

**OJSC “Nutrinvestholding” and its subsidiaries  
 (“Nutritek Group”)**

Special purpose consolidated balance sheet  
as at 31 December 2008

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Open Joint Stock Company “Nutrinvestholding” and its subsidiaries

Special purpose consolidated balance sheet

as at 31 December 2008

(in thousands of Russian Rubles)

	Notes	
<b>Assets</b>		
<b>Non-current assets</b>		
Intangible assets	6	41,103
Property, plant and equipment	7	4,874,458
Biological assets	8	20,595
Deferred tax asset	9	60,052
Other non-current assets		5,388
		<u>5,001,596</u>
<b>Current assets</b>		
Inventories	10	847,601
Biological assets	8	14,848
Trade and other receivables	11	978,332
Other financial assets	12	197,784
Cash and cash equivalents	13	208,544
		<u>2,247,109</u>
Assets of disposal group classified as held for sale	14	1,443,642
		<u>8,692,347</u>
<b>Total assets</b>		
<b>Equity and liabilities</b>		
<b>Equity attributable to equity holders of the parent</b>		
Issued capital		159
Retained earnings		(2,268,244)
Reserves of disposal group classified as held for sale	14	440,999
		<u>(1,827,086)</u>
<b>Minority interests</b>		62,173
<b>Total equity</b>		<u>(1,764,913)</u>
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	15	485,823
Government grants	16	978,840
Deferred tax liabilities	9	249,284
Other long-term liabilities		5,489
		<u>1,719,436</u>
<b>Current liabilities</b>		
Interest-bearing loans and borrowings	15	6,296,336
Finance lease liabilities	17	76,198
Trade and other payables	18	1,455,288
Income tax payable		3,850
Government grants	16	157,379
		<u>7,989,051</u>
Liabilities directly associated with the assets classified as held for sale	14	748,773
<b>Total liabilities</b>		<u>10,457,260</u>
<b>Total equity and liabilities</b>		<u>8,692,347</u>

The accompanying notes are an integral part of this special purpose consolidated balance sheet.

# Open Joint Stock Company “Nutrinvestholding” and its subsidiaries

## Notes to the special purpose consolidated balance sheet

as at 31 December 2008

*(in thousands of Russian Rubles, unless otherwise stated)*

### 1. Corporate information

OJSC “Nutrinvestholding” (the “Parent Company”) and its subsidiaries (together referred to as the “Group”) comprise open joint stock companies, closed joint stock companies and limited liability companies incorporated in accordance with the Civil Code of the Russian Federation, as well as companies incorporated in New Zealand, Cyprus, Ukraine, Estonia, Singapore, British Virgin Islands, Malaysia.

The Parent Company’s registered office is building 24, block 20, Derbenevskaya Street, Moscow, 115114, Russian Federation.

The Group’s principal activity is production of baby food and special nutrition products at plants located in Russia, Ukraine, Estonia and their distribution in Russia, the Commonwealth of Independent States (“the CIS”) and Estonia. Further, the Group produces whole powder milk (“WPM”) in New Zealand and distributes it in Australia, Malaysia, China, Vietnam, Singapore, Taiwan and other countries.

At the end of October 2008 the Parent Company delisted its shares, which were previously traded on the Russian Trading System (“RTS”) and on the Moscow Interbank Currency Exchange (“MICEX”) under the ticker "NTRI". However, as at 31 December 2008 the Parent Company remained in the list of non-listed companies on RTS and MICEX, which allows the investors to sell their shares via professional participants of the security markets.

As at 31 December 2008 the shareholders of the Parent Company were as follows:

<b>Shareholders</b>	<b>Number of shares</b>	<b>% held</b>
Magby Holdings Limited (100% subsidiary of MarCap I Fund, L.P.)	3,971,825	24.94
Wigo Holdings Limited (100% subsidiary of Marshall Milk Investments Limited)	3,917,680	24.60
Tucci Holdings Limited (100% subsidiary of MarCap II Fund, L.P.)	3,638,007	22.84
Marshall Milk Investments Limited	411,308	2.58
Other, less than 2%	3,986,702	25.04
	<b>15,925,522</b>	<b>100.00</b>

The purpose of this special purpose balance sheet is to present the structure of assets and liabilities in accordance with the basis of preparation and accounting policies set out below in the Notes 2 and 3.

This special purpose consolidated balance sheet and the notes thereon were authorized for issue by the Board of Directors of OJSC “Nutrinvestholding” on 27 February 2010.

