaty provides for an exemption from withholding tax on capital gains received by U.K. holders unless the gains relate to shares that: (a) derive all or substantially all of their value directly or indirectly from immovable property in Russia; and (b) are not quoted on an approved stock exchange. See “—Tax Treaty Procedures.”

As the exemption of capital gains from taxation in Russia provided by both of the above treaties is not more beneficial for U.S. or U.K. holders (organizations and legal entities) than the treatment provided by current Russian legislation, it is unlikely that the need will arise for U.S. and U.K. holders (organizations and legal entities) to apply the respective treaties in order to obtain more beneficial treatment of capital gains resulting from the sale, exchange or disposition of shares or GDRs.

With respect to U.S. holders (individuals) the treatment provided by the United States-Russia Treaty may be more beneficial where immovable property does not make up more than 50% of our assets. With respect to U.K. holders (individuals), the treatment provided by the United Kingdom-Russia Tax Treaty may be more beneficial as the United Kingdom-Russia Tax Treaty exempts from Russian taxation any gain on the disposition of shares or GDRs quoted on an approved stock exchange.

In order to apply the treaties, the individual holders should receive clearance from the Russian tax authorities as described below under “—Tax Treaty Procedures”. However, in practice, application of the respective treaties may be impossible due to the lack of clarity in treatment of GDR holders as beneficial owners and difficulty with the collection of the residence and other confirmations from GDR holders for the Russian tax authorities. See “—Taxation of Dividends.”

Tax treaty procedures

The Profits Tax Chapter of the Tax Code does not contain a requirement that a non-resident holder that is a legal entity or organization must obtain tax treaty clearance from Russian tax authorities prior to receiving any income in order to qualify for benefits under an applicable tax treaty. A non-resident legal entity seeking to obtain relief from Russian withholding tax under a tax treaty must provide a confirmation of its tax treaty residence that complies with the applicable double tax treaty in advance of receiving income.

In the absence of such confirmation, during a tax audit the Russian tax authorities may dispute the non-resident’s eligibility for the double tax treaty relief and require the tax agent (i.e., the company paying dividends or the Russian purchaser of the shares) to pay the tax.

In accordance with the Tax Code, a non-resident holder who is an individual must present to the tax authorities a document confirming the income received and the tax paid off-shore, confirmed by the foreign tax



authorities. Technically, such requirement means that an individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his or her residence. Therefore advance relief from withholding taxes for individuals will generally be impossible as it is very unlikely that the supporting documentation for the treaty relief can be provided to the tax authorities and approval from the latter obtained before the year end.

If a non-resident does not obtain double tax treaty relief at the time that income or gains are realized and tax is withheld by a Russian payer, the non-resident holder may apply for a refund within three years from the end of the tax period in which the tax was withheld, if the recipient is a legal entity or organization, or within the one-year period from the end of the tax period in which the tax was withheld, if the recipient is an individual. To process a claim of a refund, the Russian tax authorities require (i) a confirmation of the tax treaty residence of the non-resident at the time the income was paid, (ii) an application for refund of the tax withheld in a format provided by the Russian tax authorities and (iii) copies of the relevant contracts and payment documents confirming the payment of the tax withheld to the appropriate Russian authorities (Form 1012DT for dividends and interest and Form 1011DT for other income is designed to combine (i) and (ii) for foreign legal entities individuals are also required to submit a document issued or approved by the home country tax authorities confirming the amount of income received and taxed in the home country). The Russian tax authorities may require a Russian translation of some documents. The refund of the tax withheld should be granted within one month of the filing of the application for the refund and the relevant documents have been filed with the Russian tax authorities. However, procedures for processing such claims have not been clearly established and there is significant uncertainty regarding the availability and timing of such refunds. See “Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—Holders of shares or GDRs may not be able to benefit from double tax treaties.”

The above-mentioned procedures may be more complicated with respect to GDRs, due to separation of legal ownership and beneficial ownership to the Russian shares, underlying the GDRs. In 2005, the Ministry of Finance expressed an opinion that GDR holders (rather than the Depository) should be treated as the beneficial owners of dividends for the purposes of the double tax treaty provisions applicable to the taxation of dividends, provided that tax residencies of the GDR holders are duly confirmed. However, in practice it may not be possible for the Depository to collect residence confirmations from all GDR holders and submit such information to us and, in addition, we may be unaware of the exact amount of income payable to each holder. Moreover, the clarifications of the Ministry of Finance referred only to dividends and did not cover capital gains, which may leave room for various interpretations by the tax authorities. Thus we cannot assure you that we will be able to apply the respective double tax treaties when paying out dividends to U.S. and U.K. holders.

United Kingdom

The comments below are of a general nature and are based on current U.K. law and published H.M. Revenue & Customs practice, both of which are subject to change, possibly with retrospective effect. The summary only covers the principal U.K. tax consequences for the absolute beneficial owners of Shares or GDRs and any dividends paid in respect of them, in circumstances where the dividends paid are regarded for U.K. tax purposes as that person’s own income (and not the income of some other person), and who are resident (or, in the case of individuals only, ordinarily resident) in the United Kingdom for tax purposes. In addition, the summary (a) only addresses the tax consequences for holders who hold the Shares or GDRs as capital assets and does not address the tax consequences which may be relevant to certain other categories of holders, for example, dealers; (b) does not address the tax consequences for holders that are insurance companies, collective investment schemes or persons connected with the Company; (c) assumes that the holder does not control or hold, either alone or together with one or more associated or connected persons, directly or indirectly, 10% or more of the shares and/or voting power of the Company; (d) assumes that there will be no register in the United Kingdom in respect of the Shares or GDRs; (e) assumes that the Shares will not be held by, and that the GDRs will not be issued by, a depository incorporated in the United Kingdom; and (f) assumes that neither the Shares nor the GDRs will be paired with shares issued by a company incorporated in the United Kingdom.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular holder. Potential investors should satisfy themselves as to the overall tax consequences, including, specifically, the consequences under U.K. law and H.M. Revenue & Customs practice, of acquisition, ownership and disposition of Shares or GDRs in their own particular circumstances, by consulting their own tax advisors.



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Taxation of Dividends

Income Tax and Corporation Tax

Holders who are resident (or, in the case of individuals only, ordinarily resident) in the U.K. will, in general, be subject to income tax or corporation tax on the total of the dividends received on their Shares or GDRs plus any withholding tax deducted in Russia, subject to the availability of any credit for Russian tax withheld.

Withholding Tax and Tax Credits

The Company is not required to make any deduction from payments of dividends for or on account of U.K. tax.

Tax Liability for Individual Holders

For an individual holder who is liable to U.K. tax on the dividend at the dividend ordinary rate (currently 10%), the credits for Russian tax deducted at source should equal or exceed its U.K. income tax liability in respect of the dividend and such holder will have no further U.K. tax to pay. For an individual holder who is liable to U.K. tax on the dividend at the dividend upper rate (currently 32.5%), the U.K. tax will be chargeable on the gross dividend with credit for Russian tax deducted at source at up to 15%. In appropriate cases, a holder will be entitled to relief at source or a refund of Russian tax as described above.

Tax Liability for Corporate Shareholders

A holder within the charge to U.K. corporation tax and resident (for tax purposes) in the U.K. will be liable for U.K. corporation tax on the receipt of the gross dividend with credit for Russian tax deducted at source at up to 15%. In appropriate cases, a holder will be entitled to relief at source or a refund of Russian tax as described above.

Taxation of Capital Gains

The disposal or deemed disposal of the Shares or GDRs by a holder who is resident (or, in the case of individuals only, ordinarily resident) in the U.K. for tax purposes may give rise to a chargeable gain or an allowable loss for the purposes of U.K. taxation of capital gains, depending on the holder's circumstances and subject to any available exemption or relief. In addition, holders who are individuals and who dispose of their Shares or GDRs while they are temporarily non-resident and return to the U.K. before five years of non-residence have elapsed may be treated as disposing of them in the tax year in which they again become resident or ordinarily resident in the United Kingdom.

As regards a holder who is an individual, the principal factors that will determine the extent to which such gain will be subject to capital gains tax ("CGT") are the extent to which the holder realises any other capital gains in that year, the extent to which the holder has incurred capital losses in that or any earlier year, the level of the annual allowance of tax-free gains in the tax year in which the disposal takes place (the "annual exemption") and the level of available taper relief.

