# ROS AGRO PLC

## International Financial Reporting Standards
## Consolidated Financial Statements
## for the year ended 31 December 2011
## and Independent Auditor's Report

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## Board of Directors

Mr. Richard Smyth
*Chairman of the Board of Directors*
*Non-executive Director*

Mr. Anastassios Televantides
*Chairman of the Audit Committee*
*Non-executive Director*

Mrs. Natalia Bykovskaya
*Member of the Audit Committee*
*Executive Director*
*Deputy CEO of LLC Rusagro Group*

Mrs. Ganna Khomenko
*Member of the Audit Committee*
*Non-executive Director*

Mr. Maxim Basov
*Executive Director*
*Chief Executive Officer of OJSC Rusagro Group and LLC Rusagro Group*

## Board Support

The Company Secretary is available to advise all Directors to ensure compliance with the Board procedures.

## Company Secretary

Fiduciana Secretaries Limited
12 Mykinon
Lavinia Court, 6th floor
CY-1065, Nicosia
Cyprus.

## Registered office

12 Mykinon
Lavinia Court, 6th floor
CY-1065, Nicosia
Cyprus.

The Board of Directors presents its report together with the audited consolidated financial statements of ROS AGRO PLC (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2011. The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113.

## Principal activities

The principal activities of the Group are the agricultural production (cultivation of sugar-beet, grain and other agricultural crops), cultivation of pigs, processing of raw sugar and production of sugar from sugar-beet, vegetable oil production and processing.

## Review of developments, position and performance of the Group's business

In 2011 revenue grew by RR 8,759,585 thousand or 28%. The main reasons for growth were the increase in sales volumes in all business segments and the acquisition of a new oil processing plant in Samara at the beginning of the year. The price factor played a different role in revenue dynamics in different segments: positive in Sugar, Meat and Oil Yekaterinburg, and negative in the Agro division.

Adjusted EBITDA decreased by RR 2,725,399 thousand or 35%. The decrease came from the Sugar division where we faced a broken correlation between international and domestic prices at the end of the raw sugar season, caused by the market participants' expectations of a high sugar beet harvest, and the decline in prices in the end of the year as a result of which we moved sales to the first half of 2012 where we expect a more favorable price situation. The Meat division demonstrated positive dynamics in adjusted EBITDA driven by favorable prices and an increase in efficiency. Adjusted EBITDA in the Agro division increased as a result of a yield increase that was partly offset by adverse price changes.

In 2011 the Group investments in property, plant and equipment amounted to RR 10,845,355 thousand on cash basis. Investments of RR 4,279,324 thousand were made in the Meat division for construction of a new pig-breeding farm in Tambov region and expansion of capacity at the pig-breeding farm in Belgorod region. The Agro division invested RR 4,852,839 thousand in expansion of the land bank and acquisition of new agricultural machinery and equipment.

## Principal risks and uncertainties

The Group's critical estimates and judgments and financial risk management are disclosed in Notes 2 and 27 to the consolidated financial statements.

The Group's contingencies are disclosed in Note 28 to the consolidated financial statements.

## Future developments

The Group adheres to its strategy the main purpose of which is to become the largest vertically integrated agricultural company in the Russian market. In 2012 and beyond, the Group plans to continue modernization and expansion of its production and storage facilities in all business segments.

## Results

The Group's results for the year are set out on page 2 of the consolidated financial statements.

## Dividends

Pursuant to its Articles of Association the Company may pay dividends out of its profits. To the extent that the Company declares and pays dividends, owners of Global Depositary Receipts (hereafter also referred as "GDRs") on the relevant record date will be entitled to receive dividends payable in respect of Ordinary Shares underlying the GDRs, subject to the terms of the Deposit Agreement.

The Company is a holding company and thus its ability to pay dividends depends on the ability of its subsidiaries to pay dividends to the Company in accordance with the relevant legislation and contractual restrictions. The payment of such dividends by its subsidiaries is contingent upon the sufficiency of their earnings, cash flows and distributable reserves. The maximum dividend payable by the Company`s subsidiaries is restricted to the total accumulated retained earnings of the relevant subsidiary, determined according to the Russian law.

There were no dividends announced and paid during the years ended 31 December 2011 and 31 December 2010. The Board of Directors does not recommend the payment of a dividend and the net profit for the year is retained.

**Share capital**

As a result of the initial public offering in April 2011(hereinafter also referred to as "IPO"), the Company issued 4,000,000 new ordinary shares with a par value of EUR0.01 per share and at a price of US$75 per share. These shares were fully paid. In the context of the IPO, the existing shareholders have also sold 1,000,000 shares to the public. Each ordinary share of the Company is represented by 5 GDRs. The gross proceeds from the IPO, related to and receivable by the Group, amounted to approximately RR 8.4 billion and the Group's net transaction costs amounted to approximately RR 217.3 million.

All changes in the share capital of the Group are disclosed in Note 12 to the consolidated financial statements.

**The role of the Board of Directors**

The Company is governed by its Board of Directors (hereafter also referred as "the Board") which is collectively responsible to the shareholders for the successful performance of the Group.

The Board sets corporate strategic objectives, ensuring that the necessary financial and human resources are in place for the Group to meet its objectives and reviewing management performance. The Board of Directors sets the Group's values and standards and ensures all obligations to shareholders are understood and met. The Board believes it maintains a sound system of internal control to safeguard the Group's assets and shareholders' investments in the Group.

**Members of the Board of Directors**

The members of the Board of Directors at 31 December 2011 and at the date of this report are shown on page 1.The Board currently has 5 members and all of them were appointed on 25 February 2011, except Mr. Anastassios Televantides who was appointed on 25 November 2011. Mrs Androulla Papadopoulou and Mrs. Illiana Chatzisavva Giannakou, who held at office on 1 January 2011, resigned on 25 February 2011. Mr. Marcus Rhodes who was appointed as Director on 25 February 2011, resigned on 25 November 2011.

In accordance with the Company's Articles of Association, one third of the Directors shall retire by rotation and seek re-election at each Annual General meeting.

**Directors' Interests**

The Directors Mrs. Natalia Bykovskaya and Mr. Maxim Basov held interest in the Company as at 31 December 2011.

The number of shares directly held by Mrs. Natalia Bykovskaya as at 31 December 2011 is 200,000 (31 December 2010: nil), and in addition 17,799,996 shares (31 December 2010: 200,000) were held indirectly through her family relationship with Mr. Vadim Moshkovich.

Mr. Maxim Basov has no direct interest in the Company as at 31 December 2011 (31 December 2010: none), the number of share held indirectly (through an entity controlled by Mr. Maxim Basov) as at 31 December 2011 is 1,008,200 (31 December 2010: nil).

**Audit Committee**

The Board of Directors has established an Audit Committee. The Audit Committee is primarily responsible for (i) ensuring the integrity of our financial statements, (ii) ensuring our compliance with legal and regulatory requirements, (iii) evaluating our internal control and risk management procedures, (iv) assuring the qualification and independence of our independent auditors and overseeing the audit process and (v) resolving matters arising during the course of audits and coordinating internal audit functions. The Audit Committee consists of three members appointed by the Board of Directors. The current members are Mr. Anastassios Televantides (Chairman), Mrs. Natalia Bykovskaya and Mrs. Ganna Khomenko.

**Corporate Governance**

On 20 September 2011, the Company has approved and adopted the following codes: Code of Conduct on insider information and Code of Business Conducts and Ethics (the "Codes"). In addition the subsidiary company LLC "Group of Companies Ros Agro" was instructed and authorized to adopt the New Edition of the Codes and in its turn to instruct its subsidiaries and affiliates to adopt the same Codes for mandatory compliance by all employees.

**Events after the balance sheet date**

The events after the consolidated balance sheet date are disclosed in Note 30 to the consolidated financial statements.

**Branches**

The Company did not operate through any branches during the year.

**Treasury shares**

On 25 August 2011, the Board unanimously resolved that it is in the best interest of the Group to buy back GDRs from the market for the total amount of up to US$10 million. As at 31 December 2011, the Group has totally acquired 1.29 million GDRs from the market, through Renaissance Capital own name but on the Group's behalf, for a total cost of RR 303,750 thousand.

**Going Concern**

Directors have access to all information necessary to exercise their duties. The Directors continue to adopt the going concern basis in preparing the financial statements based on the fact that, after making enquiries and following a review of the Group's budget for 2012, including cash flows and borrowing facilities, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future.

**Independent Auditors**

The Independent Auditors, PricewaterhouseCoopers Limited, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

**By Order of the Board**

**Richard Smyth**
**Chairman of the Board of Directors**

Limassol
26 April 2012

The Board of Directors of ROS AGRO PLC (the "Company") is responsible for preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and the requirements of the Cyprus Companies Law, Cap. 113.

This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Each of the Directors confirms to the best of his or her knowledge that these consolidated financial statements (which are presented on pages 1 to 66) have been prepared in accordance with IFRS as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.

**By Order of the Board**

**Richard Smyth**
**Chairman of the Board of Directors**

Limassol
26 April 2012

# Independent Auditor's Report
To the Members of ROS AGRO PLC

## Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of ROS AGRO PLC (the "Company") and its subsidiaries (together with the Company, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Board of Directors' responsibility for the consolidated financial statements*

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap 113.

**Report on other legal and regulatory requirements**

Pursuant to the requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors is consistent with the consolidated financial statements.

**Other matter**

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Yiangos Kaponides
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Limassol, 26 April 2012

**ROS AGRO PLC**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**FOR THE YEAR ENDED 31 DECEMBER 2011**
***(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)***

| | Notes | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 3 | 5,457,567 | 5,120,208 |
| Restricted cash | 3 | 29,618 | 305,276 |
| Short-term investments | 4 | 14,670,667 | 6,165,571 |
| Trade and other receivables | 5 | 2,315,475 | 2,237,468 |
| Prepayments | 6 | 507,009 | 906,444 |
| Current income tax receivable | | 32,161 | 63,519 |
| Other taxes receivable | 7 | 1,480,439 | 725,322 |
| Inventories | 8 | 10,402,449 | 7,298,722 |
| Short-term biological assets | 10 | 1,145,562 | 855,069 |
| **Total current assets** | | **36,040,947** | **23,677,599** |
| | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | 21,537,127 | 13,721,002 |
| Goodwill | 22 | 1,175,578 | 474,899 |
| Advances paid for property, plant and equipment | | 1,762,301 | 135,563 |
| Long-term biological assets | 10 | 880,048 | 703,676 |
| Long-term investments | 11 | 487,681 | 152,950 |
| Deferred income tax assets | 23 | 474,577 | 153,965 |
| Other intangible assets | | 49,640 | 31,711 |
| Restricted cash | 3 | 101,432 | - |
| **Total non-current assets** | | **26,468,384** | **15,373,766** |
| **Total assets** | | **62,509,331** | **39,051,365** |
| | | | |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities** | | | |
| Short-term borrowings | 13 | 17,129,130 | 11,209,711 |
| Trade and other payables | 14 | 1,889,143 | 1,934,441 |
| Current income tax payable | | 80,049 | 26,639 |
| Other taxes payable | 15 | 499,915 | 475,859 |
| **Total current liabilities** | | **19,598,237** | **13,646,650** |
| | | | |
| **Non-current liabilities** | | | |
| Long-term borrowings | 13 | 14,842,960 | 8,262,101 |
| Government grants | 16 | 512,998 | 577,134 |
| Deferred income tax liability | 23 | 376,451 | 386,627 |
| Other non-current liabilities | | 46,659 | 43,046 |
| **Total non-current liabilities** | | **15,779,068** | **9,268,908** |
| **Total liabilities** | | **35,377,305** | **22,915,558** |
| | | | |
| **Equity** | | | |
| Share capital | 12 | 9,734 | 85 |
| Treasury shares | 12 | (303,750) | - |
| Share premium | 12 | 10,557,573 | 341,317 |
| Share-based payment reserve | 24 | 672,247 | - |
| Retained earnings | | 15,851,492 | 15,385,050 |
| **Equity attributable to owners of ROS AGRO PLC** | | **26,787,296** | **15,726,452** |
| Non-controlling interest | | 344,730 | 409,355 |
| **Total equity** | | **27,132,026** | **16,135,807** |
| **Total liabilities and equity** | | **62,509,331** | **39,051,365** |

Approved for issue and signed on behalf of the Board of Directors on 26 April 2012

Basov M.D.
Director of ROS AGRO PLC

Richard Smyth
Director of ROS AGRO PLC



The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.

(*IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)*

| | Notes | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|---|---|---|
| Sales | 17 | 39,715,115 | 30,955,530 |
| Gain on revaluation of biological assets and agriculture produce | 10 | 3,320,938 | 2,572,854 |
| Cost of sales | 18 | (34,377,027) | (24,683,471) |
| Gains less losses from trading sugar derivatives | 27 | (313,264) | 1,214,660 |
| **Gross profit** | | **8,345,762** | **10,059,573** |
| Distribution and selling expenses | 19 | (2,454,778) | (1,641,600) |
| General and administrative expenses | 20 | (2,431,696) | (2,235,004) |
| Share-based remuneration | 24 | (672,247) | - |
| Other operating expenses, net | 21 | (245,955) | (204,815) |
| **Operating profit** | | **2,541,086** | **5,978,154** |
| Interest expense | 16 | (720,264) | (789,554) |
| Interest income | | 882,376 | 433,222 |
| Other financial (expenses)/ income, net | | (75,787) | 4,743 |
| **Profit before taxation** | | **2,627,411** | **5,626,565** |
| Income tax expense | 23 | (207,565) | (511,427) |
| **Profit for the year** | | **2,419,846** | **5,115,138** |
| **Total comprehensive income for the year** | | **2,419,846** | **5,115,138** |
| **Profit is attributable to:** | | | |
| Owners of ROS AGRO PLC | | 2,364,732 | 5,078,430 |
| Non-controlling interest | | 55,114 | 36,708 |
| **Profit for the year** | | **2,419,846** | **5,115,138** |
| **Total comprehensive income is attributable to:** | | | |
| Owners of ROS AGRO PLC | | 2,364,732 | 5,078,430 |
| Non-controlling interest | | 55,114 | 36,708 |
| **Total comprehensive income for the year** | | **2,419,846** | **5,115,138** |
| Earnings per ordinary share for profit attributable to the equity holders of ROS AGRO PLC, basic and diluted (in RR per share) | 25 | 103.57 | 253.92 |



The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.

**(*IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)***

| | Notes | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before taxation | | **2,627,411** | **5,626,565** |
| *Adjustments for:* | | | |
| Depreciation of property, plant and equipment | 18-20 | 2,132,110 | 1,858,178 |
| Interest expense | 16 | 1,999,337 | 1,688,503 |
| Government grants | 16, 21 | (1,522,577) | (1,230,239) |
| Interest income | | (882,376) | (433,222) |
| Gain on initial recognition of agricultural produce, net | 10, 18 | (660,904) | (100,349) |
| Change in provision for net realisable value of inventory | 18 | 121,632 | (23,592) |
| Revaluation of biological assets, net | 10, 18 | (46,413) | (272,241) |
| Change in provision for impairment of receivables and prepayments | 19 | 39,522 | (888) |
| Unrealised foreign exchange gain | | (93,666) | (32,063) |
| Write-off of trade and other receivables | 21 | 20,709 | 75,959 |
| Share-based remuneration | 24 | 672,247 | - |
| Lost harvest write-off | 21 | 16,673 | 191,425 |
| Change in provision for impairment of advances paid for property, plant and equipment | 21 | 329,088 | - |
| Other non-cash and non-operating expenses, net | | 711 | 37,401 |
| **Operating cash flow before working capital changes** | | **4,753,504** | **7,385,437** |
| Change in trade and other receivables and prepayments | | 424,162 | (1,973,539) |
| Change in other taxes receivable | | (755,116) | (155,307) |
| Change in inventories | | (1,158,960) | (2,044,903) |
| Change in biological assets | | (381,132) | 1,466 |
| Change in trade and other payables | | 70,562 | 1,390,468 |
| Change in other taxes payable | | 270,557 | 106,161 |
| **Cash generated from operations** | | **3,223,577** | **4,709,783** |
| Income tax paid | | (348,650) | (603,373) |
| **Net cash from operating activities** | | **2,874,927** | **4,106,410** |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | | (10,845,355) | (2,922,663) |
| Purchases of other intangible assets | | (33,908) | (19,866) |
| Proceeds from sales of property, plant and equipment | | 40,541 | 52,762 |
| Investments in subsidiaries, net of cash acquired | | (1,963) | (1,469) |
| Proceeds from sale of subsidiaries, net of cash disposed | | - | 204 |
| Purchases of promissory notes | | (3,054,557) | (2,402,688) |
| Proceeds from sales of promissory notes | | 2,626,002 | 2,402,796 |
| Proceeds from sales of other investments | | - | 4,500 |
| Proceeds from cash withdrawals from deposits | | 12,733,790 | 3,020,000 |
| Deposits placed with banks | | (21,227,779) | (8,070,190) |
| Loans given | | (1,392,965) | (1,643,129) |
| Loans repaid | | 255,173 | 1,506,263 |
| Interest received | | 722,807 | 383,141 |
| Dividends received | | 5,782 | 1,021 |
| Movement in restricted cash | | 174,226 | (305,276) |
| **Net cash used in investing activities** | | **(19,998,206)** | **(7,994,594)** |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 28,454,169 | 15,099,244 |
| Repayment of borrowings | | (18,212,554) | (7,934,513) |
| Interest paid | | (2,082,809) | (1,610,034) |
| Purchases of non-controlling interest | | (116,813) | (46,499) |
| Sale of non-controlling interest | | 170 | - |
| Proceeds from government grants | | 1,458,441 | 1,271,831 |
| Proceeds from issue of own shares, net of transaction costs | 12 | 8,227,414 | - |
| Purchases of treasury shares | 12 | (303,750) | - |
| Dividends paid | | - | (169) |
| Lease payments | | (14,664) | (221,554) |
| **Net cash from financing activities** | | **17,409,604** | **6,558,306** |
| Net effect of exchange rate changes on cash and cash equivalents | | 51,034 | (7,835) |
| **Net increase in cash and cash equivalents** | | **337,359** | **2,662,287** |
| Cash and cash equivalents at the beginning of the year | 3 | 5,120,208 | 2,457,921 |
| **Cash and cash equivalents at the end of the year** | 3 | **5,457,567** | **5,120,208** |



The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.