# Open Joint Stock Company “Nutrinvestholding” and its subsidiaries

## Notes to the special purpose consolidated balance sheet (continued)

### **2. Basis of preparation of the special purpose consolidated balance sheet**

#### **2.1 Basis of accounting**

The special purpose consolidated balance sheet of the Group has been prepared in accordance with the accounting policies set out in Note 3. For all balances not explicitly covered by the accounting policies set out in Note 3 guidance was taken from International Financial Reporting Standards (“IFRS”) except for disclosure requirements.

The entities of the Group maintain their accounting records in accordance with laws, accounting and reporting regulations of the jurisdictions in which they are incorporated and registered (“statutory accounting records”). Accounting principles in certain jurisdictions may differ substantially from those described in Note 3. Special purpose balance sheets of the Group’s entities have been adjusted to ensure that the special purpose consolidated balance sheet is presented in accordance with the accounting policies described in the Note 3.

The special purpose consolidated balance sheet has been prepared on a historical cost basis, except as stated in the accounting policy below. The special purpose consolidated balance sheet is presented in Russian rubles (“RUR”) and all values are rounded to the nearest thousand except when otherwise indicated.

#### **2.2 Basis of consolidation**

The special purpose consolidated balance sheet comprises the balance sheets of the Parent Company and its subsidiaries as at 31 December 2008.

The special purpose balance sheets of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies.

All intra-group balances and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

Minority interests represent the portion of net total assets or net total liabilities of the subsidiaries of the Parent Company that is not held by the Parent Company and are presented net within equity in the special purpose consolidated balance sheet, separately from parent shareholders' equity, except for minority interests in Russian and Ukrainian limited liabilities companies (“LLC”s) which are presented in other long-term liabilities as their participants have a right to request redemption of their interest in these LLCs in cash. Minority interests in Russian and Ukrainian LLCs are measured at the minority interests’ share in net assets determined based on statutory accounting records.

As at 31 December 2008 the Group did not recognize a minority interest relating to 6,000,000 shares in its subsidiary New Zealand Dairies Limited (“NZDL”) assuming 100% ownership in this company based on the related forward purchase contract with the fixed price of 2.5 New Zealand dollars per share and the put option of a minority shareholder for 4,000,000 shares. As a result, the Group included into its trade and other payables 15,563 thousand New Zealand dollars (RUR 263,692 at the closing exchange rate at 31 December 2008) of liability due to minority shareholders of NZDL in respect of these 6,000,000 shares (see Note 18). At the end of June 2009 the Group acquired the 6,000,000 shares in NZDL and increased its stake in NZDL to 100% having settled its liability to NZDL minority shareholders in cash amounting to 16,700 thousand New Zealand dollars (see Note 20).

# Open Joint Stock Company “Nutrinvestholding” and its subsidiaries

## Notes to the special purpose consolidated balance sheet (continued)

### **3. Summary of significant accounting policies**

#### **Subsidiaries**

Subsidiaries are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All inter-company balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

#### **Acquisition of subsidiaries**

Assets and liabilities that arose from business combinations were accounted for under the same principles as all other assets and liabilities of this special purpose consolidated balance sheet and as set out in this Note. Differences during the elimination of the investments and the equity of these subsidiaries were recognized in retained earnings.

#### **Non-current assets held for sale**

Assets of disposal group classified as held for sale and liabilities directly associated with the assets classified as held for sales as at 31 December 2008 represent assets and liabilities of the Group's Estonian entity, OJSC “Agro Piim”, and its agricultural subsidiaries. The Group sold its ownership interest in OJSC “Agro Piim” in March 2009 (see Note 20). The assets and liabilities of OJSC “Agro Piim” and its agricultural subsidiaries were included in the special purpose consolidated balance sheet of the Group at carrying amounts recorded in their statutory accounting records. Further, the Group included into the assets of disposal group classified as held for sale its unused Tetra Pak equipment of RUR 290,271 measured at cost. On 18 December 2009 the Group transferred this equipment to CJSC “UniCredit Bank” as a settlement for an outstanding loan and accrued interest (see Note 21).

#### **Foreign currency translation**

The Group's special purpose consolidated balance sheet is presented in Russian ruble, which is the Group's reporting currency. Russian ruble is the currency of the primary economic environment in which the Parent Company and its Russian subsidiaries operate. Each entity in the Group determines its own functional currency and items included in the special purpose balance sheet of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. As of 31 December 2008 the Group opted to measure cumulative translation differences arising from foreign subsidiaries having a different functional currency than the Parent Company at zero.