Taper relief will reduce the proportion of any gain realised on the disposal of the Shares or GDRs that is brought into the charge to CGT if (in the case of non-business assets) the Shares or GDRs are held by the holder for at least three years. A reduction of 5% of the gain is made for each whole year for which the Shares or GDRs have been held in excess of two years. In the case of non-business assets, the maximum reduction available is 40% after ten complete years of holding.

The annual exemption for individuals is £8,800 for the 2006-2007 tax year and, under current legislation, this exemption is, unless the U.K. Parliament decides otherwise, increased annually in line with the rate of increase in the retail price index. Holders should be aware that the U.K. Parliament is entitled to withdraw this link between the level of the annual exemption and the retail price index or even to reduce the level of the annual exemption for future tax years below its current level. A holder which is a U.K. resident company is entitled to an indexation allowance which applies to reduce capital gains to the extent that they arise due to inflation. Indexation allowance may reduce a chargeable gain but not create any allowable loss.

Stamp Duty and Stamp Duty Reserve Tax

No U.K. stamp duty will be payable on the issue of the Shares or GDRs, and no U.K. stamp duty will be payable on the transfer of the Shares or GDRs provided that any instrument of transfer is not executed in the



United Kingdom and does not relate to any property situated or to any matter or thing done or to be done, in the United Kingdom. No U.K. stamp duty reserve tax will be payable on the issue or transfer of Shares or GDRs.

United States Federal Income Tax

TO ENSURE COMPLIANCE WITH U.S. TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF UNITED STATES FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

U.S. Holders

The following summary describes the principal U.S. federal income tax consequences for a U.S. Holder (as defined below) of acquiring, owning and disposing of Shares or GDRs. This summary is for general information only, and does not purport to be a comprehensive description of all tax consequences of the acquisition, ownership and disposition of Shares or GDRs, nor does it purport to address all aspects of U.S. federal income taxation that may be important to a particular investor in light of such investor's investment or tax circumstances, or to investors subject to special tax rules, such as a dealer in securities or currencies; a trader in securities that elects to use a mark-to-market method of accounting for securities holdings; a bank; a life-insurance company; a tax-exempt organization; a person that holds Shares or GDRs as part of a hedge, straddle or conversion transaction for tax purposes; a person whose functional currency for tax purposes is not the U.S. dollar; a person that owns or is deemed to own 10% or more of the Company's voting shares; or a person who will not hold Shares or GDRs as capital assets for U.S. federal income tax purposes.

This summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, existing and proposed regulations promulgated thereunder, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. Prospective holders should consult their own tax advisers concerning the U.S. federal, state, local and other national tax consequences of purchasing, owning and disposing of Shares or GDRs in light of their particular circumstances.

For purposes of this summary, a "U.S. Holder" is a beneficial owner of a Share or GDR that is: (i) a citizen or resident of the United States, (ii) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in the United States or under the laws of the United States or of any of its political subdivisions, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if either (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (b) the trust has a valid election in effect to be treated as a U.S. person for U.S. federal income tax purposes. A "non-U.S. Holder" is a nonresident alien individual, or a corporation, estate or trust that is not a U.S. Holder. For the U.S. tax consequences to a holder that is a non-U.S. Holder, see the discussion below under "—Non-U.S. Holders."

If a partnership owns Shares or GDRs, the U.S. tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership that will own Shares or GDRs, you should consult your tax advisor.

Generally, holders of GDRs will be treated for U.S. federal income tax purposes as holding the Shares represented by the GDRs. No gain or loss will be recognized upon the exchange of Shares for GDRs or the exchange of GDRs for Shares.

Distributions

The gross amount of any distributions paid with respect to Shares or GDRs to the extent of the Company's current and accumulated earnings and profits as determined under U.S. federal income tax principles ("Taxable Dividends") will be taxed as ordinary income at the time of the receipt of such amounts by the U.S. Holder. If any non-U.S. taxes are withheld in respect of a payment of dividends, a U.S. Holder would be required to include



in income any such tax withheld, notwithstanding that such withheld tax is not in fact received by such U.S. Holder. Taxable Dividends will be foreign-source income for U.S. foreign tax credit purposes and will not be eligible for the dividends-received deduction available to domestic corporations. A U.S. Holder may be eligible, subject to a number of limitations, to claim a U.S. foreign tax credit with respect to non-U.S. income taxes paid in respect of the dividend, but (i) only to the extent of the amount of such tax that is not reasonably certain to be refunded to such holder and (ii) only up to an amount that is not in excess of such U.S. holder's U.S. income tax liability that would otherwise be imposed on the receipt of the dividend. Alternatively, a U.S. Holder may be entitled to claim a deduction for non-U.S. income taxes paid, but only for a year for which such U.S. Holder does not elect to claim foreign tax credits with respect to any foreign income taxes. The rules relating to U.S. foreign tax credits and the timing thereof are extremely complex. Accordingly, U.S. Holders should consult their tax advisors with regard to the availability of a U.S. foreign tax credit and the application of the U.S. foreign tax credit limitations to their particular situations.

To the extent amounts paid as distributions on Shares or GDRs exceed the Company's current and accumulated earnings and profits, these amounts will not be Taxable Dividends, but instead will be treated (i) first, as a tax-free return of capital reducing the U.S. Holder's basis in the Shares or GDRs until such basis is reduced to zero, and (ii) then, as gain from the sale of the U.S. Holder's Shares or GDRs (as described below under "—Dispositions"). Such a reduction in a U.S. Holder's basis in the Shares or GDRs would increase any capital gain (or reduce any capital loss) realized by the U.S. Holder upon the subsequent sale, redemption or other taxable disposition of the Shares or GDRs. The Company does not intend to compute (or to provide U.S. Holders with the information necessary to compute) earnings and profits under U.S. federal income tax principles. Accordingly, U.S. Holders should expect to treat distributions as Taxable Dividends.

Taxable Dividends will be paid in rubles and will be includible in the income of a U.S. Holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date that the Taxable Dividends are received by the U.S. Holder (in the case of Shares) or by the Depository (in the case of GDRs), regardless of whether such rubles are in fact converted into U.S. dollars on such date. If such Taxable Dividends are converted into U.S. dollars on the date of receipt, a U.S. Holder generally should not be required to recognize foreign currency gain or loss in respect thereof. U.S. Holders should consult their own tax advisors regarding the treatment of foreign currency gain or loss, if any, on (i) any rubles received by a U.S. Holder or by the Depository that are converted into U.S. dollars on a date subsequent to receipt, or (ii) any refund received under the United States-Russia double tax treaty.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual U.S. Holder prior to January 1, 2009 with respect to the GDRs will be subject to taxation at a maximum rate of 15% if the dividends are "qualified dividends." Dividends paid on the GDRs will be treated as qualified dividends if (i) the Company is eligible for the benefits of a comprehensive income tax treaty with the United States that the U.S. Internal Revenue Service has approved for purposes of the qualified dividend rules, and (ii) the Company was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company ("PFIC"). The income tax treaty between the Russian Federation and the United States has been approved for purposes of the qualified dividend rules. Based upon its audited financial statements and relevant market and shareholder data, the Company believes that it would not have been treated as a PFIC for U.S. federal income tax purposes with respect to the 2005 taxable year. In addition, based upon its audited financial statements and its current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market and shareholder data, the Company does not anticipate becoming a PFIC for the 2006 taxable year.

The U.S. Treasury has announced its intention to promulgate rules pursuant to which holders of GDRs or common stock (and intermediaries through which such securities are held) will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because such procedures have not yet been issued, it is not clear whether the Company will be able to comply therewith. Potential investors should consult their own tax advisors regarding the availability of the reduced dividend rate in light of their own particular circumstances.

Distributions of additional Shares or GDRs to U.S. Holders with respect to their Shares or GDRs that are made as part of a *pro rata* distribution to all shareholders of the Company generally will not be subject to U.S. federal income tax.