***(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)***

| | | Attributable to owners of ROS AGRO PLC | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Notes** | **Share capital** | **Treasury shares** | **Share premium** | **Share-based payment reserve** | **Retained earnings*** | **Total** | **Non-controlling interest** | **Total equity** |
| **Balance at 1 January 2010** | | **65** | **-** | **-** | **-** | **10,609,566** | **10,609,631** | **457,517** | **11,067,148** |
| Total comprehensive income for the year | | - | - | - | - | 5,078,430 | 5,078,430 | 36,708 | **5,115,138** |
| Share issue | 12 | 20 | - | 341,317 | - | - | 341,337 | - | **341,337** |
| Adjustment due to Group restructuring | 12 | - | - | - | - | (341,317) | (341,317) | - | **(341,317)** |
| Acquisition of non-controlling interest | 22 | - | - | - | - | 38,371 | 38,371 | (84,870) | **(46,499)** |
| **Balance at 31 December 2010** | | **85** | **-** | **341,317** | **-** | **15,385,050** | **15,726,452** | **409,355** | **16,135,807** |
| **Balance at 1 January 2011** | | **85** | **-** | **341,317** | **-** | **15,385,050** | **15,726,452** | **409,355** | **16,135,807** |
| Total comprehensive income for the year | | - | - | - | - | 2,364,732 | 2,364,732 | 55,114 | **2,419,846** |
| Share issue | 12 | 9,649 | - | 10,216,256 | - | - | 10,225,905 | - | **10,225,905** |
| Adjustment due to Group restructuring | 12 | - | - | - | - | (2,042,425) | (2,042,425) | - | **(2,042,425)** |
| Purchases of treasury shares | 12 | - | (303,750) | - | - | - | (303,750) | - | **(303,750)** |
| Share based remuneration | 24 | - | - | - | 672,247 | - | 672,247 | - | **672,247** |
| Acquisition of subsidiaries | 22 | - | - | - | - | (51,746) | (51,746) | 192,982 | **141,236** |
| Acquisition of non-controlling interest | 12 | - | - | - | - | 197,329 | 197,329 | (314,339) | **(117,010)** |
| Sale of non-controlling interest | | - | - | - | - | (1,448) | (1,448) | 1,618 | **170** |
| **Balance at 31 December 2011** | | **9,734** | **(303,750)** | **10,557,573** | **672,247** | **15,851,492** | **26,787,296** | **344,730** | **27,132,026** |

* Retained earnings in the separate financial statements of the Company is the only reserve that is available for distribution on the form of dividends.

(*IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)*

## 1. Background

### Description of the business

These consolidated financial statements were prepared for ROS AGRO PLC (hereinafter the "Company") and its subsidiaries (hereinafter collectively with the Company, the "Group"). The Group is ultimately controlled by Mr. Vadim Moshkovich (hereinafter the "Owner"), who owns 74.17% of issued shares in ROS AGRO PLC (75% together with his close family members) as at 31 December 2011 (31 December 2010: 99% of shares in the previous holding company of the Group OJSC Rusagro Group, including 14.3% through ROS AGRO PLC). OJSC Rusagro Group was the holding company of the Group up to January 2011. As part of restructuring by the Owner, in January 2011 the remaining 85.7% of the issued ordinary shares of OJSC Rusagro Group were contributed by the Owner to the charter capital of ROS AGRO PLC (Note 12). The principal subsidiaries obtained by the Company as a result of the restructuring are shown below. The restructuring is accounted for as a transaction between entities under common control (see Note 2.4).

The principal activities of the Group are:

- agricultural production (cultivation of sugar-beet, grain and other agricultural crops);
- cultivation of pigs;
- processing of raw sugar and production of sugar from sugar-beet;
- vegetable oil extraction and processing.

During the first half of 2011 the Company has successfully completed an initial public offering ("IPO") of its shares in the form of global depositary receipts ("GDR"). The Company's GDRs (five GDRs representing one ordinary share of the Company) are listed on the Main Market of the London Stock Exchange under the symbol "AGRO". For further details please refer to Note 12.

The registered office of ROS AGRO PLC is at Mykinon 12, LAVINIA COURT, 6th floor, 1065, Nicosia, Cyprus.

The Group operates in the Russian Federation except for financial derivatives trading activity (Note 27).

Principal subsidiaries of the Group included into these consolidated financial statements are listed below:

| | | Group's share in the share capital, % | |
|---|---|---|---|
| **Entity** | **Principal activity** | **31 December 2011** | **31 December 2010** |
| OJSC Rusagro Group | Investment holding, financing | 100* | n/a |
| LLC Rusagro Group | Investment holding, financing | 100 | 100 |
| | **Sugar segment** | | |
| LLC Rusagro- Sakhar | Sugar division trading company, sales operations | 100 | 100 |
| OJSC Sugar Plant Zherdevsky | Beet and raw sugar processing | -** | 99.9 |
| OJSC Rzhevsky Sakharnik | Beet and raw sugar processing | 99.7 | 99.7 |
| OJSC Valuikisakhar | Beet and raw sugar processing | 99.2 | 99.2 |
| OJSC Nika Corp. | Beet and raw sugar processing | 98.6 | 98.3 |
| OJSC Sugar Plant Znamensky | Beet and raw sugar processing | 99.2 | 95.3 |
| OJSC Sugar Plant Nikiforovsky | Beet and raw sugar processing | -** | 72.8 |
| LLC Chernyansky Sugar Plant | Beet and raw sugar processing | 100 | 100 |
| Limeniko Trade and Invest Limited | Financial derivatives trading | 100 | 100 |
| | **Oil segment** | | |
| OJSC Fats and Oil Integrated Works | Oil processing | 87.4 | 97.6 |
| LLC Samaraagroprompererabotka | Oil extraction | 74.9 | n/a |
| | **Meat segment** | | |
| OJSC Belgorodsky Bacon | Cultivation of pigs | 100 | 100 |
| LLC Tambovsky Bacon | Cultivation of pigs | 100 | 100 |

(*IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)*

## 1. Background (continued)

### Description of the business (continued)

| Entity | Principal activity | Group's share in the share capital, % 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| | **Other agriculture segment** | | |
| LLC Rusagro-Invest | Agriculture | 100 | 100 |
| LLC Agrotehnology | Agriculture | 100 | 100 |
| LLC Rusagro-Tambov | Agriculture | -*** | 100 |
| LLC Agronik | Agriculture | -*** | 100 |
| OJSC Zherdevsky Elevator | Grain elevator | 94.1 | 84.6 |
| LLC Rusagro Oskol | Agriculture | -*** | 100 |
| LLC RusAgro-Invest | Investments, trading | -*** | 100 |
| LLC Rusagro-Shebekino | Agriculture | -*** | 100 |
| LLC Rusagro-Volokonovka | Agriculture | -*** | 100 |
| LLC Rusagro-Zarechie | Agriculture | -*** | 100 |
| LLC Nezhegol-Agro | Grain elevator | 100 | 100 |

* OJSC Rusagro Group was the Holding company of the predecessor group up to January 2011.

** In December 2011 the Group undertook legal reorganization in its Sugar segment. Within this reorganization OJSC Sugar Plant Zherdevsky and OJSC Sugar Plant Nikiforovsky were merged into legal entity OJSC Sugar Plant Znamensky

*** In the first half of 2011 the Group undertook legal reorganization in its Other agriculture segment. Within this reorganization 12 legal entities in the Tambov region and 12 legal entities in the Belgorod region were merged into legal entities LLC Agrotehnology and LLC Rusagro-Invest, respectively.

### Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation (Note 28). The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for trade receivables are determined using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

## 2. Summary of significant accounting policies

### 2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap.113. The consolidated financial statements have been prepared under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, financial instruments categorized as at fair value through profit or loss, revaluation of available-for-sale financial assets, biological assets that are presented at fair value less point-of-sale costs and agricultural produce which is measured at fair value less point-of-sale costs at the point of harvest. The Group entities registered in Russia keep their accounting records in Russian Roubles in accordance with Russian accounting regulations (RAR). These consolidated financial statements significantly differ from the financial statements prepared for statutory purposes under RAR in that they reflect certain adjustments, which are necessary to present the Group's consolidated financial position, results of operations, and cash flows in accordance with IFRS as adopted by the EU.

As of the date of the authorisation of these consolidated financial statements all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and effective as at 1 January 2011 have been adopted by the EU through the endorsement procedure established by the European Commission with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

The consolidated financial statements include the results, assets and liabilities of the entities restructured from the Owner from the date where these entities were under the control of the Owner. The Group accounted for the entities restructured under ROS AGRO PLC as business combinations amongst entities under common control using predecessor method of accounting.

***Change in presentation compared to information presented by predecessor group***

In 2011 the Group changed the way in which it presents gain on initial recognition of agricultural produce and gain/loss on revaluation of biological assets. In the consolidated statement of comprehensive income of the predecessor group (that is the group under OJSC Rusagro Group) for the year ended 31 December 2010 a net gain/loss on revaluation of biological assets (livestock) was included in "Other operating income, net" line of the consolidated statement of comprehensive income. A gain arising on initial recognition of agricultural produce (harvested crops) at fair value less estimated point-of-sale costs was included as a separate line as part of the gross profit. Unharvested crops were carried at the accumulated costs incurred, which at year-end approximated the fair value as little biological transformation had taken place since the initial incurrence of the costs, due to the seasonal nature of the crops.

In the consolidated statement of comprehensive income for the year ended 31 December 2011 all the gross gains and losses arising from initial recognition of biological assets and agricultural produce and from changes in fair-value-less-cost-to-sell of biological assets are included as a separate line "Gain/ (loss) on revaluation of biological assets and agricultural produce" above the gross profit line. Although IFRS do not specify where, in the Statement of Comprehensive Income, gains or losses arising from initial recognition of biological assets and agricultural produce and from changes in fair-value-less-cost-to-sell of biological assets should be presented, the Group management believes that the new presentation enhances the quality, internal consistency and comparability of the financial statements by providing more relevant information.

(*IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)*

## 2. Summary of significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

***Change in presentation compared to information presented by predecessor group (continued)***

The amounts of gains or losses arising from initial recognition and revaluation of crops and livestock are separately disclosed in Note 10. The effect of this change in presentation on the comparative information is summarised below:

Change in presentation to the comparative information for the year ended 31 December 2010:

| **Year ended 31 December 2010** | **Changed presentation** | **Change in presentation** | **As previously presented** |
|---|---|---|---|
| **Statement of Comprehensive Income** | | | |
| Gain on initial recognition of agriculture produce | - | (770,564) | 770,564 |
| Gain/ (loss) on revaluation of biological assets and agriculture produce | 2,572,854 | 2,572,854 | - |
| Cost of sales | (24,683,471) | (1,530,050) | (23,153,421) |
| **Gross profit** | **10,059,574** | **272,241** | **9,787,333** |
| Other operating income (loss), net | (204,815) | (272,241) | 67,426 |
| **Operating profit** | **5,978,154** | - | **5,978,154** |

In addition to the above, the inclusion of the Company as the new holding company impacted the statement of financial position as of 31 December 2010 (Note 12). This impact was immaterial to all the line items affected. In these circumstances, management considered whether omitting the opening statement of financial position at 1 January 2010 would represent a material omission of information. In management's opinion, the omission of the opening statement of financial position, where the changes do not materially affect any statement of financial position and that fact is disclosed, is not material and is therefore permitted. Management considered that materiality of an omission is measured against its ability to influence economic decisions of the users of the financial statements.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

## 2. Summary of significant accounting policies (continued)

### 2.2 Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the amounts recognized in the financial statements and the carrying amounts of the assets and liabilities within the next financial year. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements, and estimates that can cause a significant adjustment to the carrying amounts of assets and liabilities within the next reporting period include:

***Useful lives of property, plant and equipment***

The estimation of the useful lives of items of property, plant and equipment is a matter of judgement based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions. Were the estimated useful lives to differ by 10% from management's estimates, the impact on the depreciation charge for the year would be to increase it by RR 280,522 (2010: RR 211,003) or decrease it by RR 217,931 (2010: RR 161,300) (Note 2.6).

***Fair value of livestock and agricultural produce***

Fair value less estimated point-of-sale costs of livestock at the end of each reporting period was determined using the physiological characteristics of the animals, management expectations concerning the potential productivity and market prices of animals with similar characteristics.

Fair value of the Group's bearer livestock is determined by using valuation techniques, as there were no observable market prices near the reporting date for pigs and cows of the same physical conditions, such as weight and age. The fair value of the bearer livestock was determined based on the expected quantity of remaining farrows and calves for pigs and cows, respectively, and the market prices of the young animals. The fair value of mature animals is determined based on the expected cash flow from the sale of the animals at the end of the production usage. The cash flow was calculated based on the actual prices of sales of culled animals from the Group's entities to independent processing enterprises taking place near the reporting date, and the expected weight of the animals. Future cash flows were discounted to the reporting date at a current market-determined pre-tax rate. In the fair value calculation of the immature animals of bearer livestock management considered the expected culling rate.

The fair value of consumable livestock is determined based on the market prices multiplied by the livestock weight at the end of each reporting period.

Should key assumptions used in determination of fair value of bearer livestock have been 10% higher/lower with all other variables held constant, the fair value of the bearer livestock as at the reporting dates would be higher or lower by the following amounts:

(*IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)*

## 2. Summary of significant accounting policies (continued)

### 2.2 Critical accounting estimates and judgements in applying accounting policies (continued)

***Fair value of livestock and agricultural produce (continued)***

| | 31 December 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | **10% increase** | **10% decrease** | **10% increase** | **10% decrease** |
| **Cows** | | | | |
| Length of production usage in calves | 2,834 | (3,139) | 1,791 | (2,137) |
| Culling rates | (1,360) | 1,379 | (524) | 532 |
| Market prices for comparable bearer livestock in the same region | 22,065 | (22,065) | 16,081 | (16,081) |
| **Pigs** | | | | |
| Length of production usage in farrows | 7,207 | (3,982) | 19,445 | (19,052) |
| Market prices for comparable bearer livestock in the same region | 39,251 | (39,251) | 36,338 | (36,338) |

The fair value less estimated point-of-sale costs for agricultural produce at the time of harvesting was calculated based on quantities of crops harvested and the prices on deals that took place in the region of location on or about the moment of harvesting and was adjusted for estimated point-of-sale costs at the time of harvesting.

***Impairment test of property, plant and equipment***

As of 31 December 2011 and 2010, the Group management determined that there were no indicators that would necessitate performing an impairment test of property, plant and equipment.

***Estimated impairment of goodwill***

The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as further detailed in Note 22.

***Deferred income tax asset recognition***

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium-term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. The key assumptions in the business plan are EBITDA margin and pre-tax discount rate (Notes 22, 23).

***Tax legislation***

Russian tax, currency and customs legislation is subject to varying interpretations (Note 28).

## 2. Summary of significant accounting policies (continued)

### 2.3 Foreign currency and translation methodology

***Functional and presentation currency***

The functional currency of the Group's consolidated entities is the Russian Rouble (RR), which is the currency of the primary economic environment in which the Group operates. The Russian Rouble has been chosen as the presentation currency for these consolidated financial statements.

***Translation of foreign currency items into functional currency***

Transactions in foreign currencies are translated to the Russian Roubles at the official exchange rate of the Central Bank of the Russian Federation (CBRF) at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate ruling at that date.

Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities at year-end exchange rates are recognised in profit or loss.

### 2.4 Group accounting

***Consolidation***

Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or obtainable from presently convertible instruments are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

## 2. Summary of significant accounting policies (continued)

### 2.4 Group accounting (continued)

***Consolidation (continued)***

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

***Purchases and sales of non-controlling interests***

The Group applies economic entity model to account for transactions with owners of non-controlling interest. The difference, if any, between the carrying amount of a non-controlling interest and the purchase consideration is recorded as capital transaction in the statement of changes in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

***Purchases of subsidiaries from parties under common control***

Business combinations involving entities under common control (ultimately controlled by the same party, before and after the business combination, and that control is not transitory) are accounted for using the predecessor basis of accounting. Under this method the consolidated financial statements of the acquiree are included in the consolidated financial statements from the beginning of the earliest period presented or, if later, the date when common control was established. The assets and liabilities of the subsidiary transferred under common control are accounted for at the predecessor entity's IFRS carrying amounts using uniform accounting policies on the assumption that the Group was in existence from the date when common control was established. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment to retained earnings within equity.

### 2.5 Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and provision for impairment, if any.

The Group has applied the fair value as deemed cost exemption to items of property, plant and equipment acquired before the date of its transition to IFRS, which was determined based on an independent valuation. Subsequent additions made after date of transition to IFRS, are stated at cost.

Assets under construction are accounted for at purchase cost less provision for impairment, if required.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing a major part or component of property, plant and equipment items is capitalized and the replaced part is retired.

## 2. Summary of significant accounting policies (continued)

### 2.5 Property, plant and equipment (continued)

Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the financial statements. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in operating profit or loss for the year within other operating income and expenses.

### 2.6 Depreciation

Depreciation on property, plant and equipment other than land and assets under construction is calculated using the straight-line method to allocate their cost to the residual values over their estimated useful lives:

| Asset category | Useful life, years |
|---|---|
| Buildings | 20-50 |
| Constructions | 20-50 |
| Machinery, vehicles and equipment | 3-20 |
| Other | 4-6 |

Assets are depreciated on a straight-line basis from the month following the date they are ready for use. Land and assets under construction are not depreciated.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

### 2.7 Biological assets and agricultural produce

Biological assets of the Group consist of unharvested crops (grain crops, sugar beets and other plant crops) and livestock (pigs and cows).

Livestock is measured at their fair value less estimated point-of-sale costs. Fair value at initial recognition is assumed to be approximated by the purchase price incurred. Point-of-sale costs include all costs that would be necessary to sell the assets. All the gross gains or loss arising from initial recognition of biological assets and from changes in fair-value-less-cost-to-sell of biological assets are included as a separate line "Gain/ (loss) on revaluation of biological assets and agricultural produce" above the gross profit line.

At the year-end unharvested crops are carried at the accumulated costs incurred, which approximates the fair value since little biological transformation has taken place since initial cost incurrence due to the seasonal nature of the crops. Unharvested crop-growing costs represent costs incurred to plant and maintain seed crops which will be harvested during the subsequent reporting period. Subsequent to the year-end unharvested crops are measured at fair value less estimated point-of-sale costs. A gain or loss from the changes in the fair value less estimated point-of-sale costs is included as a separate line "Gain/ (loss) on revaluation of biological assets and agricultural produce" above the gross profit line.

Upon harvest, grain crops, sugar beets and other plant crops are included into inventory for further processing or for sale and are initially measured at their fair value less estimated point-of-sale costs at the time of harvesting. A gain or loss arising on initial recognition of agricultural produce at fair value less estimated point-of-sale costs is recognised in profit or loss in the period in which it arises.

Bearer livestock is classified as non-current assets; consumable livestock and unharvested crops are classified as current assets in the consolidated statement of financial position.