# Open Joint Stock Company “Nutrinvestholding” and its subsidiaries

## Notes to the special purpose consolidated balance sheet (continued)

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

#### Foreign currency translation (continued)

For translation of assets and liabilities denominated in foreign currencies into the reporting currency the Group used the following exchange rates as of 31 December 2008:

RUR 29.38	=	1 U.S. dollar (“USD”)
RUR 41.44	=	1 Euro (“EUR”)
RUR 3.85	=	1 Ukrainian hryvnia (“UAH”)
RUR 2.66	=	1 Estonian kroon (“EEK”)
RUR 16.93	=	1 New Zealand dollar (“NZD”)
RUR 20.36	=	1 Singapore dollar (“SGD”)
RUR 8.39	=	1 Malaysian ringgit (“MYR”)

#### Taxes

##### *Current income tax*

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the special purpose consolidated balance sheet date.

##### *Deferred income tax*

Deferred income tax is provided using the liability method on temporary differences at the special purpose balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes as included into the Group’s special purpose consolidated balance sheet as at 31 December 2008.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- ▶ where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- ▶ in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- ▶ where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- ▶ in respect of deductible temporary differences associated with investments in subsidiaries deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

# Open Joint Stock Company “Nutrinvestholding” and its subsidiaries

## Notes to the special purpose consolidated balance sheet (continued)

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

#### Taxes (continued)

The carrying amount of deferred income tax assets was reviewed and reduced to the extent that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the special purpose balance sheet date.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

#### *Value added tax and goods and services tax*

The tax legislations of the countries where the Group's companies were incorporated permit settlement (where applicable) of value added tax (“VAT”) of European companies and goods and services tax (“GST”) of Asian companies (jointly referred to as “sales tax”) on a net basis within one legal entity.

Sales tax is payable upon invoicing and delivery of goods, except for exported goods, as well as upon collection of prepayments from customers. Sales tax on purchases, even if they have not been settled at the balance sheet date, is deducted from the amount of sales tax payable. Where provision has been made for impairment of receivables, impairment loss is normally recorded for the gross amount of the debtor, including sales tax, except for New Zealand where sales tax relating to impaired receivables is payable to tax authorities and recoverable when debt is written off. Assets are recognized net of the amount of sales tax except:

- ▶ where the sales tax incurred on a purchase of assets is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset; and
- ▶ receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the special purpose consolidated balance sheet.

#### **Government grants**

Government grants are recognized where there is reasonable assurance that grants will be received and all attached conditions will be complied with. The Group's government grants as at 31 December 2008 related to equipment which it received in 1997-2003 under the Russian Government program “Children of Russia”. The Group measured its government grants which took the form of a transfer of non-monetary assets at nominal amounts including adjustments for the effects of hyperinflation during the period before 1 January 2003 when Russian economy ceased to be hyperinflationary. The effects of hyperinflation were calculated using conversion factors derived from the Russian Federation Consumer Price Index which was published by the Federal Service of State Statistics of Russian Federation.

# Open Joint Stock Company “Nutrinvestholding” and its subsidiaries

## Notes to the special purpose consolidated balance sheet (continued)

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

#### Government grants (continued)

When a grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where a grant relates to an asset, it is recognized as deferred income and released to income in equal amounts over the expected useful life of the related asset starting from the date of putting the related asset into operation.

The Group measured certain equipment which was received under the Russian Government program “Children of Russia” and was fully impaired as at 31 December 2008, at zero. The related government grants were recognized at zero.

#### Employee benefits

In the normal course of business the Group contributes to state defined contribution pension, social and medical insurance funds (plans) on behalf of its employees. Mandatory contributions to these funds (plans) are expensed when incurred. As at 31 December 2008 the Group did not recognize liabilities relating to certain retirement and post retirement benefits which it provides to its employees.

#### Financial assets: loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortized cost. Amortized cost is defined as the amount at which it was measured at initial recognition minus principle repayments, plus or minus the cumulative amortization using the “effective interest method” of any difference between the initial amount and the maturity amount, and minus any write-downs for impairment or incollectability. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

#### Impairment of financial assets

While preparing this special purpose consolidated balance sheet the Group assessed whether there was any objective evidence that a financial asset or a group of financial assets was impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For amounts due from loans and advances to customers carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

## Open Joint Stock Company “Nutrinvestholding” and its subsidiaries

### Notes to the special purpose consolidated balance sheet (continued)

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

##### Impairment of financial assets (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the retained earnings. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

##### Financial liabilities: loans and borrowings

Loans and borrowings are initially recognized at fair value of the consideration received, less directly attributable transaction costs. After initial recognition, borrowings are measured at amortized cost using the effective interest method. However, certain loans were recognized in the amounts as per the statutory accounting records (see Note 15) due to the lack of sufficient documentation to support initial recognition at fair value.