Dispositions

Upon the sale, exchange or other disposition of Shares or GDRs, a U.S. Holder generally will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the U.S. Holder's basis in such Shares or GDRs (in U.S. dollars) and the amount realized on the disposition (in U.S. dollars). Such gain



or loss generally will be long-term capital gain or loss if, at the time of disposition, the U.S. Holder has held the Shares or GDRs for more than one year. Long-term capital gain recognized by an individual U.S. Holder generally is eligible for taxation at a reduced rate. The deduction of a capital loss is subject to limitations for U.S. federal income tax purposes.

Any gain or loss realized by a U.S. Holder on the disposition of Shares or GDRs generally will be treated as U.S.-source gain and generally will constitute "passive income" for U.S. foreign tax credit limitation purposes. U.S. Holders should consult their own tax advisors regarding the application of the foreign tax credit rules to their investment in, and disposition of, the Shares or GDRs.

Non-U.S. Holders

A non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on dividends received on Shares or GDRs, unless such income is effectively connected with the conduct by the non-U.S. Holder of a U.S. trade or business. A non-U.S. Holder of Shares or GDRs also generally will not be subject to U.S. federal income or withholding tax on gain realized upon the disposition of Shares or GDRs, unless (i) such gain is effectively connected with the conduct by the non-U.S. Holder of a U.S. trade or business, or (ii) in the case of gain realized by an individual non-U.S. Holder, such individual is present in the United States for at least 183 days in the taxable year of the sale (and certain other conditions are satisfied). Each potential investor that would be a non-U.S. Holder should consult its own tax adviser regarding the U.S. tax consequences of the ownership and disposition of Shares or GDRs.

Dividends or gain that is effectively connected with the conduct by a non-U.S. Holder of a trade or business in the United States generally will be subject to regular U.S. federal income tax in the same manner as if it were realized by a U.S. Holder. In addition, if such non-U.S. Holder is a non-U.S. corporation, such dividends or gain may be subject to a branch profits tax at a rate of 30% (or such lower rate as is provided by an applicable income tax treaty).

Information Reporting and Backup Withholding

Dividends on, and proceeds from the sale or other disposition of, Shares or GDRs paid to a U.S. Holder generally are subject to information reporting, and may be subject to backup withholding, unless the U.S. Holder (i) is a corporation or other exempt recipient, or (ii) provides a taxpayer identification number and certifies that no loss or exemption from backup withholding has occurred. Although non-U.S. Holders generally are exempt from backup withholding, a non-U.S. Holder may be required to comply with certification and identification procedures in order to establish its exemption from information reporting and backup withholding.



PLAN OF DISTRIBUTION

The Offering consists of an international simultaneous offering of Shares and GDRs. The Offering consists of an offering of GDRs in the United States to certain QIBs in reliance on Rule 144A, and an offering of GDRs outside the United States and the Russian Federation and of Shares outside the United States in reliance on Regulation S.

Under the terms of, and subject to, the conditions contained in an Underwriting Agreement dated May 11, 2006 (the “Underwriting Agreement”) entered into among us, the Selling Shareholder and the Underwriters, the Underwriters named below have severally agreed to procure purchases for, or failing which, themselves to purchase, at the Offer Price, the number of Shares (including a portion in the form of GDRs) indicated below. The Selling Shareholder has agreed to make available, at the Offer Price, to the Underwriters, the number of Shares (including a portion in the form of GDRs) indicated below:

<u>Name</u>	<u>Shares</u>
Renaissance Securities (Cyprus) Limited	87,905
JSC Gazprombank (CJSC)	10,988
URALSIB Securities Limited	10,988
Total	109,881

A maximum of 99,892 Shares is being offered in the form of GDRs.

The Underwriting Agreement contains, among others, the following provisions:

- The Selling Shareholder has granted to the Underwriters an Over-allotment Option to acquire up to 14,983 additional Shares in the form of GDRs at the Offer Price for the purposes of meeting over-allotments in connection with the Offering. The Over-allotment Option is exercisable upon written notice to the Selling Shareholder by Renaissance Securities (Cyprus) Limited on behalf of the Underwriters, given not later than 30 days following the Closing Date. If the Underwriters exercise this option, the Selling Shareholder will be obligated to sell, and each Underwriter will be severally obligated, subject to the conditions contained in the Underwriting Agreement, to purchase, a number of additional Shares in the form of GDRs proportionate to that Underwriter’s initial amount reflected in the table above.
- The Underwriters will deduct from the proceeds of the Offering:
 - (i) certain costs and expenses incurred by the Underwriters in connection with the Offering; and
 - (ii) commissions of 2.50% of the amount equal to the Offer Price multiplied by the number of Shares sold in the Offering. Such commissions will equate to a total of approximately U.S.\$6.3 million with respect to the number of Shares sold in the form of Shares and GDRs indicated in the table above and, with respect to any additional Shares in the form of GDRs acquired by the Underwriters as a result of the exercise of the Over-allotment Option, a total of approximately U.S.\$7.1 million (assuming that the Over-allotment Option is exercised in full).
- The obligations of the parties to the Underwriting Agreement are subject to certain conditions that are typical for an agreement of this nature. These conditions include, amongst others, the accuracy of the representations and warranties under the Underwriting Agreement and the application for Admission having been approved on or prior to the Closing Date. The Underwriters, may terminate the Underwriting Agreement prior to the Closing Date in certain specified circumstances that are typical for an agreement of this nature. These include the occurrence of certain material changes in our condition (financial or otherwise), prospects, results of operations or properties, as well as certain changes in financial, political, economic or market conditions (as more fully set out in the Underwriting Agreement). If any of the above-mentioned conditions are not satisfied (or waived, where capable of being waived) by, or the Underwriting Agreement is terminated prior to, the Closing Date, then the Offering will lapse.
- We and the Selling Shareholder have given certain representations and warranties to the Underwriters, including in relation to our business, our accounting records and our legal compliance, in relation to Shares and GDRs and in relation to the contents of this Prospectus. The Selling Shareholder has also given certain warranties to the Underwriters in relation to its capacity, its good title to the Shares and GDRs and its conduct.
- We and the Selling Shareholder have given certain indemnities to the Underwriters in connection with the Offering.



- If an Underwriter defaults, the underwriting agreement provides that in certain circumstances, the purchase commitments of the non-defaulting Underwriters may be increased or the underwriting agreement may be terminated.

We, the Selling Shareholder, and certain of our major shareholders have agreed, as part of the Underwriting Agreement, not to issue, offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of, directly or indirectly, any shares in us or securities convertible or exchangeable into or exercisable for any shares in us or warrants or other rights to purchase such shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or GDRs representing the right to receive any such securities or publicly announce any intention to do any of the foregoing, for a period of 180 days from the Closing Date, without the prior written consent of the Underwriters.

In connection with the Offering, Renaissance Capital Limited (the “Stabilising Manager”) or any person acting for it, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot GDRs or effect transactions with a view to supporting the market price of the GDRs at level higher than that which might otherwise prevail in the open market for limited after the issue date. However, there is no assurance that the Stabilising Manager (or any person acting for it) will undertake stabilizing action. Such stabilising, if commenced, may be discontinued at any time, and may only be undertaken during the period beginning on the date on which adequate public disclosure of the final price of the GDRs is made and ending on the date that is 30 calendar days thereafter. Save as required by law, Renaissance Capital Limited does not intend to disclose the extent of any over-allotments and/or stabilisation transactions under the Offering. Any stabilisation action will be undertaken in accordance with applicable laws and regulations.

The Underwriters will be soliciting non-binding indications of interest in acquiring the Shares and the GDRs under the Offering from prospective institutional investors. Prospective institutional investors will be required to specify the number of Shares and/or GDRs which they would be prepared to acquire at the relevant Offer Price (subject to it being determined). This process is known as book-building.

Shares and GDRs allocated under the Offering will, following determination of each Offer Price, be fully underwritten by the Underwriters as described in this section, “Plan of Distribution.” Allocations will be determined at the discretion of the Underwriters (following consultation with the Company) after non-binding indications of interest from prospective institutional investors have been received in the book-building process.

The Offer Prices have been determined by the Underwriters with the agreement of the Company and the Selling Shareholder. A number of factors have been considered in deciding the Offer Prices and the bases of allocation under the Offering, including the level and the nature of the demand for GDRs and the objective of encouraging the development of an orderly after-market in the Shares and the GDRs. The Underwriters have established the Offer Prices at levels determined in accordance with these arrangements, taking into account indications of interest received from persons (including market-makers and fund managers) connected with the Underwriters.