## 2. Summary of significant accounting policies (continued)

### 2.8 Goodwill

Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash-generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

### 2.9 Impairment of non-current assets

The Group's non-current assets except for deferred tax, biological assets and financial assets are tested for impairment in accordance with the provisions of IAS 36, Impairment of Assets. The Group makes an assessment whether there is any indication that an asset may be impaired at each reporting date, except for goodwill which is tested at least annually regardless of whether there are any indications of impairment. If any such indication exists, an estimate of the recoverable amount of the asset is made. IAS 36 requires an impairment loss to be recognised whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of the asset's fair value less costs to sell and its value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its life.

### 2.10 Financial instruments

***Financial instruments – key measurement terms***

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

## 2. Summary of significant accounting policies (continued)

### 2.10 Financial instruments (continued)

***Financial instruments – key measurement terms (continued)***

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

***Classification of financial instruments***

The Group classified its financial instruments into the following measurement categories: financial assets at fair value through profit or loss, available-for-sale financial assets and loans and receivables.

***Initial recognition and measurement of financial instruments***

A financial instrument is recognised when the Group becomes a party to the contractual provisions of the instrument. The Group's financial assets and liabilities are initially recorded at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. Subsequently to initial recognition financial instruments are measured as described below.

***Derecognition of financial instruments***

The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

*Trading investments* are securities or other financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are included in a portfolio in which a pattern of short-term trading exists. The Group classifies financial assets into trading investments if it has an intention to sell them within a short period after acquisition, i.e. within 1 to 3 months. Trading investments also include financial derivatives. Trading investments are not reclassified out of this category even when the Group's intentions subsequently change.

## 2. Summary of significant accounting policies (continued)

### 2.10 Financial instruments (continued)

***Financial assets at fair value through profit or loss (continued)***

*Other financial assets at fair value through profit or lo*ss are financial assets designated irrevocably, at initial recognition, into this category. Recognition and measurement of this category of financial assets is consistent with the above policy for trading investments. Management designates financial assets into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel.

***Loans and receivables***

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. Loans and receivables comprise accounts receivable, cash and cash equivalents, restricted cash, bank deposits, unquoted promissory notes and loans issued. Loans and receivables are initially recognised at their fair value and subsequently carried at amortised cost using effective interest method.

***Available-for-sale financial assets***

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investments within twelve months of the reporting date.

***Financial liabilities***

All the Group's financial liabilities fall into the following measurement categories: (a) held for trading which are represented by financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year in the period in which they arise. Other financial liabilities are carried at amortised cost.

***Presentation of results from sugar trading derivatives***

The Group engages in raw sugar derivative trading transactions through an agent on ICE Futures US primarily in order to manage the raw sugar purchase price risk (Note 27). As such transactions are directly related to core activity of the Group, their results are presented above gross profit as 'Gains less losses from trading sugar derivatives' in the consolidated statement of comprehensive income. Management believes that the presentation above gross profit line reflects the nature of derivative operations of the Group.

## 2. Summary of significant accounting policies (continued)

### 2.10 Financial instruments (continued)

***Impairment of financial assets carried at amortised cost***

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to profit or loss for the year.

## 2. Summary of significant accounting policies (continued)

### 2.11 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash held on demand with banks, bank deposits with original maturity of less than three months, other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost plus interest accrued using the effective interest method.

Bank deposits with original maturities at the reporting date of more than three months and less than twelve months are classified as short-term investments and are carried at amortised cost using the effective interest method. Bank deposits with original maturity at the reporting date of more than twelve months are classified as long-term and are carried at amortised cost.

### 2.12 Trade and other receivables

Trade receivables are carried at amortised cost using the effective interest method less provision made for impairment of these receivables.

### 2.13 Prepayments

Prepayments classified as current assets represent advance payments to suppliers for goods and services. Prepayments for construction or acquisition of property, plant and equipment are classified as non-current assets. Prepayments are carried at cost less provisions for impairment, if any. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

### 2.14 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

### 2.15 Borrowings

Borrowings are recognised initially at their fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective interest method; any difference between the amount at initial recognition and the redemption amount is recognised as interest expense over the period of the borrowings.

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group’s average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

## 2. Summary of significant accounting policies (continued)

### 2.16 Finance lease liabilities

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included as a finance lease liability within borrowings. Each lease payment is allocated between the liability and an interest charge. The interest element is charged to the profit or loss using the effective interest method over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability outstanding. Items of property, plant and equipment acquired under finance lease are depreciated over shorter of useful life and the lease term.

### 2.17 Trade and other payables

Trade and other payables are recognised when the counterparty has performed its obligations under the contract, and are carried at amortised cost using the effective interest method.

### 2.18 Value added tax

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to purchases where all the specified conditions for recovery have not been met yet is recognised in the statement of financial position and disclosed separately within other taxes receivable, while input VAT that has been claimed is netted off with the output VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

### 2.19 Other taxes payable

Other taxes payable comprise liabilities for taxes other than on income outstanding at the reporting date, accrued in accordance with legislation enacted or substantively enacted by the end of the reporting period.

### 2.20 Income tax

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge or credit comprises current tax and deferred tax and is recognised in profit or loss for the year.

***Current tax***

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods.

***Deferred tax***

Deferred income tax is provided in full, using the balance sheet liability method, on tax losses carry forward and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax balance is determined using tax rates that have been enacted or substantially enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

## 2. Summary of significant accounting policies (continued)

### 2.20 Income tax (continued)

***Deferred tax (continued)***

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

### 2.21 Employee benefits

***Payroll costs and related contributions***

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year, in which the associated services are rendered by the employees of the Group.

***Pension costs***

The Group contributes to the Russian Federation state pension fund on behalf of its employees and has no obligation beyond the payments made. The contribution was approximately 13.6% (2010: 13.0%) of the employees' gross pay and is expensed in the same period as the related salaries and wages.

The Group does not have any other legal or constructive obligation to make pension or other similar benefit payments to its employees.

***Share-based payment transactions***

Share-based payment transactions entered during the year with employees of the Group have been accounted for as disclosed in Note 24.

### 2.22 Provisions for liabilities and charges

Provisions for liabilities and charges are recognised where the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

### 2.23 Revenue recognition

Revenues and related cost of sales are recognised when goods are shipped and the title and significant risks and rewards of ownership pass to the customer in accordance with the contractual sales terms. Sales are measured at the fair value of consideration received or receivable for the goods sold and services rendered, net of discounts and value added taxes, and after eliminating sales between the Group companies.

The amount of revenue arising from exchanges of goods or services is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred. Non-cash transactions are excluded from the cash flow statement.

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income is recognised when the right to receive payment is established.

## 2. Summary of significant accounting policies (continued)

### 2.24 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

### 2.25 Government grants

Government grants comprise compensation of interest expense under bank loans and government grants relating to costs and property, plant and equipment.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to profit or loss on a straight-line basis over the expected lives of the related assets. Government grants relating to costs are deferred and recognised in profit or loss as other operating income over the period necessary to match them with the costs that they are intended to compensate.

Compensation of interest expense under bank loans is credited to profit or loss over the periods of the related interest expense unless this interest was capitalised into the carrying value of assets in which case it is included in non-current liabilities as government grants and credited to profit or loss on a straight-line basis over the expected lives of the related assets.

The benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan is recognised and measured in accordance with IAS 39 Financial Instruments: Recognition and Measurement. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan determined in accordance with IAS 39 and the proceeds received.

Government grants are recognized at their fair value when there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

### 2.26 Dividends

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note.

### 2.27 Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

### 2.28 Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option (Note 29).

### 2.29 Share capital and share premium

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration receivable over the par value of shares issued is recorded as share premium in equity. Share premium can only be resorted to for limited purposes, which do not include the distribution of dividends, and is otherwise subject to the provisions of the Cyprus Companies Law on reduction of share capital.

## 2. Summary of significant accounting policies (continued)

### 2.30 Treasury shares

Where the Company or its subsidiaries purchase the Company's equity instruments, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the Company's owners until the equity instruments are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's owners.

### 2.31 Adoption of new or revised standards and interpretations

Certain new standards and interpretations became effective for the Group from 1 January 2011:

***Amendment to IAS 24, Related Party Disclosures* (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).** IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. As a result of the revised standard, the Group now also discloses contractual commitments to purchase and sell goods or services to its related parties

***Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011).*** The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on the acquiree's share-based payment arrangements that were not replaced, or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets")

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Group's consolidated financial statements.

## 2. Summary of significant accounting policies (continued)

### 2.32 New accounting pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2012 or later periods and which the Group has not early adopted:

***Adopted by the European Union***

***Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011).*** The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Group is currently assessing the impact of the amended standard on disclosures in its financial statements. The amendment does not expect to have any impact on the Group's financial statements.

***Not yet adopted by the European Union***

***IFRS 9, Financial Instruments: Classification and Measurement.*** IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted subject to EU endorsement. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

**2. Summary of significant accounting policies (continued)**

**2.32 New accounting pronouncements (continued)**

***IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),*** replaces all of the guidance on control and consolidation in IAS 27 “Consolidated and separate financial statements” and SIC-12 “Consolidation - special purpose entities”. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group does not expect the amendments to have any material effect on its financial statements.

***IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),*** applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 “Investments in associates”. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity’s interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group does not expect the amendments to have any material effect on its financial statements.

***IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),*** aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group does not expect the amendments to have any material effect on its financial statements.

***IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013),*** was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Group does not expect the amendments to have any material effect on its financial statements.

***Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012),*** changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to ‘statement of profit or loss and other comprehensive income’. The Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

***Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).*** The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of ‘currently has a legally enforceable right of set-off’ and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group.

***Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013).*** The amendment requires disclosures that will enable users of an entity’s financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group’s financial statements.

***(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)***

## 3. Cash and cash equivalents

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Bank balances receivable on demand | 150,496 | 755,824 |
| Bank deposits with original maturity of less than three months | 5,284,584 | 4,359,500 |
| Interest receivable on bank deposits within cash equivalents | 22,152 | 4,550 |
| Cash in hand | 335 | 334 |
| **Total** | **5,457,567** | **5,120,208** |

The Group had the following currency positions:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Russian Roubles | 5,365,940 | 5,062,739 |
| US Dollars | 72,876 | 57,469 |
| Euro | 18,751 | - |
| **Total** | **5,457,567** | **5,120,208** |

The weighted average interest rate on cash at bank balances presented within cash and cash equivalents was 6.85% at 31 December 2011 (31 December 2010: 3.27%).

As at 31 December 2011 the cash amounts of RR 101,432 (2010: none) were restricted under irrevocable bills of credit issued for purchases of property, plant and equipment and biological assets, which were included in “Restricted cash” line within non-current assets in the statement of financial position.

As at 31 December 2011 the cash amounts of RR 29,618 (2010: none) obtained by OJSC Belgorodsky Bacon under the government program for prevention of contamination and dispersion of African swine fever virus in Belgorod region, were included in “Restricted cash” line within current assets in the statement of financial position. This money is intended for compensation small local farmers their losses from the reduction of the personal pigs’ livestock.

As at 31 December 2010 the cash amounts of RR 305,276 were restricted under irrevocable bills of credit issued for purchases of raw sugar, operating lease rent payments in 2011 for land plots and purchases of unharvested crops on those land plots, which were included in “Restricted cash” line within current assets in the statement of financial position.

## 4. Short-term investments

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Promissory notes | 1,057,595 | 600,182 |
| Interest receivable on promissory notes | 7,710 | 4,142 |
| Loans issued to third parties | 107,610 | 426,355 |
| Interest receivable on loans issued to third parties | 26,982 | 22,857 |
| Bank deposits | 13,193,732 | 4,980,800 |
| Interest receivable on bank deposits within financial assets | 277,038 | 131,235 |
| **Total** | **14,670,667** | **6,165,571** |

Loans issued to third parties are denominated in Russian Roubles with interest rate varying between 0% and 12% (31 December 2010: 0%-12%). The weighted average interest rate on the loans issued to third parties equals 9.09% (31 December 2010: 8.5%).

Promissory notes are denominated in Russian Roubles and are mainly represented by promissory notes of Russian banks (Note 27). At 31 December 2011 promissory notes in the amount of RR 1,028,000 (31 December 2010: RR 600,000) were pledged as collateral for the Group’s obligations (Note 13).

*(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)*

## 4. Short-term investments (continued)

Bank deposits, include deposits placed in Alfa Bank in the amount of RR 6,326,399 (31 December 2010: none) and in LOCKO-Bank in the amount of RR 400,000 (31 December 2010: none) pledged as collateral for the Group's obligations (Note 13).

In 2010 bank deposits in the amount of RR 980,800 placed in Alfa Bank were pledged as collateral for the obligations of LLC Samaraagroprompererabotka to Alfa Bank. The Group's deposits were provided as collateral with a view of planned acquisition of ownership interest in LLC Samaraagroprompererabotka (Note 22).

The short-term investments within bank deposits are denominated in the following currencies:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Russian Roubles | 12,335,384 | 4,980,800 |
| US dollars | 858,348 | - |
| **Total** | **13,193,732** | **4,980,800** |

## 5. Trade and other receivables

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Trade receivables | 1,153,129 | 955,612 |
| Receivables for government grants | 141,263 | - |
| Receivables under agent agreement for financial derivatives (Note 27) | 955,138 | 1,247,336 |
| Other | 65,626 | 71,815 |
| Less: provision for impairment (Note 27) | (46,767) | (38,043) |
| **Total financial assets within trade and other receivables** | **2,268,389** | **2,236,720** |
| Deferred charges | 47,086 | 748 |
| **Total trade and other receivables** | **2,315,475** | **2,237,468** |

The above financial assets within trade and other receivables are denominated in the following currencies:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Russian Roubles | 2,050,239 | 915,380 |
| US dollars | 217,156 | 1,321,340 |
| Euro | 994 | - |
| **Total** | **2,268,389** | **2,236,720** |

Reconciliation of movements in the trade and other receivables impairment provision

| | Trade receivables | Other receivables |
|---|---|---|
| **As at 1 January 2010 (Note 27)** | **70,307** | **19,958** |
| (Reversed)/ Accrued | (32,783) | 22,664 |
| Utilised | (15,982) | (26,121) |
| **As at 31 December 2010 (Note 27)** | **21,542** | **16,501** |
| Accrued | 18,382 | 9,353 |
| Utilised | (9,217) | (9,794) |
| **As at 31 December 2011 (Note 27)** | **30,707** | **16,060** |

## 6. Prepayments

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Prepayments for transportation services | 158,408 | 75,259 |
| Prepayments for fuel and energy | 73,275 | 50,325 |
| Prepayments for fertilizers | 68,579 | - |
| Prepayments to customs | 23,782 | 17,707 |
| Prepayments for advertising expenses | 7,842 | 33,386 |
| Prepayments for raw sugar | - | 607,207 |
| Other prepayments | 195,534 | 131,383 |
| Less: provision for impairment | (20,411) | (8,823) |
| **Total** | **507,009** | **906,444** |

(*IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE*)

## 6. Prepayments (continued)

***Reconciliation of movements in the prepayments impairment provision***

| | 2011 | 2010 |
|---|---|---|
| As at 1 January | 8,823 | 9,960 |
| Accrued | 11,787 | 9,232 |
| Utilised | (199) | (10,369) |
| **As at 31 December** | **20,411** | **8,823** |

## 7. Other taxes receivable

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Value added tax receivable | 1,475,315 | 708,454 |
| Other taxes receivable | 5,124 | 16,868 |
| **Total** | **1,480,439** | **725,322** |

## 8. Inventories

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Raw materials | 4,223,040 | 4,578,838 |
| Finished goods | 4,896,204 | 1,558,055 |
| Work in progress | 1,411,280 | 1,170,499 |
| Less: provision for net realisable value | (128,075) | (8,670) |
| **Total** | **10,402,449** | **7,298,722** |

## 9. Property, plant and equipment

| | Land and buildings | Machinery, vehicles and equipment | Construc-tions | Assets under construction | Other | Total |
|---|---|---|---|---|---|---|
| **Cost (Note 2.5)** | | | | | | |
| As at 1 January 2010 | 7,683,547 | 8,522,068 | 588,733 | 377,958 | 144,478 | 17,316,784 |
| Additions | 17,194 | 1,680,464 | 4,102 | 1,147,436 | 17,931 | 2,867,127 |
| Transfers | 78,256 | 982,339 | 65,757 | (1,134,651) | 8,299 | - |
| Disposals | (40,755) | (136,014) | (8,691) | (6,006) | (2,112) | (193,578) |
| Disposal through disposal of subsidiaries | - | (32) | - | 9 | - | (23) |
| **As at 31 December 2010** | **7,738,242** | **11,048,825** | **649,901** | **384,746** | **168,596** | **19,990,310** |
| **Accumulated depreciation (Note 2.6)** | | | | | | |
| As at 1 January 2010 | (1,244,409) | (3,066,456) | (119,015) | - | (56,925) | (4,486,805) |
| Charge for the year | (437,732) | (1,355,732) | (90,303) | - | (19,672) | (1,903,439) |
| Disposals | 22,707 | 88,953 | 8,141 | - | 1,130 | 120,931 |
| Disposal through disposal of subsidiaries | - | 5 | - | - | - | 5 |
| **As at 31 December 2010** | **(1,659,434)** | **(4,333,230)** | **(201,177)** | **-** | **(75,467)** | **(6,269,308)** |
| **Net book value as at 31 December 2010** | **6,078,808** | **6,715,595** | **448,724** | **384,746** | **93,129** | **13,721,002** |
| **Cost (Note 2.5)** | | | | | | |
| As at 1 January 2011 | 7,738,242 | 11,048,825 | 649,901 | 384,746 | 168,596 | 19,990,310 |
| Additions | 2,437,039 | 1,604,863 | 12,319 | 5,020,721 | 19,580 | 9,094,522 |
| Acquisitions through business combinations (Note 22) | 221,356 | 588,268 | 340,941 | 7,591 | - | 1,158,156 |
| Transfers | 339,783 | 1,047,022 | 235,262 | (1,615,694) | (6,373) | - |
| Disposals | (22,315) | (104,301) | (9,874) | (3,864) | (2,929) | (143,283) |
| **As at 31 December 2011** | **10,714,105** | **14,184,677** | **1,228,549** | **3,793,500** | **178,874** | **30,099,705** |
| **Accumulated depreciation (Note 2.6)** | | | | | | |
| As at 1 January 2011 | (1,659,434) | (4,333,230) | (201,177) | - | (75,467) | (6,269,308) |
| Charge for the year | (441,131) | (1,809,421) | (108,013) | - | (24,412) | (2,382,977) |
| Disposals | 5,686 | 80,159 | 2,495 | - | 1,367 | 89,707 |
| **As at 31 December 2011** | **(2,094,879)** | **(6,062,492)** | **(306,695)** | **-** | **(98,512)** | **(8,562,578)** |
| **Net book value as at 31 December 2011** | **8,619,226** | **8,122,185** | **921,854** | **3,793,500** | **80,362** | **21,537,127** |

*(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)*

## 9. Property, plant and equipment (continued)

At 31 December 2011, property, plant and equipment with a net book value of RR 3,799,991 (31 December 2010: RR 6,326,643) were pledged as collateral for the Group's borrowings (Note 13).