All Shares and GDRs issued or sold pursuant to the Offering will be issued or sold at the relevant Offer Price.

Application has been made (i) to the Financial Services Authority for a listing of up to 17,231,250 GDRs, consisting of up to 14,983,800 GDRs to be issued on or about the Closing Date, up to 2,247,450 additional GDRs to be issued pursuant to the Over-allotment Option, and additional GDRs to be issued from time to time against the deposit of Shares with JPMorgan Chase Bank, N.A., as Depositary, to be admitted to the Official List and (ii) to the London Stock Exchange plc for such GDRs to be admitted to trading on the London Stock Exchange’s regulated market for listed securities and in particular on the regulated market segment of the IOB. Application has also been made to have the Rule 144A GDRs designated eligible for trading in The PORTAL Market of the NASDAQ Stock Market, Inc. Prior to the Closing Date there has not been any public market for the GDRs. We expect that conditional trading through the IOB will commence on a “when and if issued” basis on or about May 10, 2006, and unconditional trading through the IOB will commence on or about May 15, 2006. All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned.



Investors wishing to enter into transactions in the GDRs prior to the Closing Date of the Offering, whether such transactions are effected on the London Stock Exchange or otherwise, should be aware that the closing of the Offering may not take place on May 12, 2006 or at all if certain conditions or events referred to in the Underwriting Agreement are not satisfied or waived or do not occur on or prior to such date. All such transactions will be of no effect if the Offering does not become unconditional. In addition, the GDRs are expected to be eligible for trading in PORTAL. However, we cannot assure you that an active public or other market will develop for the GDRs or Shares or that a liquid trading market will exist for the GDRs or Shares. We do not intend to list the GDRs or Shares on any U.S. national securities exchange or to seek the admission thereof to trading on the Nasdaq National Market System.

Some of the Underwriters and their respective affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or members of our group. They have received customary fees and commissions for these transactions and services.

Selling Restrictions

United States

Each of the Underwriters has represented that the Shares and GDRs have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in accordance with Regulation S or pursuant to an exemption from the registration requirements of the Securities Act. Each of the Underwriters has further represented that it has offered and sold the GDRs, and has agreed that it will offer and sell the GDRs, only in accordance with Rule 903 of Regulation S or Rule 144A. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Shares and GDRs.

Each of the Underwriters has represented that neither it nor any of its affiliates, nor any person acting on its or their behalf has engaged or will engage in any form of general solicitation or general advertising (within the meaning of Regulation D under the Securities Act) in connection with any offer and sale of the Shares and GDRs in the United States and that the Underwriters only may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of GDRs in the United States only to qualified institutional buyers in accordance with Rule 144A.

In addition, until 40 days after the commencement of the Offering of the Shares and GDRs, an offer or sale of the Shares or the GDRs within the United States by a dealer that is not participating in the Offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

The Underwriters propose to offer the Shares (i) in the form of GDRs to institutional investors outside the United States and the Russian Federation in reliance on Regulation S, (ii) in the form of GDRs through the U.S. selling agents of certain of the Underwriters, only to QIBs in the United States in reliance on Rule 144A, and (iii) in the form of shares to institutional investors outside the United States in reliance on Regulation S. Each of the Underwriters has agreed that, except as permitted in the Underwriting Agreement, it will not offer, sell or deliver Shares or the GDRs within the United States.

United Kingdom

Each of the Underwriters has represented and agreed that: (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Shares or GDRs in circumstances in which section 21(1) of the FSMA does not apply to the Company or the Selling Shareholder; and (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Shares or GDRs in, from or otherwise involving the United Kingdom.

European Economic Area

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each a Relevant Member State), an offer to the public of any GDRs which are the subject of the Offering contemplated by this Prospectus may not be made in that Relevant Member State except that an offer to the public in that Relevant Member State may be made at any time under the following exemptions under the



Prospectus Directive, if they have been implemented in that Relevant Member State: (a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities; (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; (c) by the Underwriters to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Global Coordinator for any such offer; or (d) in any other circumstances falling with Article 3(2) of the Prospectus Directive, provided in each case that no such offer of Shares or GDRs shall result in a requirement for the publication by the Company or Selling Shareholder or any Underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer to the public” in relation to any Shares or GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Shares or GDRs to be offered so as to enable an investor to decide to purchase any Shares or GDRs, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Russia

Each of the Underwriters has represented and agreed that it has not offered or sold and will not offer or sell any GDRs to or for the benefit of any persons resident, incorporated, established or having their usual residence in Russia or to any person located within the territory of Russia.

Japan

Each of the Underwriters has represented and agreed that the Shares and GDRs have not been and will not be registered under the Securities and Exchange Law of Japan and that it has not offered or sold, and it will not offer or sell, directly or indirectly, any of the Shares or GDRs in Japan or to, or for the account or benefit of, any resident of Japan or to, or for the account or benefit of, any persons for reoffering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, or otherwise in compliance with, the Securities and Exchange Law and other relevant laws and regulations of Japan.

General

Each of the Underwriters has represented and agreed that no action has been taken or will be taken in any jurisdiction that would permit a public offering of the Shares or the GDRs, or the possession or distribution of this Prospectus or any other material relating to the Offering or the Shares and GDRs, in any jurisdiction where action for such purpose is required. Accordingly, the Shares and GDRs may not be offered or sold, directly or indirectly, nor may this Prospectus or any other offering material or advertisement in connection with such securities be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

No dealer, salesperson or other person has been authorized to give any information or to make any representation not contained in this Prospectus, and, if given or made, such information or representation must not be relied upon as having been authorized by us or any Underwriter. This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date hereof or that the information contained in this Prospectus is correct as of a date after its date.

Buyer’s Representation

Each person in a Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”) other than, in the case of paragraph (a), persons receiving offers for the GDRs contemplated in the Prospectus in the United Kingdom who receives any communication in respect of, or who acquires any Shares or GDRs under, the offers contemplated in this Prospectus will be deemed to have represented, warranted and agreed to and with each Underwriter and the Company that:



- (a) it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and
- (b) in the case of any Shares or GDRs acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the Shares or GDRs acquired by it in the Offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Underwriters has been given to the offer or resale; or (ii) where Shares or GDRs have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Shares or GDRs to it is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this representation, the expression an “offer of Shares or GDRs to the public” in relation to any Shares or GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Shares or GDRs to be offered so as to enable an investor to decide to purchase or subscribe for the Shares or GDRs, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.



SETTLEMENT AND DELIVERY

Clearing and Settlement of GDRs

Custodial and depository links have been established between Euroclear, Clearstream and DTC to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream will be credited, to the extent received by the Depository, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

DTC

DTC has advised us as follows: DTC is a limited-purpose trust company organised under the laws of the State of New York, a "banking organization" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerized book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depository, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depository through DTC and DTC participants. Distributions in the United States will be subject to relevant U.S. tax laws and regulations. See "Taxation—United States Federal Income Tax."

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and Form

Book-entry interests in the GDRs held through Euroclear and Clearstream will be represented by the Master Regulation S GDR Certificate registered in the name of Chase Nominees Limited as common nominee for JPMorgan Chase Bank, N.A., as common depository for Euroclear and Clearstream. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR Certificate registered in the name of Cede & Co., as nominee for DTC, which will be held by the Depository as custodian for DTC. As necessary, the Registrar will adjust the amounts of GDRs on the relevant register for the accounts of the common nominee and nominee, respectively, to reflect the amounts of GDRs held through Euroclear, Clearstream and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream and DTC.



The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common nominee for Euroclear and Clearstream and the nominee for DTC. The Depositary will be responsible for ensuring that payments received by it from us for holders holding through Euroclear and Clearstream are credited to Euroclear or Clearstream, as the case may be, and the Depositary will also be responsible for ensuring that payments received by it from us for holders holding through DTC are received by DTC.

We will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream or DTC and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreement.

Settlement and Delivery of Shares

Each purchaser of the Shares in the Offering is required to pay for any Shares in same-day funds and the Shares will be delivered to such purchasers on or about May 17, 2006 or a later date. In order to take delivery of the Shares, potential purchasers may be required to have a depo account at one or more depositories designated by us. Upon taking delivery of the Shares, purchasers may choose to hold the Shares through a direct account with our share registrar; however, directly-held shares are ineligible for trading on the MSE or the RTS. In addition, in order to trade your Shares on the MSE or the RTS, investors may be required to further transfer their Shares to an account at a different depository.