At 31 December 2010, the net carrying amount of leased assets included in machinery and equipment was RR 28,209. These leased assets were acquired under finance lease agreements from third party leasing companies and were effectively pledged for finance lease liabilities as the risks and rewards for the leased assets revert to the lessor in the event of default. In 2011 the Group made advanced repayment of finance lease liabilities and title for the respective assets passed to the Group. As at 31 December 2011 there were no finance lease liabilities.

During the reporting period the Group capitalised in the assets under construction interest expenses of RR 148,433 (2010: RR 3,342). The average capitalisation rate was 9.51% (2010: 10.75%).

## 10. Biological assets

The reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the year can be presented as follows:

### Short-term biological assets

| | Consumable livestock, pigs | Unharvested crops | Total |
|---|---|---|---|
| **As at 31 December 2009** | **494,408** | **253,766** | **748,174** |
| Increase due to purchases and gain arising from cost inputs | 2,561,325 | 2,924,387 | 5,485,712 |
| Gain on initial recognition of agricultural produce | - | 770,564 | 770,564 |
| Decrease due to harvest and sales of the assets | (4,196,550) | (3,500,957) | (7,697,507) |
| Lost harvest write-off (Note 21) | - | (191,425) | (191,425) |
| Gain arising from changes in fair value less estimated point-of-sale costs | 1,739,551 | - | 1,739,551 |
| **As at 31 December 2010** | **598,734** | **256,335** | **855,069** |
| Increase due to purchases and gain arising from cost inputs | 2,994,397 | 4,916,760 | 7,911,157 |
| Acquisitions through business combinations (Note 22) | - | 12,097 | 12,097 |
| Gain on initial recognition of agricultural produce | - | 1,513,103 | 1,513,103 |
| Lost harvest write-off (Note 21) | - | (16,673) | (16,673) |
| Decrease due to harvest and sales of the assets | (4,682,230) | (6,271,564) | (10,953,794) |
| Gain arising from changes in fair value less estimated point-of-sale costs | 1,824,603 | - | 1,824,603 |
| **As at 31 December 2011** | **735,504** | **410,058** | **1,145,562** |

Lost harvest write-off in the year ended 31 December 2010 is represented by damage of crops due to unusual severe weather conditions in 2010. RR 91,961 of this write-off was compensated to the Group through government grants (Note 21).

## 10. Biological assets (continued)

### Long-term biological assets

| | Bearer livestock | | |
|---|---|---|---|
| | **Pigs** | **Cows** | **Total** |
| **As at 31 December 2009** | **493,960** | **229,479** | **723,439** |
| Increases due to purchases and breeding costs of growing stock | 125,215 | 79,999 | 205,214 |
| Decreases due to sales | (171,505) | (116,211) | (287,716) |
| Gain/ (loss) arising from changes in fair value less estimated point-of-sale costs | 95,075 | (32,336) | 62,739 |
| **As at 31 December 2010** | **542,745** | **160,931** | **703,676** |
| Increases due to purchases and breeding costs of growing stock | 355,306 | 140,832 | 496,138 |
| Decreases due to sales | (236,174) | (66,825) | (302,999) |
| Gain/ (loss) arising from changes in fair value less estimated point-of-sale costs | (48,570) | 31,803 | (16,767) |
| **As at 31 December 2011** | **613,307** | **266,741** | **880,048** |

In 2011 the aggregate gain on initial recognition of biological assets and agricultural produce and from the change in fair value less estimated point-of-sale costs of biological assets amounted to RR 3,320,938 (2010: RR 2,572,854).

Arable land under plantation and livestock population were as follows:

| | **31 December 2011** | **31 December 2010** |
|---|---|---|
| Crops (ha) | 370,795 | 341,451 |
| Cows (heads) | 7,163 | 8,216 |
| Pigs within bearer livestock (heads) | 37,532 | 28,702 |
| Pigs within consumable livestock (tn) | 9,632 | 8,452 |

Cows are cultivated for the purpose of production of milk. In 2011 the milk produced amounted to 13,939 tonnes (2010: 11,084 tonnes).

The main crops of the Group's agricultural production and output were as follows (in thousands of tonnes):

| | **2011** | **2010** |
|---|---|---|
| Sugar beet | 2,300 | 917 |
| Winter wheat | 267 | 49 |
| Barley | 174 | 88 |
| Sunflower | 72 | 49 |
| Pea | 56 | 34 |
| Corn | 28 | - |

Biological assets with a carrying value of RR 611,149 (31 December 2010: RR 631,889) were pledged as collateral for the Group's borrowings (Note 13).

The Group is exposed to financial risks arising from changes in milk, meat and crops prices. The Group does not anticipate that milk or crops prices will decline significantly in the foreseeable future except some seasonal fluctuations and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in respective prices. Russia entering World Trade Organisation in 2012 may cause decline in meat prices. Management is not able to predict the time and scale of this decline. The Group reviews its outlook for milk, meat and crops prices regularly in considering the need for active financial risk management.

***(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)***

## 11. Long-term investments

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Bank deposits | 403,021 | 99,390 |
| Loan issued to third party (interest rate 8%) | 15,400 | - |
| Financial assets at fair value through profit and loss | 37,904 | 42,799 |
| Available-for-sale financial assets | 26,703 | 7,677 |
| Other long-term investments | 3,671 | 3,084 |
| Interest receivable on long-term bank deposits | 982 | - |
| **Total** | **487,681** | **152,950** |

The above long-term investments are denominated in Russian Roubles.

As at 31 December 2011 bank deposits placed in Alfa Bank in the amount of RR 403,021 (31 December 2010: none) were pledged as collateral for the Group's obligations (Note 13).

## 12. Share capital and share premium

*Share capital and share premium*

| | Number of shares issued | Nominal value | Share Capital |
|---|---|---|---|
| At 31 December 2010 | 200,000 | 0.01 EUR | 85 |
| At 31 December 2011 | 24,000,000 | 0.01 EUR | 9,734 |

At 31 December 2011 the authorised share capital of the Company amounted to EUR 600,000 divided into 60,000,000 shares of nominal value of EUR 0.01 each.

On 22 March 2010, 500 ordinary shares with par value of EUR 1 were issued. The Owner contributed 14.3% of the shares of OJSC Rusagro Group in order to perform procurance of these shares resulting in an increase of share capital and share premium by RR 20 and RR 341,317 respectively.

On 31 December 2010, as a result of the share split the number of issued shares increased to 200,000 shares with the respective decrease in par value to EUR 0.01 per share.

On 25 January 2011 19,800,000 ordinary shares with par value of EUR 0.01 were issued. The whole issue was allotted to the shareholders of the Company at the time. 2,565,000 shares of this share issue were paid by cash at par value. 17,235,000 shares of this share issue were paid through the contribution of 85.7% shares of OJSC Rusagro Group resulting in an increase of share capital and share premium by RR 8,031 and RR 2,042,425 respectively.

As mentioned in Note 1 on 12 April 2011 the Company successfully completed an IPO of GDRs. The IPO included an offering by the Company of 20,000,000 GDRs with every five GDRs representing an interest in one ordinary share of the Company. The offering price was USD 15 per GDR (the equivalent of USD 75 per ordinary share).

As a result of the IPO, the Company issued 4,000,000 ordinary shares of par value EUR 0.01 each at the price of USD 75 per share. These shares were fully paid in the amount of USD 300 million resulting in an increase of share capital and share premium by RR 1,618 and RR 8,173,831 net of an amount of RR 217,291 out of the total expenses directly attributable to the new shares issued.

*Treasury shares*

In the second half of 2011 the Company acquired 1,290,999 of its own GDRs (that is equivalent of approximately 258,200 shares) through purchases on the Main Market of the London Stock Exchange. The total amount paid to acquire the shares was RR 303,750. The shares are held as 'treasury shares'.

***(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)***

## 12. Share capital and share premium (continued)

*Restructuring*

ROS AGRO PLC was established by the Owner in December 2009. In January 2011 ROS AGRO PLC became the holding company of OJSC Rusagro Group as result of the Owner contributing 85.7% of ordinary shares of OJSC Rusagro Group into the charter capital of ROS AGRO PLC. The remaining 14.3% of ordinary shares of OJSC Rusagro Group had been contributed by the Owner to the charter capital of ROS AGRO PLC previously, in March 2010. This restructuring was accounted for as a transaction under common control using the predecessor method of accounting applied retrospectively. Under this method the consolidated financial statements of the Company were presented as if ROS AGRO PLC has always been the holding company of the predecessor group. The consolidated assets and liabilities of OJSC Rusagro Group transferred under common control were accounted for at the predecessor entity's carrying amounts from the beginning of the earliest period presented (i.e. 1 January 2010). The difference between the share capital of OJSC Rusagro Group and the share capital of ROS AGRO PLC as at 1 January 2010 in the amount of RR 1,699,952 was included in the opening balance of retained earnings as at 1 January 2010. The difference between the share capital issued in 2010 and 2011 to acquire 100% of OJSC Rusagro Group and the share capital obtained has been adjusted in equity in retained earnings for 2010 and 2011. The adjustments were RR 341,317 and RR 2,042,425 for 2010 and 2011 respectively.

*Purchases of non-controlling interests*

In 2011 the Group increased its share in OJSC Sugar Plant Nikiforovsky to 100%. The consideration paid was RR 104,983. The difference between the carrying amount of a non-controlling interest and the purchase consideration in the amount of RR 203,553 was recorded as a capital transaction in the statement of changes in equity.

In 2011 the Group acquired shares in several other subsidiaries from minority shareholders for a total consideration of RR 11,830. The net excess of consideration paid over the Group's share of identifiable net assets acquired amounted to RR 6,224.

In 2010 the Group acquired shares of several subsidiaries from minority shareholders for a total consideration of RR 46,498, which resulted in an excess of the Group's share of identifiable net assets acquired over the consideration paid of RR 38,372.

## 13. Borrowings

### Short-term borrowings

| | 31 December 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | **Interest rate** | **Carrying amount** | **Interest rate** | **Carrying amount** |
| Sberbank RF | 2.0-9.5% | 9,324,639 | 2.3-9.0% | 9,694,052 |
| Alfa bank | 8.25% | 6,506,695 | - | - |
| Other bank loans | 7.86-8.25% | 806,109 | 7.5-8.3% | 1,422,146 |
| Loans received from third parties | 0.0-11% | 5,913 | 0.0-0.1% | 4,242 |
| Loans received from related parties (Note 24) | | 52 | - | - |
| Finance leases | - | - | 21.3-47.3% | 9,362 |
| Interest accrued on borrowings from third parties | | 69,341 | | 51,845 |
| Interest accrued on borrowings from related parties (Note 24) | | 31,031 | | 5,901 |
| Current portion of long-term borrowings | | 385,350 | | 22,163 |
| **Total** | | **17,129,130** | | **11,209,711** |

The above borrowings are denominated in the following currencies:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Russian Roubles | 17,078,376 | 11,171,204 |
| US Dollars | 50,754 | 38,507 |
| **Total** | **17,129,130** | **11,209,711** |

(*IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)*

## 13. Borrowings (continued)

### Long-term borrowings

| | 31 December 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | Interest rate | Carrying amount | Interest rate | Carrying amount |
| Sberbank RF | 9.5-13% | 11,611,642 | 9.5-13.0% | 6,978,172 |
| Alfa Bank | 9.5-10.75% | 2,691,935 | 10.8-11.0% | 1,062,990 |
| Other bank loans | 10.0-10.35% | 575,407 | | - |
| State budget loans | ¼ of the CBRF rate* | 224,512 | ¼ of the CBRF rate* | 208,076 |
| Promissory notes issued | 0.0-16.0% | 44,584 | 0.0% | 29,724 |
| Loans received from related parties (Note 24) | 10.0% | 80,230 | - | - |
| Finance leases | - | - | 36.9-47.3% | 5,302 |
| Less current portion of long-term borrowings from: | | | | |
| Sberbank RF | 9.5-11.5% | (64,865) | 11.0-13.0% | (22,163) |
| Alfa Bank | 9,5% | (240,255) | - | - |
| Loans received from related parties (Note 24) | 10.0% | (80,230) | - | - |
| **Total** | | **14,842,960** | | **8,262,101** |

*The above loans were initially measured at an effective rate of 12%

The above borrowings are denominated in Russian Roubles.

***Maturity of long-term borrowings (excluding finance lease liabilities):***

| Fixed interest rate borrowings: | 31 December 2011 | 31 December 2010 |
|---|---|---|
| 2 years | 2,509,093 | 263,770 |
| 3-5 years | 9,086,581 | 6,846,278 |
| More than 5 years | 3,022,774 | 938,675 |
| **Total** | **14,618,448** | **8,048,723** |

| Floating interest rate borrowings: | 31 December 2011 | 31 December 2010 |
|---|---|---|
| 3-5 years | 224,512 | 208,076 |
| **Total** | **224,512** | **208,076** |

For details of property, plant and equipment and biological assets pledged as collateral for the above borrowings see Note 9 and Note 10 respectively. For details of promissory notes and bank deposits pledged as collateral for the above borrowings refer to Notes 4 and 11.

Shares of several companies of the Group are pledged as collateral for the bank borrowings, as follows:

| | Pledged shares, % | |
|---|---|---|
| | 31 December 2011 | 31 December 2010 |
| LLC Rusagro Group | 50.00 | 50.00 |
| LLC Rusagro-Invest | 100.00 | - |
| LLC Samaraagroprompererabotka | 74.90 | - |
| LLC Tambovsky Bacon | 100.00 | - |
| OJSC Belgorodsky Bacon | 100.00 | 100.00 |
| OJSC Nika Corp. | 98.27 | 98.27 |
| OJSC Rzhevsky Sakharnik | 99.73 | 99.73 |
| OJSC Valuikisakhar | 99.23 | 99.23 |
| OJSC Sugar Plant Znamensky | 91.68 | 91.68 |
| OJSC Sugar Plant Zherdevsky | - | 99.92 |
| LLC Kalininskoye | - | 100.00 |
| LLC Zveriaevskoye | - | 100.00 |
| LLC Ivanovskoe | - | 80.12 |
| LLC Agrotekhnology | - | 100.00 |
| LLC Poletaevskoye | - | 50.00 |
| OJSC Sugar Plant Nikiforovsky | - | 70.26 |

(*IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)*

## 13. Borrowings (continued)

### *Net Debt*

As part of liquidity risk management the Group Treasury analyses its net debt position. The Group's management determines the net debt of the Group as outstanding bank loans and state budget loans less cash in hand, bank balances receivable on demand, all bank deposits and promissory notes of Sberbank (Notes 3, 4, 11). The Group's management compares net debt figure with adjusted EBITDA (Note 26) and considers the normal level of net debt/adjusted EBITDA ratio to be not more than 3.

As at 31 December 2011 the net debt of the Group was as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Long-term borrowings | 14,842,960 | 8,262,102 |
| Short-term borrowings | 17,129,130 | 11,209,711 |
| Cash and cash equivalents | (5,457,567) | (5,120,208) |
| Banks' promissory notes (Note 27) | (1,040,395) | (600,000) |
| Bank deposits within sort-term investments (Note 3) | (13,193,732) | (4,980,800) |
| Bank deposits within long-term investments (Note 11) | (403,021) | (99,390) |
| **Net debt** | **11,877,375** | **8,671,415** |
| **Adjusted EBITDA* (Note 26)** | **5,154,129** | **7,879,528** |
| **Net debt/ Adjusted EBITDA** | **2.30** | **1.10** |

* not an IFRS measure.

### Finance lease liabilities

The ranges and the weighted average effective annual interest rates at the reporting dates were as follows:

| | 31 December 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | Range | Weighted average | Range | Weighted average |
| **Russian Roubles** | - | - | **21.3-47.3%** | **36.5%** |

The maturity of finance leases and the minimum lease payments were as follows:

| | Due in 1 year | Due in between 1 and 5 years | Total |
|---|---|---|---|
| Minimum lease payments at 31 December 2010 | 12,638 | 6,109 | 18,747 |
| Less: future finance charges | (3,276) | (807) | (4,083) |
| **Present value of minimum lease payments at 31 December 2010** | **9,362** | **5,302** | **14,664** |

(*IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)*

## 14. Trade and other payables

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Trade accounts payable | 940,864 | 1,501,266 |
| Payables for land rent | 8,598 | 19,880 |
| Liabilities under the government programme (Note 3) | 29,618 | - |
| Other payables | 43,527 | 53,705 |
| **Total financial liabilities within trade and other payables** | **1,022,607** | **1,574,851** |
| Payables to employees | 535,515 | 289,166 |
| Advances received | 331,021 | 70,424 |
| **Total trade and other payables** | **1,889,143** | **1,934,441** |

Financial liabilities within trade and other payables of RR 25,167 (31 December 2010: RR 1,039,545) are denominated in USD, financial liabilities within trade and other payables of RR 37,528 are denominated in EUR (31 December 2010: RR 5,637).

## 15. Other taxes payable

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Value added tax | 336,001 | 337,487 |
| Unified social tax | 33,338 | 25,117 |
| Property tax | 76,770 | 67,520 |
| Personal income tax | 21,908 | 17,544 |
| Transport tax | 3,051 | 3,240 |
| Other | 28,847 | 24,951 |
| **Total** | **499,915** | **475,859** |

## 16. Government grants

In 2005-2011 the Group received government grants from Tambov and Belgorod regional governments to acquire equipment for agricultural business and sugar processing. These grants are deferred and amortised on a straight-line basis over the expected lives of the related assets. Additionally, in 2011 the government grants for reimbursement of interest expenses on bank loans received for construction of the pig-breeding farms in Belgorod and Tambov, particularly the government grants related to interest expenses capitalised into the carrying value of assets, were similarly deferred and amortised on a straight-line basis over the expected lives of the related assets. Refunded interest recognised as government grants in 2011 amounted to RR 30,556 (2010: none). The movements in deferred government grants in the statement of financial position were as follows:

| | 2011 | 2010 |
|---|---|---|
| As at 1 January | 577,134 | 578,679 |
| Government grants received | 30,556 | 82,967 |
| Amortization of deferred income to match related depreciation (Note 21) | (94,692) | (84,512) |
| **As at 31 December** | **512,998** | **577,134** |

Additionally, other bank loan interests which had been refunded by the state were credited to the income statement.

| | 2011 | 2010 |
|---|---|---|
| Interest expense | 1,999,337 | 1,688,503 |
| Reimbursement of interest expense (government grants) | (1,279,074) | (898,949) |
| **Net interest expense** | **720,263** | **789,554** |

Other government grants received are included in Note 21.

## 17. Sales

| | 2011 | 2010 |
|---|---|---|
| Sales of goods | 39,525,763 | 30,647,422 |
| Sales of services | 189,352 | 308,108 |
| **Total** | **39,715,115** | **30,955,530** |

Sales in 2011 include revenue arising from exchange of goods amounting to RR 115,208 (2010: RR 92,944) and exchange of services amounting to RR 166,680 (2010: RR 239,797).

***(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)***

## 18. Cost of sales

| | 2011 | 2010 |
|---|---|---|
| Raw materials and consumables used | 29,054,728 | 20,495,634 |
| Payroll | 1,746,013 | 1,432,753 |
| Depreciation | 1,991,897 | 1,748,035 |
| Services | 1,404,769 | 948,789 |
| Other | 57,988 | 81,852 |
| Provision / (reversal of provision) for net realisable value | 121,632 | (23,592) |
| **Total** | **34,377,027** | **24,683,471** |

Raw materials and consumables used above include the expensing of the gain recorded on initial recognition of agricultural produce attributable to the realised agricultural produce (both of current and previous year harvest) in the amount of RR 852,199 (31 December 2010: RR 689,836), and of the result of revaluation of biological assets (cows and pigs) attributable to the realised biological assets, in the amount of RR 1,761,422 (31 December 2010: RR 1,530,050).

Payroll costs above include statutory pension contributions amounting of RR 283,198 (2010: RR 206,005).

## 19. Distribution and selling expenses

| | 2011 | 2010 |
|---|---|---|
| Transportation and loading services | 1,441,310 | 924,348 |
| Payroll | 473,922 | 355,933 |
| Advertising | 152,919 | 157,319 |
| Materials | 89,766 | 64,944 |
| Fuel and energy | 28,006 | 21,538 |
| Depreciation | 51,692 | 23,172 |
| Provision / (reversal of provision) for impairment of receivables (Notes 5, 6, 7) | 39,522 | (888) |
| Other | 177,641 | 95,234 |
| **Total** | **2,454,778** | **1,641,600** |

Payroll costs above include statutory pension contributions amounting to RR 59,314 (2010: RR 39,950).

***(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)***

## 20. General and administrative expenses

| | 2011 | 2010 |
|---|---|---|
| Payroll | 1,368,376 | 1,172,930 |
| Taxes, excluding income tax | 338,255 | 322,075 |
| Bank services | 89,921 | 95,289 |
| Depreciation | 88,522 | 86,971 |
| Services of professional organisations | 85,384 | 139,380 |
| Rent | 79,003 | 65,984 |
| Security | 68,590 | 54,377 |
| Fuel and energy | 64,921 | 54,888 |
| Materials | 52,555 | 57,003 |
| Insurance | 26,363 | 5,955 |
| Communication | 24,892 | 22,077 |
| Repair and maintenance | 23,557 | 24,093 |
| Travelling expenses | 19,544 | 14,156 |
| Statutory audit fees | 1,615 | - |
| Other | 100,198 | 119,826 |
| **Total** | **2,431,696** | **2,235,004** |

Payroll costs above include statutory pension contributions amounting of RR 147,485 (2010: RR 91,312).

In respect of the year ended 31 December 2011, included in “Services of professional organisations” were fees of RR 330 (2010: none) for other assurance services charged by the Company’s statutory auditor.

## 21. Other operating expenses, net

| | 2011 | 2010 |
|---|---|---|
| Reimbursement of fuel and fertilizers and feed costs (government grants) | 148,416 | 137,783 |
| Reimbursement lost harvest (government grants) | - | 91,961 |
| Lost harvest write-off (Note 10) | (16,673) | (191,425) |
| Other government grants | 396 | 17,034 |
| Amortization of deferred income to match related depreciation (Note 16) | 94,692 | 84,512 |
| Rental income | - | 12,235 |
| Excess of the Group’s share of identifiable net assets acquired over consideration paid | - | 10,210 |
| Gain on disposal of subsidiaries, net | - | 204 |
| Loss on other investments | (9,369) | (9,171) |
| Gain on disposal of inventory | 1,240 | 9,280 |
| Write-off of trade and other receivables | (20,709) | (75,959) |
| (Loss) / gain from investments at fair value through profit or loss | (4,896) | 2,074 |
| Charitable donations and social costs | (127,860) | (225,872) |
| Provision for impairment of advances paid for property, plant and equipment | (329,088) | - |
| Gain/ (loss) on disposal of property, plant and equipment | 19,272 | (35,379) |
| Write-off of inventory | (20,762) | (13,499) |
| Other income / (expenses) | 19,386 | (18,803) |
| **Net other operating expenses** | **(245,955)** | **(204,815)** |

***(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)***

## 22. Goodwill

| | **2011** | **2010** |
|---|---|---|
| Carrying amount at 1 January | 474,899 | 474,899 |
| Acquisitions of subsidiaries | 700,679 | - |
| **Carrying amount at 31 December** | **1,175,578** | **474,899** |

The carrying amount of goodwill is allocated to the following CGUs:

| | **2011** | **2010** |
|---|---|---|
| Oil Samara CGU | 651,075 | - |
| Other agriculture CGU | 178,133 | 128,529 |
| Sugar CGU | 346,370 | 346,370 |
| **Carrying amount at 31 December** | **1,175,578** | **474,899** |

### *LLC Samaraagroprompererabotka*

In March 2011 the Group acquired 74.9% ownership interest in LLC Samaraagroprompererabotka, oil extraction plant in Samara region. The purpose of acquisition was to obtain control over the source of the vegetable oil required by the Group's oil and fat production plant.

The goodwill arising on acquisition was allocated on to Oil Samara CGU and primarily attributable to the expected profitability of the acquired business due to the significant expected combined costs savings.

The purchase consideration in amount of RR 269,058 is represented by the fair value of 10.5% ownership interest in OJSC Fats and Oil Integrated Works, the Group's subsidiary. The ownership interest was transferred to the seller through the issuance of additional shares which took place in September 2011. The fair value of the consideration has been determined based on a value-in-use calculation using cash flow projections of OJSC Fats and Oil Integrated Works based on financial budgets approved by the Group's management.

According to the sale-purchase agreement the Group has a call option to purchase back the shares in OJSC Fats and Oil Integrated Works at the pre-agreed price if certain specific performance conditions were not met by LLC Samaraagroprompererabotka in 2011. The value of the call option at the date of acquisition was zero since Management expected that LLC Samaraagroprompererabotka would meet its performance conditions. The call option was not revaluated at 31 December 2011 and was exercised in March 2012 (Note 30).

As a result the Group recognised a non-controlling interest related to 10.5% ownership interest in OJSC Fats and Oil Integrated Works in the amount of RR 321,001 in September 2011.

### *LLC Olkhi*

In April 2011 the Group acquired a 100% ownership interest in LLC Olkhi, an agricultural enterprise in Tambov region, for a total consideration of RR 4,393.

The goodwill arising on acquisition is primarily attributable to the expected profitability of the acquired business due to the significant expected combined costs savings.

Fair values of identifiable assets and liabilities of the subsidiaries acquired in 2011 were determined using discounted cash flow models. The valuation of property, plant and equipment was performed by an independent professional appraiser.

### Acquisitions of subsidiaries

| | **Share in capital acquired** | **Total assets** | **Total liabilities** | **Purchase conside-ration** | **Non-controlling interest** | **Goodwill** | **Recognised in profit or loss** |
|---|---|---|---|---|---|---|---|
| **2011** | | | | | | | |
| LLC Samaraagroprompererabotka | 74.90% | 2,916,556 | (3,426,592) | 269,058 | (128,019) | 651,075 | - |
| LLC Olkhi | 100.00% | 61,878 | (107,090) | 4,393 | - | 49,604 | - |
| **Total** | | **2,978,434** | **(3,533,682)** | **273,451** | **(128,019)** | **700,679** | **-** |

***(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)***

## 22 Goodwill (continued)

### Acquisitions of subsidiaries (continued)

The aggregate fair value of assets and liabilities arising from the acquisitions in 2011 was as follows:

| | LLC Samaraagroprompererabotka | | LLC Olkhi | |
|---|---|---|---|---|
| | IFRS carrying amount immediately before business combination | Attributed fair value | IFRS carrying amount immediately before business combination | Attributed fair value |
| Cash | 1,936 | 1,936 | 494 | 494 |
| Loans issued | 783 | 783 | - | - |
| Trade and other receivables | 73,687 | 73,687 | 3,555 | 3,555 |
| Prepayments | 39,364 | 39,364 | 93 | 93 |
| Tax receivables | 246,359 | 246,359 | 142 | 142 |
| Deferred income tax assets | 148,196 | 189,049 | - | - |
| Inventories | 1,249,827 | 1,249,827 | 2,891 | 2,891 |
| Unharvested crops | - | - | 12,097 | 12,097 |
| Property, plant and equipment | 798,536 | 1,115,551 | 44,460 | 42,606 |
| **Total assets** | **2,558,688** | **2,916,556** | **63,732** | **61,878** |
| | | | | |
| Trade and other payables | (29,321) | (29,321) | (940) | (940) |
| Tax payables | (6,351) | (6,351) | (182) | (182) |
| Deferred income tax liability | - | (63,403) | - | - |
| Borrowings | (3,327,517) | (3,327,517) | (105,968) | (105,968) |
| **Total liabilities** | **(3,363,189)** | **(3,426,592)** | **(107,090)** | **(107,090)** |

Altogether the businesses acquired in 2011 contributed to the Group: revenue of RR 1,702,256 and net loss of RR 69,561 for the period from the dates of the respective acquisitions to the reporting dates. If the acquisitions had occurred on 1 January 2011 of the respective year of acquisition, the contributed revenue and net loss for the year ended 31 December 2011 would have been RR 1,706,318 and RR 146,133 respectively.

The carrying amount of goodwill as at 31 December 2011 and 2010 was tested for impairment. The recoverable amount of the Group's cash-generating units has been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by the Group's management covering a five-year periods and the expected market prices for the Group's key products for the same period according to the leading industry publications. As a result of the testing, no impairment losses were recognised.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

| | 31 December 2011 | | | 31 December 2010 | |
|---|---|---|---|---|---|
| | Oil Samara CGU | Other agriculture CGU | Sugar CGU | Other agriculture CGU | Sugar CGU |
| EBITDA margin | 12.1% | 25.9% | 18.6% | 42.8% | 13.7% |
| Pre-tax discount rate | 13.8% | 13.6% | 14.1% | 13.8% | 14.3% |

* EBITDA margin is calculated as the sum of operating cash flows before income tax and changes in working capital divided by the amount of cash flow received from trade customers.

A reasonably possible shift in key assumptions underlying the value-in-use calculations would not lead to impairment of goodwill as of 31 December 2011 and as of 31 December 2010.

***(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)***

## 23. Income tax

| | 2011 | 2010 |
|---|---|---|
| Current income tax charge | 412,708 | 493,547 |
| Deferred tax (credit) / charge | (205,143) | 17,880 |
| **Income tax expense** | **207,565** | **511,427** |

The Group companies domiciled in Russia were subject to an income tax rate of 20% (2010: 20%) of taxable profits, except for profit on sales of agricultural produce, which is not subject to income tax until 2012. Then, unless agricultural enterprises become subject to a special taxation regime, the applicable income tax rate will be 18% in 2013-2015 and 20% starting from 2016. Tax rates for agricultural enterprises were enacted in December 2008. Group entities operating in other tax jurisdictions were taxed at 0% and 10%.

The current income tax charge represents a tax accrual based on statutory taxable profits. A reconciliation between the expected and the actual taxation charge is as follows:

| | 2011 | 2010 |
|---|---|---|
| Profit before tax: | 2,627,411 | 5,626,565 |
| - taxable at 0% | 2,845,414 | 3,382,233 |
| - taxable at 10% | 148,650 | (43,099) |
| - taxable at 20% | (366,653) | 2,287,431 |
| Theoretical tax charge calculated at the applicable tax rate of 20% and 10% | (58,466) | 453,176 |
| | | |
| Tax effect of items which are not deductible or assessable for taxation purposes: | | |
| - non-taxable income | (3,896) | (24,182) |
| - non-deductible expenses | 91,193 | 74,608 |
| - penalties | 594 | 1,362 |
| - share based remuneration | 134,449 | - |
| - other | 43,691 | 6,463 |
| **Income tax expense** | **207,565** | **511,427** |

Differences between IFRS as adopted by the EU and local statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and their tax bases. Deferred taxes are attributable to the following:

| | 1 January 2011 | Deferred tax assets/(liabilities) of the acquired subsidiaries | Deferred tax credited/ (charged) to profit or loss | 31 December 2011 |
|---|---|---|---|---|
| Tax effects of deductible/ (taxable) temporary differences: | | | | |
| Property, plant and equipment | (416,749) | (63,504) | 3,280 | (476,973) |
| Impairment of receivables | 22,268 | 40,692 | 46,364 | 109,324 |
| Payables | 25,552 | | 32,118 | 57,670 |
| Financial assets | (577) | 31,364 | (6,579) | 24,208 |
| Inventory | 7,732 | (269) | 146,329 | 153,792 |
| Loss carried forward | 77,167 | 117,264 | 5,245 | 199,676 |
| Other | 51,945 | 99 | (21,615) | 30,429 |
| **Net deferred tax (liability) / assets** | **(232,662)** | **125,646** | **205,142** | **98,126** |
| | | | | |
| Recognised deferred tax asset | 153,965 | | | 474,577 |
| Recognised deferred tax liability | (386,627) | | | (376,451) |

(*IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)*

| | 1 January 2010 | Deferred tax assets/(liabilities) of the acquired subsidiaries | Deferred tax assets/(liabilities) of the disposed subsidiaries | Deferred tax credited/ (charged) to profit or loss | 31 December 2010 |
|---|---|---|---|---|---|
| Tax effects of deductible/ (taxable) temporary differences: | | | | | |
| Property, plant and equipment | (347,717) | - | - | (69,032) | (416,749) |
| Impairment of receivables | 31,041 | - | - | (8,773) | 22,268 |
| Payables | 13,183 | - | - | 12,369 | 25,552 |
| Financial assets | 15,679 | - | - | (16,257) | (578) |
| Inventory | 30,620 | - | - | (22,887) | 7,733 |
| Loss carried forward | 21,677 | 11,124 | - | 44,366 | 77,167 |
| Other | 9,492 | - | 119 | 42,334 | 51,945 |
| **Net deferred tax liability** | **(226,025)** | **11,124** | **119** | **(17,880)** | **(232,662)** |
| | | | | | |
| Recognised deferred tax asset | 140,698 | | | | 153,965 |
| Recognised deferred tax liability | (366,723) | | | | (386,627) |

In the context of the Group's current structure tax losses and current tax assets of different companies may not be set off against taxable profits and current tax liabilities of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| **Deferred tax assets:** | | |
| -Deferred tax asset to be recovered after more than 12 months | 150,112 | 79,943 |
| -Deferred tax asset to be recovered within 12 months | 324,465 | 74,022 |
| | **474,577** | **153,965** |
| **Deferred tax liabilities:** | | |
| -Deferred tax liability to be settled after more than 12 months | (332,837) | (297,447) |
| -Deferred tax liability to be settled within 12 months | (43,614) | (89,180) |
| | **(376,451)** | **(386,627)** |
| **Total net deferred tax assets (liability)** | **98,126** | **(232,662)** |

The Group has not recognised a deferred tax liability of RR 3,262,480 (2010: RR 2,578,763) in respect of temporary differences associated with undistributed earnings of subsidiaries as the Group is able to control the timing of reversal of those temporary differences and it is probable that they will not reverse them in the foreseeable future. It does not intend to reduce the subsidiaries' equity, and future dividends, if any, will be paid out of future earnings.

Refer to Note 28 "Contingencies" for description of tax risks and uncertainties.

***(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)***

## 24. Related party transactions

Parties are generally considered to be related if one party has the ability to control the other party, is under common control or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 “Related Party Disclosures”. In considering each possible related party relationship attention is directed to the substance of the relationship not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Related parties of the Group fall into the following categories:

1. The Owner;
2. Entities controlled by the Owner;
3. Members of the Board of Directors and other key management personnel.

### *The Owner*

On 22 March 2010 the Owner contributed 14.3% of the shares in OJSC Rusagro Group to the share capital of the Company as consideration for a new share issue (Note 12). In January 2011, the Owner contributed further 85.7% of the shares in OJSC Rusagro Group as disclosed in Note 12.

In April 2010 the Owner transferred a 15.8% share in OJSC Rusagro Group to the Company in the form of a loan under a securities lending deed agreement. The agreement provided a 4% annual interest rate. In June 2010, the Company returned a 8.7% share to the Owner, and the remaining shares under this agreement, in December 2010. For the purpose of these consolidated financial statements the principal amount of this loan was not accounted for as the consolidated financial statements of OJSC Rusagro Group are included in these consolidated financial statements.

The amount of interest accrued on this loan and included in these consolidated financial statements is as follows:

| **Transactions** | **Year ended 31 December 2011** | **Year ended 31 December 2010** |
|---|---:|---:|
| Interest expense | - | 5,901 |

| **Balances** | **31 December 2011** | **31 December 2010** |
|---|---:|---:|
| Interest payable (Note 13) | - | 5,901 |

### *Entities controlled by the Owner*

Transactions with entities controlled by the Owner were as follows:

| **Transactions** | **Year ended 31 December 2011** | **Year ended 31 December 2010** |
|---|---:|---:|
| Interest income | - | 836 |
| Loans received | - | 1,999 |
| Interest expense | - | 2,275 |

Loans received from entities controlled by the Owner as at 31 December 2010 were denominated in Russian Roubles with an interest rate of 11%.

### *Key management personnel*

*Share-purchase agreements*

In March 2011 a company controlled by Mr. Maxim Basov, a Director of ROS AGRO PLC and the CEO of OJSC Rusagro Group, purchased 5% shares of ROS AGRO PLC from a company controlled by the Owner through two separate agreements.

## 24. Related part transactions (continued)

### *Key management personnel (continued)*

*Share-purchase agreements (continued)*

Under the first agreement 3.5% of ordinary shares of ROS AGRO PLC were purchased for USD 3.5 for all shares. The terms of the agreement provide that the shares remain effectively under control of the seller and are actually transferred to the buyer gradually until July 2014 provided that Mr. Basov remains in the position of the CEO of OJSC Rusagro Group. For the purpose of these consolidated financial statements this transaction was treated as an equity-settled share-based payment transaction, under which Mr. Maxim Basov, as an employee, is granted shares of the Company as part of his compensation for the services rendered to the Group. The fair value of shares granted, determined at the grant date, less cash paid for them by the buyer, is expensed in the statement of comprehensive income in accordance with the graded vesting schedule with corresponding increase in equity. Expenses recognized under this agreement for the year ended 31 December 2011 in the amount of RR 586,352 (2010: nil) are presented under the heading “Share-based remuneration” in the consolidated statement of comprehensive income.