Global Clearance and Settlement Procedures

Initial Settlement

The GDRs will be in global form evidenced by the two Global Master GDRs. Purchasers electing to hold book-entry interests in the GDRs through Euroclear and Clearstream accounts will follow the settlement procedures applicable to depository receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depository receipts.

Secondary Market Trading

Transfer Restrictions

For a description of the transfer restrictions relating to the GDRs, see “—Transfer Restrictions.”

Trading between Euroclear and Clearstream Participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream and will be settled using the normal procedures applicable to depository receipts.

Trading between DTC Participants

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depository receipts, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC Seller and Euroclear/Clearstream Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream participant, the DTC participant must send to DTC a delivery free of



payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depository to instruct Euroclear or Clearstream, as the case may be, to credit the relevant account of the Euroclear or Clearstream participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depository to (i) decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR Certificate and (ii) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream and represented by the Master Regulation S GDR Certificate.

Trading between Clearstream/Euroclear Seller and DTC Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream participant to the account of a DTC participant, the Euroclear or Clearstream participant must send to Euroclear or Clearstream a delivery free of payment instruction at least one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant, as the case may be. On the settlement date, Euroclear or Clearstream, as the case may be, will debit the account of its participant and will instruct the Depository to instruct DTC to credit the relevant account of Euroclear or Clearstream, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, as the case may be, shall on the settlement date instruct the Depository to (i) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Master Regulation S GDR Certificate and (ii) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR Certificate.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream and DTC, none of Euroclear, Clearstream or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of us, the Underwriters, the Depository, the Custodian or our or their respective agents will have any responsibility for the performance by Euroclear, Clearstream or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

Russian Share Register

We have appointed OJSC United Registration Company (OAO ORK) as the registrar of our Shares in Russia and we have agreed to continue such appointment so long as the GDRs remain outstanding or the Deposit Agreement remains in force.

We have agreed in the Deposit Agreement to:

- take any and all actions reasonably necessary to ensure the accuracy and completeness of all of the information contained in the register of shareholders maintained by the share registrar;
- provide or use our reasonable efforts to cause the share registrar to provide unrestricted access by the Depository and the Custodian to the register of shareholders regularly so as to permit verification of the registration of Shares represented by the GDRs in the name of the Depository or the Custodian or their respective nominees;
- use our reasonable efforts to cause the share registrar to promptly notify the Depository (i) of any material and uncured breaches by the share registrar of the terms of the Deposit Agreement, and (ii) any time the share registrar will no longer be able materially to comply with, or has engaged in conduct that indicates it will not materially comply with, the provisions of the Deposit Agreement relating to it;
- use our reasonable efforts to cause the share registrar to promptly (and, in any event, within three business days in Moscow, Russia of receipt by the share registrar of such documentation as may be required by applicable law and regulation and the reasonable and customary internal regulations of the share registrar, or as soon as practicable thereafter) re-register the Shares being deposited into or withdrawn from the GDR facilities; and



- use our reasonable efforts to cause the share registrar to promptly notify the Depositary (i) of any alleged unlawful elimination of shareholders from the shareholder register (or any alleged unlawful alteration of shareholder records), (ii) of any alleged unlawful refusal to register Shares, and (iii) any time the share registrar holds the Shares for its own account.

In the Deposit Agreement we have agreed to assume sole liability for:

- any act or failure to act of the share registrar (other than as a result of any act or failure to act by the Depositary or the Custodian or their respective directors, employees, agents or affiliates);
- unavailability of Shares on deposit under the terms of the Deposit Agreement; and
- failure of the Depositary to make any distributions contemplated by the Deposit Agreement as a result of our actions or those of our agents, the actions of the share registrar (other than as a result of any act or failure to act by the Depositary or the Custodian or their respective directors, employees, agents or affiliates), and actions of our present or future charter (or other instrument governing the deposited securities), and any provisions of any securities we issue or distribute and any related distribution or offering.

The Depositary has agreed, for the benefit of the owners of GDRs, to confirm the number of Shares identified on the share register as being on deposit pursuant to the terms of the Deposit Agreement. We have agreed with the Depositary that the Custodian shall maintain in custody duplicate share extracts provided by the share registrar and that any known material discrepancies between the records of the Depositary and the Custodian, on the one hand, and the records of the share registrar, on the other hand, will be brought to our attention promptly. We will use our reasonable efforts to cause the share registrar to reconcile any discrepancies and to effectuate the requisite corrections to the share register. In the event we are unable to obtain such reconciliation of records and the discrepancy exceeds 0.5% of the number of Shares identified on the records of the Depositary or the Custodian as being on deposit under the terms of any one of the Deposit Agreement, we will give notice thereof to the owners of GDRs (through the Depositary) and the Depositary shall cease issuance of new GDRs until the records have been appropriately reconciled.

Transfer Restrictions

Rule 144A GDRs

THIS MASTER RULE 144A GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF OPEN JOINT STOCK COMPANY "CHERKIZOVO GROUP" REPRESENTED HEREBY (THE "SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER HEREOF BY PURCHASING THE GDRs, AGREES FOR THE BENEFIT OF OPEN JOINT STOCK COMPANY "CHERKIZOVO GROUP" THAT THE GDRs AND THE SHARES CORRESPONDING HERETO MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER ("QIB") (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER OF THE GDRs WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF SUCH GDRs OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.



THE HOLDER HEREOF, BY PURCHASING THE GLOBAL DEPOSITARY RECEIPTS REPRESENTED BY THIS MASTER GDR, AGREES, FOR THE BENEFIT OF OPEN JOINT STOCK COMPANY "CHERKIZOVO GROUP" AND THE DEPOSITARY NAMED BELOW THAT THE GLOBAL DEPOSITARY RECEIPTS REPRESENTED BY THIS CERTIFICATE MAY NOT AT ANY TIME BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO ANY PERSON LOCATED IN RUSSIA, RESIDENTS OF RUSSIA, OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, SUCH PERSONS, UNLESS AND TO THE EXTENT OTHERWISE PERMITTED UNDER RUSSIAN LAW.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR OF THE COMPANY IN THE NAME OF JPMORGAN CHASE BANK, N.A., AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE. HOLDERS AND BENEFICIAL OWNERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA'S SYSTEM OF SHARE REGISTRATION AND CUSTODY CREATES RISKS OF LOSS THAT ARE NOT NORMALLY ASSOCIATED WITH INVESTMENTS IN OTHER SECURITIES MARKETS. THE DEPOSITARY WILL NOT BE LIABLE FOR THE UNAVAILABILITY OF SHARES OR FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY.

THE DEPOSITARY HAS BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION ARE NOT REQUIRED TO RECOGNISE OR ENFORCE JUDGMENTS OBTAINED IN THE COURTS OF ENGLAND.

Regulation S GDRs

THIS REGULATION S MASTER GDR, THE GLOBAL DEPOSITARY RECEIPTS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") AND SUCH SECURITIES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT OR PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

THE HOLDER HEREOF, BY PURCHASING THE GLOBAL DEPOSITARY RECEIPTS REPRESENTED BY THIS MASTER GDR, AGREES, FOR THE BENEFIT OF OPEN JOINT STOCK COMPANY "CHERKIZOVO GROUP" AND THE DEPOSITARY NAMED BELOW THAT THE GLOBAL DEPOSITARY RECEIPTS REPRESENTED BY THIS CERTIFICATE MAY NOT AT ANY TIME BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO ANY PERSON LOCATED IN RUSSIA, RESIDENTS OF RUSSIA, OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, SUCH PERSONS.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR OF THE COMPANY IN THE NAME OF JPMORGAN CHASE BANK, N.A., AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE. HOLDERS AND BENEFICIAL OWNERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA'S SYSTEM OF SHARE REGISTRATION AND CUSTODY CREATES RISKS OF LOSS THAT ARE NOT NORMALLY ASSOCIATED WITH INVESTMENTS IN OTHER SECURITIES MARKETS. THE DEPOSITARY WILL NOT BE LIABLE FOR THE UNAVAILABILITY OF SHARES OR FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY.