Under the second agreement 1.5% of ordinary shares of ROS AGRO PLC were purchased for USD 15,000,000. The shares were transferred to the buyer immediately. For the purpose of these consolidated financial statements this transaction was treated as equity-settled share-based payment transaction that vested immediately. The difference between the fair value of shares granted and cash paid for them by the buyer in the amount of RR 85,895 was expensed and presented under the heading “Share-based remuneration” in the consolidated statement of comprehensive income, with corresponding increase in equity.

During 2010 Mr. Maxim Basov in his capacity as the CEO of OJSC Rusagro Group was granted a share option for a 5% share in OJSC Rusagro Group by ROS AGRO PLC in a form of compound share-based payment award. The exercise price of the granted option was equal to USD 5. The option was exercisable starting 1 year from the grant date. The share option was based on two types of vesting conditions: a service condition and a non-market performance condition. Failure to comply with the non-market performance condition resulted in a forfeiture of the share-based payment award in December 2010. Accordingly, the share based transaction had no impact on these consolidated financial statements.

Share-based payment arrangements in 2011 do not represent a modification to the share option granted in 2010.

The fair value of shares granted was determined by using discounted cash flow analysis. These calculations used cash flow projections based on financial budgets approved by the Group’s management covering a five-year period. The growth rate does not exceed the long-term average growth rate for the business sector of the economy in which the Group operates. The future cash flows were discounted using discount rate of 12% and long-term growth rate of 4%. The discount rate was derived from the Group’s post-tax weighted average cost of capital.

*Other remuneration to key management personnel*

Remuneration to 13 (2010: 8) representatives of key management personnel, included in payroll costs, comprised short-term remuneration such as salaries, discretionary bonuses and other short-term benefits totalling RR 216,956 including RR 1,250 payable to the State Pension Fund (2010: RR 184,362 and RR 832 respectively).

*Directors’ remuneration*

Included in the share-based compensation and other remuneration to key management personnel disclosed above, are directors' fees, salaries and other short-term benefits totalling RR 783,776 in respect of the year ended 31 December 2011 (2010: none).

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

## 24. Related part transactions (continued)

### *Key management personnel (continued)*

*Acquisition of subsidiaries*

In April 2011 the Group acquired a 100% ownership interest in LLC Olkhi, agricultural enterprise in Tambov region, from Mr. Maxim Basov for a total consideration of RR 4,393 (Note 22). A number of transactions between Mr. Maxim Basov and LLC Olkhi resulted in the following balances and classes of transactions, included in these consolidated financial statements:

| Transactions | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|---|---|
| Loans issued | 7,700 | - |
| Interest income | 103 | - |
| Loans received | 405 | - |
| Interest expense | 8,375 | - |
| Cession of rights | 4,650 | - |

| Balances | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Borrowings (Note 13) | 80,282 | - |
| Interest payable (Note 13) | 31,031 | - |
| Other payables | 100 | - |
| Other receivables | 4,650 | - |

## 25. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year outstanding after the restructuring finalized on 25 January 2011 (note 12) excluding ordinary shares purchased by the company and held as treasury shares. While calculating EPS in these consolidated financial statements the Group has assumed that the share capital issued by the Company by the end of January 2011 and related to the Group restructuring had been in place during the whole periods presented in these consolidated financial statements. Such assumptions have been made with the aim to present comparable and consistent historical EPS ratios for the periods presented. The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equals the basic earnings per share.

| | Note | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|---|---|---|
| Profit for the year attributable to the Company's equity holders | | 2,364,732 | 5,078,430 |
| Weighted average number of ordinary shares in issue | 12 | 22,832,843 | 20,000,000 |
| **Basic and diluted earnings per share (RR per share)** | | **103.57** | **253.92** |

## 26. Segment information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person who allocates resources and assesses the performance of the Group. The functions of CODM are performed by the Board of Directors of ROS AGRO PLC.

### *Description of products and services from which each reportable segment derives its revenue*

The Group is organised on the basis of four main business segments:

- Sugar – represents production and trading operation with white sugar;
- Meat – represents cultivation of pigs and selling of consumable livestock to third parties;
- Other agriculture – represents cultivation of plant crops (sugar beet, grain crops and other plant crops) and dairy cattle livestock;
- Oil – represents vegetable oil extraction, production and sales of mayonnaise, consumer margarine, and bottled vegetable oil.

Certain Group's businesses are not included within the reportable operating segments, as they are not included in the reports provided to the CODM. The results of these operations are included in "Other" caption. The Company that represents the Group's head office function and earns revenue considered incidental to the Group's activities is included in "Other" caption.

### *Factors that management used to identify the reportable segments*

The Group’s segments are strategic business units that focus on different customers. They are managed separately because of the differences in the production processes, the nature of products produced and required marketing strategies.

Segment financial information reviewed by the CODM includes:

- Quarterly report containing information about financial position, income and expenses by business units (segments) based on statutory accounting numbers. Information presented to the CODM is prepared on the basis of individual RAR financial statements (Note 2.1) of the Group companies, but reviewed and assessed at the business unit level;
- Quarterly cash flow statements for each business unit with budget-vs-actual analysis;
- In addition to main financial indicators, production data (such as yield, production volumes, cost per unit, staff costs) and revenue data (volumes per type of product, market share) are also reviewed by the CODM on a quarterly basis.

### *Measurement of operating segment profit or loss, assets and liabilities*

Profit or loss report provided to the CODM is based on the RAR specified layout of income statement which includes four profit measures: gross profit, operating profit, profit before tax and net profit for the period. The CODM assesses the performance of the operating segments based on the net profit for the period. Mainly, the use of net profit was predefined by the participant's needs of maximising profitability of the Group.

Transactions between operating segments are accounted for based on financial information of individual segments that represent separate legal entities.

*(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)*

## 26. Segment information (continued)

***Information about reportable segment profit or loss, assets and liabilities prepared under RAR***

Segment information for the reportable segments for the year ended 31 December 2011 is set out below:

| 2011 | Sugar | Meat | Other agriculture | Oil | Other | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| Sales - external | 25,659,809 | 5,345,484 | 1,976,006 | 6,907,234 | 2,022 | - | 39,890,555 |
| Sales to other segments | 46,756 | 2,413 | 4,751,985 | 1,292 | 345,574 | (5,148,020) | - |
| **Total sales** | **25,706,565** | **5,347,897** | **6,727,991** | **6,908,526** | **347,596** | **(5,148,020)** | **39,890,555** |
| **Net profit** | **216,751** | **1,540,811** | **1,059,591** | **(21,717)** | **2,555,366** | **(1,626,435)** | **3,724,367** |
| Interest income | 335,135 | 112,355 | 15,663 | 88,706 | 752,783 | (412,444) | 892,198 |
| Interest expense | (729,652) | (733,939) | (369,547) | (224,430) | (230,855) | 412,444 | (1,875,979) |
| Depreciation | (561,718) | (774,014) | (518,716) | (136,633) | (4,662) | - | (1,995,743) |
| Income tax expense | (208,303) | (13,710) | (3,725) | (19,030) | (54,013) | - | (298,781) |
| **Assets** | **25,031,564** | **13,149,685** | **13,159,050** | **6,664,340** | **39,814,180** | (35,353,564) | **62,465,255** |
| **Liabilities** | (17,113,355) | (10,644,052) | (8,687,428) | (3,751,084) | (7,077,115) | **12,122,860** | (35,150,174) |
| Additions to non-current assets | 1,827,056 | 4,597,705 | 5,063,635 | 1,057,440 | 22,672 | (196,240) | 12,372,268 |

Additions to non-current assets exclude additions to financial instruments and deferred tax assets.

(*IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)*

## 26. Segment information (continued)

***Information about reportable segment profit or loss, assets and liabilities prepared under RAR (continued)***

Segment information for the reportable segments for the year ended 31 December 2010 is set out below:

| **2010** | **Sugar** | **Meat** | **Other agriculture** | **Oil** | **Other** | **Eliminations** | **Total** |
|---|---|---|---|---|---|---|---|
| Sales - external | 20,232,815 | 4,572,238 | 1,550,746 | 4,763,290 | - | - | 31,119,089 |
| Sales to other segments | 125,546 | 13 | 2,727,125 | - | 279,657 | (3,132,341) | - |
| **Total sales** | **20,358,361** | **4,572,251** | **4,277,871** | **4,763,290** | **279,657** | **(3,132,341)** | **31,119,089** |
| **Net profit** | **3,353,109** | **979,433** | **260,276** | **443,799** | **(40,183)** | **-** | **4,996,434** |
| Interest income | 185,226 | 65,901 | 53,190 | 145,917 | 302,523 | (318,464) | 434,293 |
| Interest expense | (637,032) | (697,691) | (336,867) | (57,419) | (180,440) | 318,464 | (1,590,985) |
| Depreciation | (389,375) | (663,436) | (482,710) | (107,861) | (2,842) | (23,215) | (1,669,439) |
| Income tax expense | (414,941) | 14,904 | 496 | (126,718) | (12,542) | - | (538,801) |
| **Assets** | **20,601,170** | **9,542,172** | **7,246,585** | **3,289,859** | **9,686,509** | **(12,442,202)** | **37,924,093** |
| **Liabilities** | **(12,967,538)** | **(7,189,861)** | **(3,962,714)** | **(293,862)** | **(4,192,208)** | **7,027,975** | **(21,578,208)** |
| Additions to non-current assets | 1,449,056 | 323,444 | 1,308,169 | 111,221 | 4,438 | - | 3,196,328 |

***(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)***

## 26. Segment information (continued)

### *Reconciliation of reportable segment revenues, profit or loss, assets and liabilities*

| | 2011 | 2010 |
|---|---|---|
| **Total sales for reportable segments under RAR** | 39,890,555 | 31,119,089 |
| Reclassification to other operating income (a) | (51,574) | (16,961) |
| Reclassification from other operating income (b) | 67,312 | - |
| Bonuses to customers (c) | (190,951) | (146,953) |
| Other adjustments | (227) | 355 |
| **Total consolidated sales under IFRS** | **39,715,115** | **30,955,530** |

The items in sales reconciliation are attributable to the following:

a. *Reclassification to other operating income.* Reclassification adjustments to RAR revenue represent the reclassification of revenues from non-core activities of the Group to other operating income.

b. *Reclassification from other operating income.* Reclassification adjustments to RAR revenue represent the reclassification of revenues from sale of grain and other products and services from Group's core activities from other operating income.

c. *Bonuses to customers*. This adjustment represents an accrual of additional bonuses which were not included in the statutory accounting financial statements due to the timing difference and the reclassification of bonuses accrued in the statutory accounting financial statements from other operating expenses to revenue.

| | 2011 | 2010 |
|---|---|---|
| **Total reportable segment net profit under RAR** | 3,724,367 | 4,996,434 |
| Goodwill valuation (d) | (373,603) | - |
| Net effect of the measurement of agricultural produce at the time of harvest at fair value less estimated point-of-sale costs (e) | 216,374 | 3,570 |
| (Accrual)/reversal of provision for impairment of inventories (f) | (123,743) | 35,506 |
| Additional depreciation, excluding depreciation of leased assets (g) | (354,589) | (223,848) |
| Adjustments to financial result of disposal of property plant and equipment (g) | (6,128) | (20,941) |
| Write-off and impairment of receivables and financial assets (h) | (320,060) | 125,240 |
| Cut-off adjustments (i) | (835) | (131,209) |
| Elimination of unrealized gain, net of reversal (j) | (265,845) | 35,659 |
| Expenses classification (k) | - | 43,599 |
| Deferred tax adjustment (t) | 91,217 | 27,374 |
| Net effect of biological assets revaluation (m) | 143,574 | 306,216 |
| Accruals (n) | - | (43,046) |
| Write-off of prepaid expenses (o) | 83,837 | (63,328) |
| Share-based remuneration (Note 24) | (672,247) | - |
| Fair value adjustment of inventories as at the date of business combination (Note 22) | 204,262 | - |
| Other adjustments | 73,265 | 23,912 |
| **Consolidated net profit under IFRS** | **2,419,846** | **5,115,138** |

## 26. Segment information (continued)

***Reconciliation of reportable segment revenues, profit or loss, assets and liabilities (continued)***

The items in the net profit reconciliation are attributable to the following:

d. *Goodwill valuation*. The goodwill in RAR statutory consolidated financial statements is calculated based on the statutory accounting value of the acquired company's net assets as at the acquisition date. In these consolidated financial statements the goodwill valuation was adjusted in accordance with IFRS 3 that requires fair value measurement of the identifiable assets and liabilities acquired in the business combination.

e. *Net effect of the measurement of agricultural produce at the time of harvest at fair value less estimated point-of-sale costs*. In the statutory financial statements agricultural produce is measured at cost. In these consolidated financial statements the agricultural produce was initially measured at fair value less estimated point-of-sale costs at the time of harvest as required by IAS 41. The net effect of the adjustment on the net profit represents the gain on revaluation of the current year's harvest less the gain attributable to the realised agricultural produce.

f. *Reversal/(accrual) of provision for impairment of inventories*. The adjustment relates to the write-down of inventories to net realisable value in accordance with IAS 2.

g. *Additional depreciation, excluding depreciation of leased assets. Adjustments to financial result of disposal of property, plant and equipment.* These adjustments were stipulated by the differences in the statutory accounting and IFRS carrying value of the property, plant and equipment which originated due to the revaluation of property, plant and equipment at the date of transition to IFRS (see Note 2.5) and revaluation of the assets acquired in business combinations in accordance with IFRS 3 (Note 22).

h. *Write-off and impairment of receivables and financial assets* adjustments represent (accruals)/ reversals of provision for doubtful debts and bad debts write-off.

i. *Cut-off adjustments*. In preparing these consolidated financial statements all income and expenses were included in profit or loss of the period in which the respective business operation took place. This heading summarises adjustments which were not included in statutory financial statements such as accruals of bonuses payable to employees on the basis of results of each financial year, bonuses payable to customers for deliveries in the reporting periods, provisions for unused earned vacations and other similar adjustments.

*j.* *Elimination of unrealised gain, net of reversal*. In these consolidated financial statements the unrealised gain on intra-group sales that was not excluded in the statutory consolidated financial statements, was eliminated.

k. *Expenses classification*. In the RAR statutory financial statements some expenses, such as bonuses to employees from net profit, are not included in determination of the profit or loss for the period but charged directly to retained earnings. In these consolidated financial statements these expenses were included in profit or loss for the respective period.

l. *Adjustments to the net assets of the disposed subsidiaries.* The adjustment is represented by the differences between the statutory accounting and IFRS carrying value of the assets and liabilities disposed through the disposal of subsidiaries.

m. *Net effect of biological assets revaluation*. In the RAR statutory financial statements mature animals of bearer livestock are measured at cost less accumulated depreciation; immature animals of bearer livestock and animals of consumable livestock are measured at cost. In accordance with IAS 41 and the Group's accounting policy (Note 2.7), in these consolidated financial statements the livestock is revalued to the fair value less estimated point-of-sale costs as at the year-end. The net effect of the adjustment includes the reversal of the statutory accounting depreciation, revaluation to the fair value at the year-end and adjustments to the profit or loss related to the disposed livestock.

*(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)*

## 26. Segment information (continued)

### *Reconciliation of reportable segment revenues, profit or loss, assets and liabilities (continued)*

n. *Accruals*. The Group recognised accruals in these consolidated financial statements that were not made in the statutory financial statements.

o. *Write-off of prepaid expenses.* In the statutory financial statements the recognition of some expenses, for example repairs and maintenance of production facilities in downtime periods, are deferred to match them with the related income. Some of these expenses that do not conform to the definition of assets in accordance with IFRS, were expensed in these consolidated financial statements in the period of the respective transactions.

| | 2011 | 2010 |
|---|---|---|
| **Total reportable segment interest income under RAR** | 892,198 | 434,293 |
| Interest on bad debt loans (p) | (9,799) | - |
| Other adjustments | (23) | (1,071) |
| **Consolidated interest income under IFRS** | **882,376** | **433,222** |

The reconciling items in interest income are attributable to the following:

p. *Interest on bad debt loans* accrued for the period in the statutory financial statements was cancelled in these consolidated financial statements.

| | 2011 | 2010 |
|---|---|---|
| **Total reportable segment interest expenses under RAR** | (1,875,979) | (1,590,985) |
| Offsetting of government grants against interest paid (Note 16) | 1,279,074 | 898,950 |
| Interest on finance lease liabilities (q) | (1,768) | (19,858) |
| Unwinding of discounting on low-cost borrowings (r) | (22,403) | (15,720) |
| Cut-off adjustments (see i above) | 38,507 | (38,793) |
| Reclassification from other operating expenses (s) | (137,695) | (23,148) |
| **Consolidated interest expenses under IFRS** | **(720,264)** | **(789,554)** |

The reconciling items in interest expenses are attributable to the following:

q. *Interest on finance lease liabilities*. *Depreciation of leased assets*. In the statutory financial statements there is no distinction between finance and operating leases and leasing expenses are charged to the income statement as incurred, while in accordance with IFRS recognition of finance lease as an asset and a liability in the statement of financial position of the lessee is required. Consequently the depreciation of the leased assets and the interest on the finance lease liabilities are included in profit or loss.

r. *Unwinding of discounting on low-cost borrowings*. In the RAR statutory financial statements borrowings including low-cost borrowings are measured at principal amount. In these consolidated financial statements the low-cost borrowings were discounted to their fair value at the initial recognition using the effective interest method (Note 2.15). During the life of the respective borrowings the unwinding of the discounting is made and included in the interest expense.

s. *Reclassification from other operating expenses.* In the statutory financial statements the foreign banks commission for financing the irrevocable covered letter of credits was presented within other operating income/expenses. In these consolidated financial statements this expenses are presented within interest expense.