THE DEPOSITARY HAS BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION ARE NOT REQUIRED TO RECOGNISE OR ENFORCE JUDGMENTS OBTAINED IN THE COURTS OF ENGLAND.



INFORMATION RELATING TO THE DEPOSITARY

The Depositary is JPMorgan Chase Bank, N.A. JPMorgan Chase Bank, N.A. is a national bank with its headquarters in Columbus, Ohio, United States of America and is a principal banking subsidiary of JPMorgan Chase & Co. The Depositary was incorporated on November 26, 1968 and is subject to regulation and supervision by the Office of the Comptroller of the Currency. The registered office of the Depositary is located at 1111 Polaris Parkway, Columbus, Ohio, United States of America. A copy of JPMorgan Chase & Co. by-laws, as amended, together with copies of the most recent consolidated reports of condition and income—FFIEC 031 (call reports) will be available for inspection at the Office of the Secretary, JPMorgan Chase & Co., located at 270 Park Avenue, New York, New York 10017, United States of America.

LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon for us with respect to U.S. and English law by Cleary Gottlieb Steen & Hamilton LLP and certain legal matters in connection with the Offering will be passed upon for us with respect to Russian law by Liniya Prava. Certain legal matters in connection with the Offering will be passed upon for the Managers with respect to U.S., English and Russian law by Skadden, Arps, Slate, Meagher & Flom (UK) LLP, London, England and Skadden, Arps, Slate, Meagher & Flom LLP, Moscow, Russian Federation.

INDEPENDENT AUDITORS

ZAO Deloitte & Touche CIS (“Deloitte”), independent auditors, Business Centre Mokhovaya, 4/7 Vozdvizhenka Street, Building 2, Moscow 125009, Russian Federation, have audited the group’s annual financial statements. Deloitte’s audit report in respect of the Combined and Consolidated Financial Statements for the years ended December 31, 2005, 2004 and 2003 expressed a qualified opinion.

For the purpose of compliance with the Prospectus Rules, Deloitte has given and not withdrawn its written consent to the inclusion on page F-3 of this Prospectus of its auditors’ report on the combined and consolidated financial statements of the Company for the three years ended December 31, 2005, and has authorized the contents of its said auditors’ report for the purposes of Annex X item 23.1 in Appendix 3 to the Prospectus Rules. Deloitte has also accepted responsibility for its said auditors’ report as part of the Prospectus and declared that it has taken all reasonable care to ensure that the information contained in that report is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex X item 1.2 of the Prospectus Rules. As the offered GDRs have not been and will not be registered under the Securities Act, Deloitte has not filed a consent under the Securities Act.

Deloitte is a member of the Institute of Professional Accountants of Russia and the Territorial Institute of Professional Accountants.

As described in note 3 of the Combined and Consolidated Financial Statements, the Company’s management 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 Company’s management established the carrying value of such assets based on the estimated fair values at such date. The Company’s management believes that 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 our and related companies’ financial position, results of operations and cash flows is not reasonably determinable from the accounts and records.



GENERAL INFORMATION

1. It is expected that the GDRs will be admitted, subject only to the issue of the Master Regulation S GDR and the Master Rule 144A GDR, to the Official List on or about May 15, 2006. Application has been made for the GDRs to be traded on the regulated market of the London Stock Exchange and in particular on the IOB. Prior to admission to the Official List, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction.
2. We have obtained all necessary consents, approvals and authorizations in Russia in connection with the offer and issue of the GDRs and the New Shares.
3. The entry into the Underwriting Agreement was approved by an extraordinary general meeting of our shareholders on March 23, 2006 and the issuance of the New Shares was approved by an extraordinary general meeting of our shareholders on March 23, 2006. The entry into the Underwriting Agreement and the offer of the Shares was approved by the board of directors of the Selling Shareholder on May 10, 2006.
4. The board of directors of the Company approved the issuance of the New Shares on March 27, 2006.
5. Copies of the following documents will be available for inspection free of charge, during normal business hours on any weekday, at the offices of Cleary Gottlieb Steen & Hamilton LLP, City Place House, 55 Basinghall Street, London EC2V 5EH, United Kingdom for 14 days from the date of this Prospectus:
 - our charter (English translation);
 - the Deposit Agreement;
 - our audited combined and consolidated financial statements as of December 31, 2005, 2004 and 2003 and for the years then ended, together with the auditors' thereon; and
 - a copy of this Prospectus.
6. If definitive certificates are issued in exchange for the Master GDRs, the Company will appoint an agent in the United Kingdom for so long as the GDRs are listed on the London Stock Exchange.
7. The CUSIP for the Regulation S GDRs is 68371H209, the ISIN for the Regulation S GDRs is US68371H2094 and the Common Code for the Regulation S GDRs is 025277171. The CUSIP for the Rule 144A GDRs is 68371H100, the ISIN for the Rule 144A GDRs is US68371H1005 and the Common Code for the Rule 144A GDRs is 025277112. The ISIN for the Shares is RU000A0JLYR1.
8. Since December 31, 2005, the end of the last financial period for which we have published audited financial statements, there has been no significant change in the financial or trading position of the group, and no material adverse change in the financial position or prospects of the Company or the Group.



9. The following is a list of the Company’s significant subsidiaries, their date of establishment, the Company’s actual and effective interests as at the date of this Prospectus, the registered addresses and principal business activities.

<u>Name</u>	<u>Actual interest⁽¹⁾</u>	<u>Effective interest⁽²⁾</u>	<u>Address of registered office</u>	<u>Principal business</u>
LLC Agroindustrial Complex Cherkizovsky	100%	100%	107143 Moscow, 5 Permskaya Street	Holding company
OJSC Cherkizovsky Meat Processing Plant	87%	87%	107143 Moscow, 5 Permskaya Street	Meat processing plant
OJSC Biruliovsky Meat Processing Plant	95%	95%	115372 Moscow, 38 Biruliovskaya Street	Meat processing plant
LLC Cherkizovo-Kashira	100%	99%	142931 Moscow Oblast, Kashirsky district, Topkanovo	Meat processing plant
OJSC Meat and Poultry Processing Plant Penzensky	95%	95%	440015 Penza, 178 B Austrina Street	Meat and poultry processing plant
OJSC Belmiaso	75%	75%	308013 Belgorod, 31 Mikhailovskoe Shosse	Meat processing plant
OJSC Meat Processing Plant Ulyanovsky	80%	79%	432036 Ulyanovsk, 12 Moskovskoe Shosse	Meat processing plant
CJSC Meat Processing Plant Babaevsky	85%	85%	352505 Krasnodarsky Krai, City of Labinsk – 5, Severnaya Promyshlennaya Zona	Meat processing plant
LLC Meat Processing Plant Salsky	100%	81%	347600 Rostov Oblast, Salsk, 1 Promyshlennaya Street	Meat processing plant
JSC Trading Company of AIC Cherkizovsky	100%	100%	107143 Moscow, 5 Permskaya Street	Trading company
LLC Agroindustrial Complex Mikhailovsky	100%	100%	107143 Moscow, 5 Permskaya Street	Holding company
CJSC Krugovskaya	76%	76%	141651 Moscow Oblast, Klinsky District, Vozdvizhenskoe	Poultry farm
CJSC Petelinskaya	84%	84%	143060, Moscow Oblast, Odintsovky District, Chastyy	Poultry farm
OJSC Vasiljevskaya	100%	100%	442762 Penza Oblast, Bessonovsky District	Poultry farm
LLC Trading House Petelino	100%	84%	143060 Moscow Oblast, Odintsovky District, Chastyy	Trading company
LLC Petelinsky Poultry Processing Plant	100%	84%	143060 Moscow Oblast, Odintsovky District, Chastyy	Poultry processing plant
CJSC Botovo	76%	76%	162693 Vologda Oblast, Cherepovetsky District, village of Botovo	Pig farm
CJSC Agrofirma Budenovets	75%	75%	141820 Moscow Oblast, Dmitrovsky District, Danilovskoe	Pig farm



<u>Name</u>	<u>Actual interest⁽¹⁾</u>	<u>Effective interest⁽²⁾</u>	<u>Address of registered office</u>	<u>Principal business</u>
OJSC Lipetskmyasoprom	100%	100%	398050 Lipetsk, 2 Zhelyabova Street	
LLC Kuznetsovsky Kombinat	100%	100%	143340 Moscow Oblast, Naro-Fominsky District, Yakovlevskoe	Pig farm
LLC Mikhailovsky Feed Milling Plant	100%	100%	440510 Penza Oblast, Penzensky District, Lenino	Feed plant
LLC Ardymsky Feed Milling Plant	89%	89%	440510 Penza Oblast, Penzensky District, Lenino	Feed plant

Notes:

- (1) Represents our total voting interest in the share capital of the entity.
- (2) Represents our proportionate ownership of the entity.

- 10. The GDRs are not denominated in any currency and have no nominal or par value. The Offer Price was determined based on the results of the bookbuilding exercise conducted by the Joint Global Coordinators. The results of the Offering will be made public by us through a press release and notice to the Regulatory Information Service promptly upon the closing of the Offering.
- 11. The Company prepares annual and interim consolidated financial statements in accordance with U.S. GAAP. Copies of the Company's annual audited consolidated financial statements and unaudited interim consolidated financial statements required to be provided to holders of GDRs will be available for inspection and may be obtained free of charge at the office of the Depositary.
- 12. The total fees and expenses of the Company and the Selling Shareholder in connection with the listing of the GDRs are estimated to be no greater than approximately U.S.\$8.5 million.



GLOSSARY OF SELECTED TERMS

Bone-in meat	A cut of meat containing the bone or having the bone attached to it.
Boneless meat	A cut of meat from which the bone has been removed.
Brood-sows	Pigs used in breeding operations.
Chilled meat	Fresh chilled meat that has not been previously frozen.
Cooked sausage	Ready-to-eat sausage that is made with fresh meats and then fully cooked during manufacture.
Cooked smoked sausage	Ready-to-eat sausage that is fully cooked and then smoked.
Fresh meat products	Non-prepared meat products, including retail format meat and meat raw materials.
Frozen meat	Fresh meat that is frozen for purposes of transportation and sale.
Hot dogs and frankfurters	Individual small ready-to-eat cooked sausages that vary in length and thickness.
Meat products	Intermediate and final processed meat products, including prepared meat products, ready-to-cook products and retail format meat, but as used in this Prospectus excluding poultry and chilled pork products.
Meat spread	Spread-like product made from cooked or raw meat with an addition of fat and baked in a metal dish.
Pelmeni (dumplings)	Frozen semi-cooked product made of dough and filled with ground meat.
Pigs	Pigs raised for slaughter and sale.
Prepared meat products	Sausages, hams, meat spreads and other ready-to-eat meat products.
Raw smoked sausage and salami	Ready-to-eat sausage that is smoked according to the “cold” method, but not cooked, and then thoroughly dried.
Ready-to-cook meat products	Meat products that have been partially prepared and are sold in a form ready for cooking.
Retail format meat	Case-ready products and meat cuts.
Semi-smoked sausage	Ready-to-eat sausage that is sautéed and cooked and then smoked according to the “hot” method and dried.
Slaughter-weight	Gross live animal weight.
Smoked meat	Cured raw meat seasoned with spices and salt.



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OJSC CHERKIZOVO GROUP

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 F-3, 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:

/s/ SERGEI I. MIKHAILOV

Mr. Sergei I. Mikhailov
Chief Executive Officer

/s/ LUDMILA I. MIKHAILOVA

Ms. Ludmila I. Mikhailova
Chief Financial Officer

/s/ NAUM A. BABAEV

Mr. Naum A. Babaev
Director of Strategy and Development



Deloitte.

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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)

	<u>Notes</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
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		<u>141 007</u>	<u>131 673</u>	<u>84 223</u>
Current assets of discontinued operations	14	—	308	340
Total current assets		<u>141 007</u>	<u>131 981</u>	<u>84 563</u>
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		<u>282 806</u>	<u>216 729</u>	<u>197 526</u>
Non-current assets of discontinued operations	14	—	637	689
Total non-current assets		<u>282 806</u>	<u>217 366</u>	<u>198 215</u>
Total assets		<u>423 813</u>	<u>349 347</u>	<u>282 778</u>

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)

	<u>Notes</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
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	<u>27 816</u>	<u>18 423</u>	<u>16 543</u>
Total current liabilities of continuing operations		181 146	160 450	137 259
Current liabilities of discontinued operations	14	—	142	94
Total current liabilities		<u>181 146</u>	<u>160 592</u>	<u>137 353</u>
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		<u>40</u>	<u>31</u>	<u>147</u>
Total non-current liabilities of continuing operations		165 611	120 464	83 518
Non-current liabilities of discontinued operations	14	—	—	—
Total non current liabilities		<u>165 611</u>	<u>120 464</u>	<u>83 518</u>
Total liabilities		<u>346 757</u>	<u>281 056</u>	<u>220 871</u>
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		<u>11 996</u>	<u>5 841</u>	<u>5 485</u>
Total shareholders' equity		<u>62 508</u>	<u>32 848</u>	<u>28 815</u>
Total liabilities and shareholders' equity		<u>423 813</u>	<u>349 347</u>	<u>282 778</u>

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



OJSC CHERKIZOVO GROUP

**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.



OJSC CHERKIZOVO GROUP

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
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	<u>14 110</u>	<u>(4 355)</u>	<u>(8 474)</u>
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	<u>285</u>	<u>142</u>	<u>279</u>
Net cash from (used in) operating activities associated with discontinued operations	<u>138</u>	<u>(155)</u>	<u>84</u>
Total net cash from (used in) operating activities	<u>14 248</u>	<u>(4 510)</u>	<u>(8 390)</u>
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	<u>(71 035)</u>	<u>(22 296)</u>	<u>(14 725)</u>



OJSC CHERKIZOVO GROUP

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
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	<u>11</u>	<u>37 433</u>	<u>5 485</u>	<u>(14 114)</u>	<u>28 815</u>	
For the year ended December 31, 2003						<u>(16 994)</u>
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	<u>11</u>	<u>37 461</u>	<u>5 841</u>	<u>(10 465)</u>	<u>32 848</u>	
For the year ended December 31, 2004						<u>4 769</u>
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	<u>12</u>	<u>63 614</u>	<u>11 996</u>	<u>(13 114)</u>	<u>62 508</u>	
For the year ended December 31, 2005						<u>14 427</u>

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.



OJSC CHERKIZOVO GROUP

NOTES TO THE COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003 (in thousands of US dollars)

1. BACKGROUND

OJSC Cherkizovo Group (further “the Group”) traces its 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.



OJSC CHERKIZOVO GROUP

**NOTES TO THE COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003—(Continued)**
(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.



OJSC CHERKIZOVO GROUP

NOTES TO THE COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003—(Continued) (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



OJSC CHERKIZOVO GROUP

NOTES TO THE COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003—(Continued)

(in thousands of US dollars)

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.

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.

	<u>Exchange rate</u>
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.



OJSC CHERKIZOVO GROUP

NOTES TO THE COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003—(Continued) (in thousands of US dollars)

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.



OJSC CHERKIZOVO GROUP

NOTES TO THE COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003—(Continued) (in thousands of US dollars)

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.



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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.

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:

	<u>Age of transfer into main herd, years</u>	<u>Depreciation, years</u>
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.



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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.



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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.

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.



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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 than 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.

<u>As of December 31, 2005</u>	<u>Book value</u>	<u>Fair value</u>
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
<u>As of December 31, 2004</u>	<u>Book value</u>	<u>Fair value</u>
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
<u>As of December 31, 2003</u>	<u>Book value</u>	<u>Fair value</u>
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.



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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.



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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.