(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

## 26. Segment information (continued)

### *Reconciliation of reportable segment revenues, profit or loss, assets and liabilities (continued)*

| | 2011 | 2010 |
|---|---|---|
| **Total reportable segment depreciation expenses under RAR** | (1,995,743) | (1,669,439) |
| Additional depreciation related to differences in the carrying amount and depreciation terms (see g above) | (354,589) | (223,848) |
| Reversal of depreciation on biological assets (see m above) | 214,097 | 105,635 |
| Depreciation of leased assets (see q above) | (24,032) | (38,465) |
| Other adjustments | 28,157 | (32,061) |
| **Consolidated depreciation expenses under IFRS** | **(2,132,110)** | **(1,858,178)** |

| | 2011 | 2010 |
|---|---|---|
| **Total reportable segment income tax expenses under RAR** | (298,782) | (538,801) |
| Deferred tax adjustment (t) | 91,217 | 27,374 |
| **Consolidated income tax expenses under IFRS** | **(207,565)** | **(511,427)** |

t. *Deferred tax adjustment*. In the RAR statutory financial statements the deferred taxes were calculated using income statement liability method, which focuses on timing differences. Timing differences are differences between taxable profit and accounting profit that originate in one period and reverse in one or more subsequent periods. Conversely, IAS 12 “Income Taxes” requires balance sheet liability method, which focuses on temporary differences. Temporary differences are differences between the tax bases of assets or liabilities and their carrying amount in the statement of financial position (Note 2.20).

| | 2011 | 2010 |
|---|---|---|
| **Total reportable segment assets under RAR** | 62,465,254 | 37,924,093 |
| Adjustments to property, plant and equipment (see g above) | 885,930 | 1,068,055 |
| Adjustments to inventories valuation (u) | (379,204) | (301,099) |
| Goodwill valuation (see d above) | (225,458) | (493,372) |
| Biological assets valuation (see m above) | 538,333 | 44,053 |
| Deferred tax assets valuation (see t above) | 150,705 | 21,085 |
| Write-off and impairment of receivables and financial assets (see h above) | (858,107) | (98,110) |
| Recognition of raw sugar purchases in the respective period (v) | - | 1,023,146 |
| Cut-off adjustments (see i above) | 9,942 | - |
| Other adjustments | (78,064) | (136,486) |
| **Total consolidated assets under IFRS** | **62,509,331** | **39,051,365** |

u. *Adjustments to inventories valuation*. Several adjustments are made to inventory per the statutory financial statements to arrive at the inventory valuation in accordance with IFRS, including net realisable value adjustment (see f above), elimination of unrealised gain (see j above), effect of the measurement of agricultural produce at the time of harvest at fair value less estimated point-of-sale costs included in inventory (see e above), etc.

***(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)***

## 26. Segment information (continued)

### *Reconciliation of reportable segment revenues, profit or loss, assets and liabilities (continued)*

v. *Recognition of raw sugar purchases in the respective period*. At 31 December 2010, risks and rewards for some raw sugar purchases transferred to the Group and the purchased raw sugar and related trade accounts payable were recognized in these consolidated financial statements. In the statutory financial statements these purchases were not recognized as the transfer of ownership title has not happened as at the reporting date.

| | 2011 | 2010 |
|---|---|---|
| **Total reportable segment liabilities under RAR** | (35,150,174) | (21,578,208) |
| Deferred tax liabilities valuation (see t above) | (161,194) | (198,955) |
| Recognition of raw sugar purchases in the respective period (see v above) | - | (1,023,146) |
| Cut-off adjustments (see i above) | (293,822) | (219,469) |
| Discount on low-cost borrowings (see r above) | 105,592 | 127,995 |
| Adjustments to finance lease liabilities (see q above) | - | - |
| Offsetting (Note 2.27) | - | - |
| Other adjustments | 122,293 | (23,775) |
| **Total consolidated liabilities under IFRS** | **(35,377,305)** | **(22,915,558)** |

| | 2011 | 2010 |
|---|---|---|
| **Total reportable segment additions to non-current assets under RAR** | 12,372,268 | 3,196,328 |
| Reversal of statutory accounting transaction of transfer of biological assets to fixed assets | (225,521) | (194,683) |
| Elimination of intercompany capital expenditure | - | (7,572) |
| Difference between the fair value and the RAR carrying amount of the non-current assets of the acquired companies (Note 22) | 315,161 | - |
| Difference between the RAR carrying amount of the non-current assets of the acquired companies and the purchase cost for the Group (w) | (259,759) | - |
| Increase in non-current biological assets in accordance with IFRS (Note 10) | 496,138 | 222,725 |
| Provision for impairment of advances paid for property, plant and equipment (see h above) | (324,188) | - |
| Other | 37,061 | (83,297) |
| **Total additions in non-current assets under IFRS** | **12,411,160** | **3,133,501** |

w. *Difference between the RAR carrying amount of the non-current assets of the acquired companies and the purchase cost for the Group*. In these consolidated financial statements the transactions that do not constitute a business combination in accordance with IFRS 3 were accounted for as purchases of separate assets and liabilities or groups of assets and liabilities. The cost of such purchases was allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. So in these consolidated financial statements no goodwill was recognised as result of these transactions. In the statutory financial statements these transactions were accounted for as described in d above.

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## 26. Segment information (continued)

### *Analysis of revenues by products and services*

Each business segment except for "Other agricultural" segment is engaged in production and sales of similar or related products (see above in this note). The "Other agricultural" segment in addition to its main activity of growing and harvesting agricultural crops, is engaged in cultivation of dairy cattle livestock. Related revenue from sales of milk and other livestock products was RR 254,669 (2010: RR 142,078).

For the amount of revenue from services, which comprise mainly processing of sugar beet for third party agricultural enterprises, see Note 17.

### *Geographical areas of operations*

All the Group's assets are located in the Russian Federation. Distribution of the Group's sales between countries on the basis of the customers' country of domicile, was as follows:

| | **Year ended 31 December 2011** | **Year ended 31 December 2010** |
|---|---|---|
| Russian Federation | 36,779,091 | 29,415,076 |
| Foreign countries | 2,936,025 | 1,540,454 |
| **Total** | **39,715,116** | **30,955,530** |

### *Major customers*

The Group has no customer or group of customers under common control who would account for more than 10% of the Group's consolidated revenue.

### *Additional information*

The Group adopted IFRS 8 "Operating segments" according to which operating segments are reported in a manner consistent with the internal reporting provided to the Group's CODM.

To provide a further insight into the earnings of the Group, additional information on sales, cost of sales, gross profit, distribution and selling, general and administrative expenses, other operating income, operating profit and depreciation expense for each operating segment is presented below in accordance with recognition and measurement policies, adopted by the Group for the preparation of its annual IFRS consolidated financial statements. This information is not required by IFRS 8 and is provided on a voluntary basis for comparison with similar businesses only.

***(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)***

## 26. Segment information (continued)

| 2011 | Sugar | Meat | Other agriculture | Oil | Other | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| Sales (Note 17) | 25,634,013 | 5,410,493 | 6,719,579 | 6,751,679 | 347,371 | (5,148,020) | 39,715,115 |
| Gain on revaluation of biological assets and agriculture produce (Note 10) | - | 1,776,032 | 1,544,906 | - | - | - | 3,320,938 |
| Cost of sales (Note 18) | (22,501,030) | (5,260,286) | (5,447,263) | (5,256,300) | - | 4,087,852 | (34,377,027) |
| *incl. Depreciation* | *(661,365)* | *(563,496)* | *(547,589)* | *(215,080)* | - | *(4,367)* | *(1,991,897)* |
| Gains less losses from trading sugar derivatives | (313,264) | - | - | - | - | - | (313,264) |
| **Gross profit** | **2,819,719** | **1,926,239** | **2,817,222** | **1,495,379** | **347,371** | **(1,060,168)** | **8,345,762** |
| Distribution and Selling, General and administrative expenses (Notes 19 20) | (2,153,421) | (343,022) | (1,355,876) | (1,163,620) | (398,733) | 528,198 | (4,886,474) |
| *incl. Depreciation* | *(27,692)* | *(19,500)* | *(62,622)* | *(30,104)* | *(4,662)* | *4,367* | *(140,213)* |
| Share-based remuneration | - | - | - | - | (672,247) | - | (672,247) |
| Other operating income/(expenses), net (Note 21) | 72,724 | (217,631) | 16,361 | (13,269) | 2,094,695 | (2,198,835) | (245,955) |
| *incl. Reimbursement of fuel and fertilisers and feed costs (government grants)* | - | *102,570* | *45,847* | - | - | - | *148,417* |
| **Operating profit** | **739,022** | **1,365,586** | **1,477,707** | **318,490** | **1,371,086** | **(2,730,805)** | **2,541,086** |
| **Adjustments:** | | | | | | | |
| Depreciation included in Operating Profit | 689,056 | 582,995 | 610,211 | 245,185 | 4,662 | - | 2,132,109 |
| Other operating (income) /expenses, net | (72,724) | 217,631 | (16,361) | 13,269 | (2,094,695) | 2,198,835 | 245,955 |
| Share-based remuneration | - | - | - | - | 672,247 | - | 672,247 |
| Reimbursement of fuel and fertilisers and feed costs (government grants) | - | 102,570 | 45,847 | - | - | - | 148,417 |
| Gain on revaluation of biological assets and agriculture produce | - | (1,776,032) | (1,544,906) | - | - | - | (3,320,938) |
| Gain on initial recognition of agricultural produce attributable to realised agricultural produce | - | - | 1,328,532 | - | - | (476,333) | 852,199 |
| Revaluation of biological assets attributable to realised biological assets and included in cost of sales | - | 1,783,109 | (21,687) | - | - | - | 1,761,422 |
| Provision/ (Reversal) for net realizable value | 86,641 | 33,549 | 1,442 | - | - | - | 121,632 |
| **Adjusted EBITDA*** | **1,441,995** | **2,309,408** | **1,880,785** | **576,944** | **(46,700)** | **(1,008,303)** | **5,154,129** |

* Non-IFRS measure

(*IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)*

## 26. Segment information (continued)

Reconciliation of sales for reportable segments under RAR to sales under IFRS:

| 2011 | Sugar | Meat | Other agriculture | Oil | Other | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| **Sales for reportable segments under RAR** | 25,706,565 | 5,347,897 | 6,727,991 | 6,908,526 | 347,596 | (5,148,020) | 39,890,555 |
| Reclassification to other operating income (a) | (42,747) | (173) | (8,410) | (244) | - | - | (51,574) |
| Reclassification from other operating income (b) | - | 62,768 | - | 4,544 | - | - | 67,312 |
| Bonuses to customers (c) | (29,804) | - | - | (161,146) | - | - | (190,950) |
| Other adjustments | - | - | (1) | - | (226) | - | (227) |
| **Sales for reportable segments under IFRS** | **25,634,014** | **5,410,492** | **6,719,580** | **6,751,680** | **347,370** | **(5,148,020)** | **39,715,116** |

Reconciliation of depreciation for reportable segments under RAR to depreciation under IFRS:

| 2011 | Sugar | Meat | Other agriculture | Oil | Other | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| **Depreciation for reportable segments under RAR** | (561,718) | (774,014) | (518,716) | (136,633) | (4,662) | - | (1,995,743) |
| Additional depreciation related to differences in the carrying amount and depreciation terms (g) | (146,437) | 8,031 | (108,221) | (107,962) | - | - | (354,589) |
| Reversal of depreciation on biological assets (m) | - | 195,887 | 18,210 | - | - | - | 214,097 |
| Depreciation of leased assets (q) | - | (12,899) | (11,133) | - | - | - | (24,032) |
| Other adjustments | 19,098 | - | 9,649 | (590) | - | - | 28,157 |
| **Depreciation for reportable segments under IFRS** | **(689,057)** | **(582,995)** | **(610,211)** | **(245,185)** | **(4,662)** | **-** | **(2,132,110)** |

*(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)*

## 26. Segment information (continued)

| 2010 | Sugar | Meat | Other agriculture | Oil | Other | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| Sales (Note 17) | 20,321,494 | 4,572,251 | 4,279,287 | 4,635,181 | 279,657 | (3,132,340) | 30,955,530 |
| Gain/ (loss) on revaluation of biological assets and agriculture produce (Note 10) | - | 1,834,626 | 738,229 | - | - | - | 2,572,855 |
| Cost of sales (Note 18) | (15,970,621) | (4,498,618) | (3,749,020) | (3,310,943) | - | 2,845,731 | (24,683,471) |
| *incl. Depreciation* | *(530,605)* | *(572,503)* | *(491,042)* | *(127,849)* | - | *(26,036)* | *(1,748,035)* |
| Gains less losses from trading sugar derivatives | 1,214,660 | - | - | - | - | - | 1,214,660 |
| **Gross profit** | **5,565,533** | **1,908,259** | **1,268,496** | **1,324,238** | **279,657** | **(286,609)** | **10,059,574** |
| Distribution and Selling, General and administrative expenses (Notes 19 20) | (1,638,959) | (256,670) | (832,618) | (828,879) | (462,426) | 142,948 | (3,876,604) |
| *incl. Depreciation* | *(19,047)* | *(17,952)* | *(45,015)* | *(28,107)* | *(2,843)* | *2,821* | *(110,143)* |
| Other operating income/(expenses), net (Note 21) | 9,175 | (95,445) | (117,100) | 31,764 | (14,710) | (18,500) | (204,816) |
| *incl. Reimbursement of fuel and fertilisers (government grants)* | - | - | *137,783* | - | - | - | *137,783* |
| **Operating profit** | **3,935,749** | **1,556,144** | **318,778** | **527,123** | **(197,479)** | **(162,161)** | **5,978,154** |
| **Adjustments:** | | | | | | | |
| Depreciation included in Operating Profit | 549,652 | 590,455 | 536,057 | 155,956 | 2,843 | 23,215 | 1,858,178 |
| Other operating (income)/expenses, net | (9,175) | 95,445 | 117,100 | (31,764) | 14,710 | 18,500 | 204,816 |
| Reimbursement of fuel and fertilisers (government grants) | - | - | 137,783 | - | - | - | 137,783 |
| Gain on revaluation of biological assets and agriculture produce | - | (1,834,626) | (738,229) | - | - | - | (2,572,855) |
| Gain on initial recognition of agricultural produce attributable to realised agricultural produce | - | - | 766,994 | - | - | - | 766,994 |
| Revaluation of biological assets attributable to realised biological assets and included in cost of sales | - | 1,530,050 | - | - | - | - | 1,530,050 |
| Provision/ (Reversal) for net realizable value | - | - | (23,592) | - | - | - | (23,592) |
| **Adjusted EBITDA*** | **4,476,226** | **1,937,468** | **1,114,891** | **651,315** | **(179,926)** | **(120,446)** | **7,879,528** |

* Non-IFRS measure

*(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)*

## 26. Segment information (continued)

Reconciliation of sales for reportable segments under RAR to sales under IFRS:

| 2010 | Sugar | Meat | Other agriculture | Oil | Other | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| **Sales for reportable segments under RAR** | **20,358,361** | **4,572,251** | **4,277,871** | **4,763,290** | **279,657** | **(3,132,341)** | **31,119,089** |
| Reclassification to other operating income (a) | (15,860) | - | (1,101) | - | - | - | (16,961) |
| Bonuses to customers (c) | (19,439) | - | - | (127,514) | - | - | (146,953) |
| Other adjustments | (1,568) | - | 2,518 | (595) | - | - | 355 |
| **Sales for reportable segments under IFRS** | **20,321,494** | **4,572,251** | **4,279,288** | **4,635,181** | **279,657** | **(3,132,341)** | **30,955,530** |

Reconciliation of depreciation for reportable segments under RAR to depreciation under IFRS:

| 2010 | Sugar | Meat | Other agriculture | Oil | Other | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| **Depreciation for reportable segments under RAR** | **(389,374)** | **(663,436)** | **(482,711)** | **(107,860)** | **(2,843)** | **(23,215)** | **(1,669,439)** |
| Additional depreciation related to differences in the carrying amount and depreciation terms (g) | (138,932) | 626 | (46,290) | (39,252) | - | - | (223,848) |
| Reversal of depreciation on biological assets (m) | - | 86,136 | 19,499 | - | - | - | 105,635 |
| Depreciation of leased assets (q) | 4,595 | (13,781) | (29,279) | - | - | - | (38,465) |
| Other adjustments | (25,941) | - | 2,724 | (8,844) | - | - | (32,061) |
| **Depreciation for reportable segments under IFRS** | **(549,652)** | **(590,455)** | **(536,057)** | **(155,956)** | **(2,843)** | **(23,215)** | **(1,858,178)** |

**(*IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)***

## 27. Financial risk management

### *Financial risk factors*

The Group's activities expose it to a variety of financial risks: market risk (including commodity price risk, foreign exchange risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use derivative financial instruments to hedge its risk exposures except for raw sugar commodity price risk management as described below.

Operating risk management is carried out on the level of the finance function of the Group's business segments with overall monitoring and control by management of the Group. The management is implementing principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of non-derivative financial instruments, and investing excess liquidity.

### *Credit risk*

The credit risk represents the risk of losses for the Group owing to default of counterparties on obligations to transfer to the Group cash and cash equivalents and other financial assets.

Activities of the Group that give rise to credit risk include granting loans, making sales to customers on credit terms, placing deposits with banks and performing other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk at the reporting date without taking account of any collateral held is as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| **Long-term financial assets** | | |
| Loans issued (Note 11) | 15,400 | - |
| Bank deposits (Note 11) | 403,021 | 99,390 |
| Securities at fair value through profit and loss (Note 11) | 37,904 | 42,799 |
| Available-for-sale investments (Note 11) | 26,703 | 7,677 |
| Other long-term investments (Note 11) | 4,654 | 3,084 |
| Restricted cash | 101,432 | - |
| **Total long-term financial assets** | **589,114** | **152,950** |
| | | |
| **Short-term financial assets** | | |
| Financial assets within trade and other receivables (Note 5) | 2,268,388 | 2,236,720 |
| Promissory notes (Note 4) | 1,057,595 | 600,182 |
| Bank deposits (Note 4) | 13,193,732 | 4,980,800 |
| Loans issued (Note 4) | 107,610 | 426,355 |
| Interest receivable (Note 4) | 311,730 | 158,234 |
| Cash and cash equivalents (Note 3) | 5,457,567 | 5,120,208 |
| Restricted cash | 29,618 | 305,276 |
| **Total short-term financial assets** | **22,426,240** | **13,827,775** |
| **Total** | **23,015,354** | **13,980,725** |

The Group has no collateral held as security for its financial assets. The Group has geographical concentration of credit risk in the domestic market since the majority of the Group's customers conduct their business in Russian Federation.

Securities at fair value through profit and loss represent investments in securities of OJSC Gazprom (rating BBB, Fitch Ratings).