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

	<u>Meat processing</u>	<u>Poultry</u>	<u>Pork</u>	<u>Corporate asset expenditure</u>	<u>Intersegment</u>	<u>Combined</u>
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)	<u>11 358</u>	<u>15 808</u>	<u>(661)</u>	<u>(92)</u>	<u>52</u>	<u>26 465</u>
Expenditure on plant and equipment	<u>(8 530)</u>	<u>(37 205)</u>	<u>(40 157)</u>	<u>—</u>	<u>—</u>	<u>(85 892)</u>
Segment assets	<u>240 727</u>	<u>126 569</u>	<u>61 832</u>	<u>198</u>	<u>(5 513)</u>	<u>423 813</u>
Supplemental information						
Depreciation expense	13 373	4 944	2 153			20 470
Income tax expense	<u>7 251</u>	<u>429</u>	<u>221</u>			<u>7 901</u>
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	<u>(7 901)</u>					
Consolidated and combined income from continuing operations before extraordinary item	<u>17 079</u>					
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	<u>423 813</u>					



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

	<u>Meat processing</u>	<u>Poultry</u>	<u>Pork</u>	<u>Corporate asset expenditure</u>	<u>Intersegment</u>	<u>Combined</u>
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	<u>(4 324)</u>	<u>7 230</u>	<u>(768)</u>	<u>(43)</u>	<u>—</u>	<u>2 095</u>
Expenditure on plant and equipment	<u>(10 118)</u>	<u>(15 547)</u>	<u>(2 218)</u>	<u>—</u>	<u>—</u>	<u>(27 883)</u>
Segment assets	<u>221 255</u>	<u>101 878</u>	<u>30 687</u>	<u>136</u>	<u>(5 554)</u>	<u>348 402</u>
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	<u>3 568</u>					
Consolidated and combined income from continuing operations before extraordinary item	<u>873</u>					
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	<u>349 347</u>					



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

	<u>Meat processing</u>	<u>Poultry</u>	<u>Pork</u>	<u>Corporate asset expenditure</u>	<u>Intersegment</u>	<u>Combined</u>
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.

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.



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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:

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

5. TRADE RECEIVABLES, NET

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

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

6. ADVANCES PAID, NET

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
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)
	<u>8 620</u>	<u>7 433</u>	<u>3 187</u>

7. INVENTORY

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
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
	<u>43 213</u>	<u>42 471</u>	<u>34 056</u>

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.



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8. LIVESTOCK

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

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

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:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
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	—
	<u>31 633</u>	<u>25 942</u>	<u>15 902</u>

10. PROPERTY, PLANT AND EQUIPMENT, NET

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
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
	<u>251 608</u>	<u>202 496</u>	<u>183 430</u>

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.



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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	<u>625</u>
Balance at December 31, 2003	8 526
Translation gain	<u>524</u>
Balance at December 31, 2004	9 050
Translation loss	<u>(325)</u>
Balance at December 31, 2005	<u><u>8 725</u></u>

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.

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:

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

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	<u>478</u>
Total assets acquired	<u>8 273</u>
Current liabilities	(3 823)
Long term debt	<u>(704)</u>
Total liabilities assumed	<u>(4 527)</u>
Purchase price	<u><u>3 746</u></u>



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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.

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:

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

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.

Revenues and losses from discontinued operations were as follows:

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



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15. NOTES PAYABLE

Notes payable as of December 31, 2005 comprised:

Issuer	2005		Weighted average interest rate
	Short-term	Long-term	
Rouble denominated			
LLC Cherkizovo-Kashira	—	3 559	12%
	—	<u>3 559</u>	

Notes payable as of December 31, 2004 comprised:

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

Notes payable as of December 31, 2003 comprised:

Issuer	2003		Weighted average interest rate
	Short-term	Long-term	
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%
	<u>2 518</u>	<u>4 875</u>	

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
	<u>3 559</u>



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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).



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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.

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.



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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	
	Total minimum lease payments	Portion related to interest	Total minimum lease payments	Portion related to interest	Total minimum lease payments	Portion related to interest
Payments falling due						
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	—	—
	<u>1 397</u>	<u>93</u>	<u>2 573</u>	<u>273</u>	<u>954</u>	<u>127</u>



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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



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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.

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;



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- 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 APK 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. \$139 was repaid during the first two months of 2006.

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
	<u>158 684</u>

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



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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.



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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:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
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
	<u>13 823</u>	<u>10 772</u>	<u>9 805</u>
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Long-term tax related payables			
VAT	602	945	1 119
Payroll related taxes	366	602	1 466
Other taxes	115	280	314
	<u>1 083</u>	<u>1 827</u>	<u>2 899</u>

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.

The schedule of tax repayment comprises:

2008	326
2010	157
2011	150
2012	150
2013	150
2014	150
	<u>1 083</u>



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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:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
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
	<u>27 816</u>	<u>18 423</u>	<u>16 543</u>

21. MINORITY INTEREST

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

Balance at December 31, 2002	<u>21 994</u>
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	<u>33 092</u>
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	<u>35 443</u>
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	<u>14 548</u>

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.



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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.

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	<u>7 079</u>
Current liabilities	(4 472)
Long-term debt	(1 849)
Total liabilities assumed	<u>(6 321)</u>
Purchase price	<u>758</u>

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	<u>3 390</u>
Current liabilities	(2 441)
Long term debt	(458)
Total liabilities assumed	<u>(2 899)</u>
Purchase price	<u>491</u>

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.



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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	<u>7 551</u>
Total assets acquired	<u>66 498</u>
Current liabilities	(16 373)
Long term debt	<u>(23 971)</u>
Total liabilities assumed	<u>(40 344)</u>
Purchase price	<u>26 154</u>

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.



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23. SALES

Sales for 2005, 2004 and 2003 comprised:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
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)
	<u>546 181</u>	<u>463 760</u>	<u>337 463</u>

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

	<u>2005</u>	<u>2004</u>	<u>2004</u>
Produced goods	2 081	—	10
Other sales	142	5	1
Total sales to related parties	<u>2 223</u>	<u>5</u>	<u>11</u>

24. COST OF SALES

Cost of sales for 2005, 2004 and 2003 comprised:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
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
	<u>420 993</u>	<u>375 924</u>	<u>274 868</u>



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25. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
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
	<u>80 704</u>	<u>74 047</u>	<u>52 246</u>

26. OTHER OPERATING EXPENSES

Other operating expenses for 2005, 2004 and 2003 comprised:

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

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.



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27. OTHER INCOME AND EXPENSE, NET

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
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)
	<u>16 906</u>	<u>10 215</u>	<u>10 405</u>

28. INCOME TAX

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

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

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:

<u>Years</u>	<u>Income tax rate</u>
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.



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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:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
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	<u>7 901</u>	<u>4 790</u>	<u>6 268</u>
	<u>2005</u>	<u>2004</u>	<u>2003</u>
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	<u>(15 293)</u>	<u>(13 160)</u>	<u>(12 857)</u>
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	<u>(18 967)</u>	<u>(14 964)</u>	<u>(14 650)</u>
Deferred tax asset – current	3 674	1 804	1 793
Deferred tax liability – current	—	—	—
Current deferred tax asset, net	<u>3 674</u>	<u>1 804</u>	<u>1 793</u>
Total deferred tax liability, net	<u>(15 293)</u>	<u>(13 160)</u>	<u>(12 857)</u>



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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	<u>(15 293)</u>

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.

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.



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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:

	<u>Entities disposed of to shareholders</u>	<u>Control group</u>	<u>Other related parties</u>	<u>Total</u>
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

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

	<u>Entities disposed of to shareholders</u>	<u>Control group</u>	<u>Other related parties</u>	<u>Total</u>
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



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

	<u>Entities Disposed of to shareholders</u>	<u>Control group</u>	<u>Other related parties</u>	<u>Total</u>
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

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	<u>1 147</u>

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	<u>1 147</u>



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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)	<u>(1 174)</u>
Net distribution to shareholders	<u>(9 080)</u>

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.

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

<u>Name of company</u>	<u>Legal form</u>	<u>Nature of business</u>
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.



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

	<u>At Spin-off date</u>
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	<u>21 160</u>
Total assets of continuing operations	65 702
Total assets of discontinued operations	<u>1 142</u>
Total assets	<u><u>66 844</u></u>
LIABILITIES	
Trade accounts payable	(17 924)
Short-term loans	(30 086)
Other liabilities	<u>(21 282)</u>
Total liabilities of continuing operations	(69 292)
Total liabilities of discontinued operations	<u>(987)</u>
Total liabilities	<u><u>(70 279)</u></u>
Minority interest	(8 421)
Net liabilities	<u><u>(11 856)</u></u>

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

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

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.



OJSC CHERKIZOVO GROUP

NOTES TO THE COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003—(Continued) (in thousands of US dollars)

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.

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.



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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 totaling 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:

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



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