(*IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)*

## 27. Financial risk management (continued)

### *Credit risk (continued)*

For minimisation of credit risk related to cash in bank, bank deposits and restricted cash the Group places cash in financial institutions which at the moment of transaction have the minimum risk of a default. Starting 2010 the Group's Treasury as additional measure of minimising credit risk places cash in the same banks from which the Group obtains loans thus actually eliminating the risk of loss due to bank failure. The table below shows the rating and balances with major banks at the reporting dates:

| | 31 December 2011 | | | 31 December 2010 | |
|---|---|---|---|---|---|
| | **Rating agency** | **Rating** | **Balance** | **Rating** | **Balance** |
| Alfa Bank | Standard & Poor's | BB | 10,630,409 | B+ | 4,202,240 |
| Locko Bank | Moody's | B2 | 403,979 | B2 | 2,909,679 |
| Sberbank RF | Fitch Ratings | BBB | 5,730,407 | BBB | 2,058,481 |
| Gazprombank | Moody's | Baa3 | 1,154,975 | Baa3 | 1,365,776 |
| Credit Evropa Bank | Fitch Ratings | BB- | 675,812 | BB- | 99,456 |
| Rosselkhozbank | Fitch Ratings | BBB | 851,963 | | - |
| Marfin Popular Bank | Fitch Ratings | BB+ | 12,609 | | - |
| Renaissance | Fitch Ratings | B | 2,515 | | |
| Sobinbank | RusRating | | - | BB- | 158 |
| UniCredit Bank | Fitch Ratings | | - | BBB+ | 323 |
| Other | | | 386 | | 462 |
| **Total cash at bank, bank deposits and restricted cash (Note 3, 4, 11)** | | | **19,463,055** | | **10,636,575** |

The table below shows the rating and balances of promissory notes with banks and other counterparties at the reporting dates:

| | | 31 December 2011 | | 31 December 2010 | |
|---|---|---|---|---|---|
| | **Rating agency** | **Rating** | **Balance** | **Rating** | **Balance** |
| Sberbank RF | Fitch Ratings | BBB | 600,000 | BBB | 600,000 |
| Alfa Bank | Standard & Poor's | BB | 232,631 | - | - |
| Gazprombank | Moody's | Baa3 | 207,764 | - | - |
| Other short-term promissory notes | - | - | 17,200 | - | 182 |
| **Total short-term promissory notes** | | | **1,057,595** | | **600,182** |

(*IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)*

## 27. Financial risk management (continued)

***Financial assets that are neither past due nor impaired and not renegotiated as at the reporting date***

The table below shows the analysis of financial assets that are neither past due nor impaired.

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Trade receivables | 1,108,708 | 918,725 |
| Promissory notes | 1,057,595 | 600,182 |
| Interest receivable | 284,363 | 150,862 |
| Long-term loans issued | 15,400 | - |
| Short-term loans issued | 9,938 | 119,496 |
| Other long-term investments | 4,654 | 3,084 |
| Other receivables | 1,138,648 | 1,293,411 |
| **Total** | **3,619,306** | **3,085,760** |

Neither past due nor impaired balances relate to the customers who have a long-standing relationship with the Group and a sound trading history. Concentrations of trade receivables by type of customer are as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Manufacturers (candy, juice and other) | 337,882 | 213,712 |
| Distribution and retail outlets | 736,165 | 672,962 |
| Other not categorised | 34,661 | 32,051 |
| **Total trade receivables** | **1,108,708** | **918,725** |

The majority of the customers do not have independent ratings. To minimize the risk of default on payment of amounts due by counterparties for supplied goods or rendered services the Group regularly revises the maximum amount of credit and grace periods for each significant customer.

***Financial assets that are past due but not impaired as at the reporting date***

The table below shows the analysis of the age of financial assets that are past due but not impaired.

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Overdue loans issued | | |
| -3 months and less | - | 998 |
| -over a year | - | 1,807 |
| Overdue interest receivables | | |
| -over a year | - | 10 |
| **Total** | **-** | **2,815** |

Past due but not impaired loans issued relate to a number of independent counterparties for whom there is no recent history of default.

***(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)***

## 27. Financial risk management (continued)

### *Financial assets that are impaired as at the reporting date*

The table below shows the analysis of impaired financial assets:

| | 31 December 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | Nominal value | Impairment | Nominal value | Impairment |
| Impaired receivables (Note 5): | | | | |
| - trade receivables | 44,421 | (30,707) | 36,887 | (21,542) |
| - other receivables | 23,377 | (16,059) | 25,739 | (16,501) |
| **Total** | **67,798** | **(46,766)** | **62,626** | **(38,043)** |

Financial assets are impaired when there is evidence that the Group will not receive the full amount due or receive the full amount later than contracted. Factors to consider include whether the receivable is past due, the age of the receivable and past experience with the counterparty.

### *Financial assets that would otherwise be impaired whose terms have been renegotiated*

The carrying amount of financial assets that would otherwise be impaired whose terms have been renegotiated is as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Loans issued | 97,672 | 304,054 |
| Interest receivable | 27,367 | 7,362 |
| **Total** | **125,039** | **311,416** |

### *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available. The Group Treasury analyses the net debt position as disclosed in Note 13.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date:

| | Carrying | Contractual undiscounted cash flows | | | | |
|---|---|---|---|---|---|---|
| **At 31 December 2011** | **value** | **Total** | **2012** | **2013** | **2014-2016** | **After 2016** |
| Borrowings and loans (Note 13) | | | | | | |
| - principal amount | 31,871,718 | 31,980,472 | 17,028,758 | 2,521,735 | 9,376,081 | 3,053,898 |
| - interest | 100,372 | 5,964,163 | 1,916,292 | 1,414,193 | 2,198,779 | 434,899 |
| Financial liabilities within trade and other payables (Note 14) | 1,022,607 | 1,022,607 | 1,022,607 | - | - | - |
| **Total** | **32,994,697** | **38,967,242** | **19,967,657** | **3,935,928** | **11,574,860** | **3,488,797** |
| **At 31 December 2010** | | **Total** | **2011** | **2012** | **2013-2015** | **After 2015** |
| Borrowings and loans (Note 1: | | | | | | |
| - principal amount | 19,399,401 | 19,527,396 | 11,142,602 | 263,770 | 7,135,778 | 985,246 |
| - interest | 57,746 | 3,827,244 | 1,289,662 | 910,139 | 1,553,997 | 73,446 |
| Finance leases (Note 13) | | | | | | |
| - principal amount | 14,664 | 14,664 | 9,362 | 5,302 | - | - |
| - interest | - | 4,083 | 3,276 | 807 | - | - |
| Financial liabilities within trade and other payables (Note 14) | 1,574,851 | 1,574,851 | 1,574,851 | - | - | - |
| **Total** | **21,046,662** | **24,948,238** | **14,019,753** | **1,180,018** | **8,689,775** | **1,058,692** |

(*IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)*

## 27. Financial risk management (continued)

### *Liquidity risk (continued)*

As at 31 December 2010 the Group had bank deposits in the amount of RR 980,800 maturing in 2011 pledged as collateral for the third party's obligations (Note 4).

The rate of CBRF used for calculating interest payments for government loans (see Note 13) is 8.00% (2010: 7.75%).

The exchange rates used for calculating payments for bank borrowings denominated in currencies other than Russian Roubles:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| US Dollar | - | 30.4769 |
| Euro | - | 40.3331 |

### *Market risk*

Market risk, associated with financial instruments, is the risk of change of fair value of financial instruments or the future cash flows expected on a financial instrument, owing to change in interest rates, exchange rates, prices for the commodities or other market indicators. From the risks listed above the Group is essentially exposed to the risks associated with changes in interest rates, exchange rates and commodity prices.

*Cash flow and fair value interest rate risk*

The Group's income and operating cash flows are exposed to changes in market interest rates. The Group's interest rate risk arises from short-term and long-term borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to maintain most of its borrowings in fixed rate instruments. The Group does not have formal policies and procedures in place for management of fair value interest rate risk.

Interest rates under most of Group's credit are fixed. However, the terms of the contracts stipulate the right of the creditor for a unilateral change of the interest rate (both increase and decrease), which can be based, among other triggers, on a decision of the CBRF to change the refinancing rate. Additionally, the Group has credit line with Alfa-Bank with credit limit of RR 3,000,000 provided for interest rate based on the CBRF interest rate plus 3%. As at 31 December 2011 and 2010 this credit facility was not utilised. Besides, under state budget loans (Note 13) the Group pays interest at ¼ of the current refinancing rate of the CBRF.

Bank deposits and loans issued bear fixed interest rate and therefore are not exposed to cash flow interest rate risk.

## 27. Financial risk management (continued)

### *Market risk (continued)*

The Group analyses its interest rate exposure on a continuous basis. Various scenarios are considered taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each scenario, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

During the year ended 31 December 2011, had interest rate for borrowings with other than fixed rate been increased/ decreased by 1%, the profit before taxation would have been RR 221,407 (2010: RR 133,585) lower/higher.

*Foreign exchange risk*

The Group carries out essential import purchases of raw sugar from foreign suppliers. The payments are usually made in US Dollars. Starting from 2010 the Group actively used irrevocable covered letters of credit as form of payment to its raw sugar suppliers. The financing of the letter of credit was carried out through the credit line with Sberbank in Russian roubles. Under this structure of payment the actual exchange rates for purchase price of raw sugar were determined and fixed at the moment of borrowing funds from Sberbank.

As at 31 December 2011 and 2010, foreign exchange risk arises on cash in banks, trade and other receivables, borrowings and trade and other payables denominated in foreign currency (Notes 3, 4, 5, 13 and 14).

At 31 December 2011, if the Russian Rouble had weakened/strengthened by 10% (31 December 2010: 10%) against the US dollar with all other variables held constant, the Group's profit before taxation would have been RR 102,465 (2010: RR 65,517) higher/lower.

At 31 December 2011 if the Russian Rouble had weakened/strengthened by 10% (31 December 2010: 10%) against the Euro with all other variables held constant, the Group's profit before taxation would have been RR 7,093 (2009: RR 564) lower/higher.

*Purchase price risk*

The Group purchases raw sugar and, starting from 2010, manages its exposure to this commodity price risk through financial derivatives. In 2011, the Group's total purchases of raw sugar were RR 11,885,582 (2010: RR 9,534,569). The Group trades raw sugar derivatives on ICE Futures US through an agent. Through derivatives, management aims to offset its long position in sugar inventory in order to minimise effects of price fluctuations on the results of the Group. The losses less gains on trading sugar derivatives of RR 313,264 (2010: gains less losses on trading sugar derivatives of RR 1,214,660) are presented as a separate line within the consolidated statement of comprehensive income.

The Group is exposed to equity securities price risk arising on investments held by the Group and classified in the consolidated statement of financial position either as available for sale or at fair value through profit or loss (Note 11). The Group does not manage its price risk arising from investments in equity securities.

*Sales price risk*

Changes in white sugar prices from January till August are closely related to changes in world raw sugar prices that is implicitly managed through the raw sugar derivatives (see above). The storage facilities of own sugar plants permit to build up stocks of white sugar to defer sales to more favourable price periods.

The Group is exposed to financial risks arising from changes in milk, meat and crops prices (Note 10).

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## 27. Financial risk management (continued)

### *Fair value estimation*

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

### *Financial assets carried at amortised cost*

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

### *Liabilities carried at amortised cost*

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

### Financial instruments by measurement categories and fair values as at 31 December 2011

| | Loans and receivables | Other at amortised cost | Available for sale | At fair value through profit or loss | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and cash equivalents | 5,457,567 | - | - | - | 5,457,567 | 5,457,567 |
| Restricted Cash | 29,618 | - | - | - | 29,618 | 29,618 |
| Loans issued (Note 4) | 107,610 | - | - | - | 107,610 | 107,610 |
| Promissory notes | 1,057,595 | - | - | - | 1,057,595 | 1,057,595 |
| Bank deposits | 13,193,732 | - | - | - | 13,193,732 | 13,193,732 |
| Interest receivable | 311,730 | - | - | - | 311,730 | 311,730 |
| Financial assets within trade and other receivables | 2,268,388 | - | - | - | 2,268,388 | 2,268,388 |
| **Total short-term financial assets** | **22,426,240** | **-** | **-** | **-** | **22,426,240** | **22,426,240** |
| Restricted cash | 101,432 | | | | 101,432 | 101,432 |
| Loans issued (Note 11) | 15,400 | - | - | - | 15,400 | 15,400 |
| Bank deposits | 403,021 | - | - | - | 403,021 | 403,021 |
| Securities at fair value through profit and loss | - | - | - | 37,904 | 37,904 | 37,904 |
| Available-for-sale investments | - | - | 26,703 | - | 26,703 | 26,703 |
| Other long-term investments | - | - | 4,654 | - | 4,654 | 4,654 |
| **Total long-term financial assets** | **519,853** | **-** | **31,357** | **37,904** | **589,114** | **589,114** |
| **Total financial assets** | **22,946,093** | **-** | **31,357** | **37,904** | **23,015,354** | **23,015,354** |
| **Financial liabilities** | | | | | | |
| Short-term borrowings | - | 17,129,130 | - | - | 17,129,130 | 17,129,130 |
| Financial liabilities within trade and other payables | - | 1,022,607 | - | - | 1,022,607 | 1,022,607 |
| **Total short-term financial liabilities** | **-** | **18,151,737** | **-** | **-** | **18,151,737** | **18,151,737** |
| Long-term borrowings | - | 14,842,960 | - | - | 14,842,960 | 14,842,960 |
| Other non-current liabilities | - | 46,661 | - | - | 46,661 | 46,661 |
| **Total long-term financial liabilities** | **-** | **14,889,621** | **-** | **-** | **14,889,621** | **14,889,621** |
| **Total financial liabilities** | **-** | **33,041,358** | **-** | **-** | **33,041,358** | **33,041,358** |

(*IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)*

## 27. Financial risk management (continued)

### Financial instruments by measurement categories and fair values as at 31 December 2010

| | Loans and receivables | Other a amortise co | Availab for sa | At fair valu through profit o los | Total carryin amoun | Fair valu |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and cash equivalents | 5,120,208 | - | - | - | 5,120,208 | 5,120,208 |
| Restricted Cash | 305,276 | | | | 305,276 | 305,276 |
| Loans issued (Note 4) | 426,355 | - | - | - | 426,355 | 426,355 |
| Promissory notes | 600,182 | - | - | - | 600,182 | 600,182 |
| Bank deposits | 4,980,800 | - | - | - | 4,980,800 | 4,980,800 |
| Interest receivable | 158,234 | - | - | - | 158,234 | 158,234 |
| Financial assets within trade and other receivables | 2,236,720 | - | - | - | 2,236,720 | 2,236,720 |
| **Total short-term financial assets** | **13,827,775** | **-** | **-** | **-** | **13,827,775** | **13,827,775** |
| Bank deposits | 99,390 | | | | 99,390 | 99,390 |
| Securities at fair value through profit and loss | - | - | - | 42,799 | 42,799 | 42,799 |
| Available-for-sale investments | - | - | 7,677 | - | 7,677 | 7,677 |
| Other long-term investments | 3,084 | - | - | - | 3,084 | 3,084 |
| **Total long-term financial assets** | **102,474** | **-** | **7,677** | **42,799** | **152,950** | **152,950** |
| **Total financial assets** | **13,930,249** | **-** | **7,677** | **42,799** | **13,980,725** | **13,980,725** |
| **Financial liabilities** | | | | | | |
| Short-term borrowings | `- | 11,209,711 | - | - | 11,209,711 | 11,209,711 |
| Financial liabilities within trade and other payables | - | 1,574,851 | - | - | 1,574,851 | 1,574,851 |
| **Total short-term financial liabilities** | **-** | **12,784,562** | **-** | **-** | **12,784,562** | **12,784,562** |
| Long-term borrowings | - | 8,262,101 | - | - | 8,262,101 | 8,262,101 |
| Other non-current liabilities | | 43,046 | | | 43,046 | 43,046 |
| **Total long-term financial liabilities** | **-** | **8,305,147** | **-** | **-** | **8,305,147** | **8,305,147** |
| **Total financial liabilities** | **-** | **21,089,709** | **-** | **-** | **21,089,709** | **21,089,709** |

### *Capital management*

The primary objective of the Group's capital management is to maximize participants' return while sustaining a reasonable level of financial risks. The Group does not have a quantified target level of participants' return or capital ratios. To fulfil capital management objectives while providing for external financing of regular business operations and investment projects, the Group's management compares expected return of these operations and projects with the costs of debt and maintains prudent financial risk management as described above.

The Group companies have complied with all externally imposed capital requirements throughout 2011 and 2010.

## 28. Contingencies

### *Tax legislation*

Russian tax and customs legislation which was enacted or substantively enacted at the end of the reporting period is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. 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 reviews may cover longer periods.

Russian transfer pricing legislation enacted during the current period is effective prospectively to new transactions from 1 January 2012. It introduces significant reporting and documentation requirements. The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying the transfer pricing legislation in practice. Any prior existing court decisions may provide guidance, but are not legally binding for decisions by other or higher level courts in the future.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

The Group includes certain companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

In addition to the above matters, at 31 December 2010 management estimated that the Group has other possible obligations from exposure to other than remote tax risks of RR 85 631. These exposures are estimates that result from uncertainties in interpretation of applicable legislation and related documentation requirements. At 31 December 2011, management determined that there were no such obligations. Management will vigorously defend the Group's positions and interpretations that were applied in determining taxes recognised in these consolidated financial statements if these are challenged by the authorities.

### *Social obligations*

Some production companies of the Group have collective agreements signed with the employees. Based on these contracts the companies make social payments to the employees. The amounts payable are determined in each case separately and depend primarily on performance of the company. These payments do not satisfy liability recognition criteria listed in IAS 19, “Employee Benefits”. Therefore, no liability for social obligations was recognised in these consolidated financial statements.

### *Legal proceedings*

From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates, management is of the opinion that no material losses will be incurred in respect of claims.

There are no current legal proceedings or other claims outstanding which could have a material effect on the results of operations and financial position of the Group.

(*IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)*

## 28. Contingencies (continued)

### *Operating environment of the Group*

The uncertainties related to the operating environment of the Group are described in Note 1.

## 29. Commitments

### *Contractual capital expenditure commitments*

As at 31 December 2011 the Group had outstanding contractual commitments in respect of purchases or construction of property, plant and equipment in the amount of RR 4,965,043 (31 December 2010: RR 638,329).

As at 31 December 2011 the Group had outstanding contractual commitments in respect of purchases of biological assets in the amount of RR 490,373 (31 December 2010: RR 27,822).

### *Operating lease commitments*

As at 31 December 2011, the Group had 260 land lease agreements (31 December 2010: 289). In 103 land lease agreements (31 December 2010: 118) fixed rent payments are defined and denominated in Russian Roubles. For these land lease agreements the future minimum lease payments under non-cancellable operating leases are as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Not later than 1 year | 47,516 | 69,049 |
| Later than 1 year and not later than 5 years | 108,242 | 116,996 |
| Later than 5 years | 490,638 | 556,545 |
| **Total** | **646,396** | **742,590** |

In addition, in 157 land lease agreements (31 December 2010: 171) the rent is established as a non-monetary measure based on a certain share of agricultural produce harvested or a fixed volume of harvested crops. For 2011 related rent expenses were RR 149,308 (2010: RR 132,283).

### *Sales commitments*

As at 31 December 2011 the Group had outstanding sales commitments in respect of sales of sugar to Federal State Reserve Agency in 2012-2013 in the amount of RR 460,909 for each year (2010: no sales commitments).

## 30. Subsequent events

Since LLC Samaraagroprompererabotka did not meet performance conditions as at 31 December 2011, the Group has obtained the right for repurchase of shares of OJSC Fats and Oil Integrated Works at the pre-agreed price (Note 22). The Group utilised this right and repurchased the 10.5% ownership interest in OJSC Fats and Oil Integrated Works for RR 178,989 in March 2012.