##### Property, plant and equipment

The Group measures its property, plant and equipment as follows:

- ▶ property, plant and equipment, except for constructions and transfer devices put into operations in 1990 or before, of OJSC “Khorolsky Dairy and Canned Food Combine of Baby Products”, CJSC “Nutritek Company, OJSC Sibayan Dairy and Canned Food Combine of Baby Products”, OJSC “Canned Food Factory Dinskoy”, was measured at fair value determined by an independent appraiser as at 31 December 2008 (“deemed cost”). For a part of the assets being re-valued fair value was determined by reference to market-based evidence. For assets which are of a specialized nature the deemed cost was estimated using depreciated replacement cost. The depreciated replacement cost was estimated based on internal sources and analysis of Russian, Ukrainian and international markets for similar property and equipment. Various market data were collected from published information, catalogues, statistical data etc, and industry experts and suppliers of property, plant and equipment,
- ▶ constructions and transfer devices put into operations in 1990 or before of Russian and Ukrainian production subsidiaries – at zero,
- ▶ other property, plant and equipment – at historical cost net of accumulated depreciation and/or impairment losses as recognized in the statutory accounting records.

The useful lives of the assets are determined as follows:

- |  |                |
|--|----------------|
| ▶ Buildings, construction and transfer devices | 20 to 50 years |
| ▶ Plant and machinery                          | 8 to 25 years  |
| ▶ Equipment and motor vehicles                 | 3 to 8 years   |

Land was not depreciated.

# Open Joint Stock Company “Nutrinvestholding” and its subsidiaries

## Notes to the special purpose consolidated balance sheet (continued)

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

#### Finance leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items, are capitalized at the commencement of the lease.

#### Intangible assets

Intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The useful lives of the intangible assets are determined as follows:

- ▶ Right of use of intellectual property      duration of related agreements
- ▶ Licenses and resource consents      duration of licenses and resource consents
- ▶ Other intangible assets      3 to 10 years

#### Biological assets

Biological assets of the Group consist of unharvested crops of wheat, rape and rye and livestock (pigs and cattle). The Group measures its biological assets at costs less accumulated depreciation and impairment losses as recorded in statutory accounting records.

#### Inventories

Inventories are valued at the lower of cost and net realizable value except for agricultural produce of Ukrainian agricultural subsidiaries (hay, silage, etc.) which was valued at zero.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

*Raw materials* – purchase cost on a first in, first out basis.

*Finished goods and work in progress* – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

#### Impairment of non-financial assets measured at cost

As at each balance sheet date the Group assesses whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimated the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows were discounted to their present value using a pre-tax discount rate that reflected current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model was used.

# Open Joint Stock Company “Nutrinvestholding” and its subsidiaries

## Notes to the special purpose consolidated balance sheet (continued)

### **3. Summary of significant accounting policies (continued)**

#### **Cash and short-term deposits**

Cash and short-term deposits in the special purpose consolidated balance sheet comprised cash at banks and on hand and short-term deposits with an original maturity of three months or less.

#### **Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at the pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability.

#### **Related parties**

The Group considered parties to be related if one party had the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions or if parties were under common control (this includes parents, subsidiaries and fellow subsidiaries). In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Further, the Group considered a party to be related (other related parties) if as at the balance sheet date the Group had an financial asset or financial liability with regard to this party which had arisen from a transaction effected on terms, conditions and/or amounts which unrelated parties would not had been bargained on an arm's length basis.

### **4. Significant accounting judgments, estimates and assumptions**

The preparation of the Group's special purpose consolidated balance sheet requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the special purpose consolidated balance sheet date, that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next financial year are discussed below.

#### **Tax and other regulatory compliance risk**

Russian and Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that its interpretation of the relevant legislation is appropriate and that the Group has complied with all regulations and paid or accrued all taxes and withholdings that are applicable. At the same time it is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future, although this risk significantly diminishes with the passage of time. As at 31 December 2008 management believes that its interpretation of the relevant legislation and regulations, including those relating to government grants, is appropriate and that the Group's tax, currency, customs and grants positions will be sustained.

**4. Significant accounting judgments, estimates and assumptions (continued)**

**Provisions for litigations**

The Group is a defendant in a number of lawsuits. The provisions for litigations represent management assessment of the probable losses resulting from a negative outcome of the lawsuits. As at 31 December 2008 the Group presented the provisions for litigations in ‘trade and other payables’.

**Allowance for doubtful debts**

As at 31 December 2008 the Group reviewed its loans, trade and other receivables to assess impairment. The Group provided for doubtful debts based on the assessment of the likelihood of their collectability and haven taken into consideration the ageing of related receivable balance and historical write-off experience, debtor’s credit worthiness and changes in debtor’s payment terms.

**Property, plant and equipment at deemed cost**

The Group valued its certain property, plant and equipments at fair value determined by independent appraisers as at 31 December 2008. The fair value was determined from market-based evidence, if there is no market-based evidence of fair value because of the specialized nature of the item of property, plant and equipment and the item is rarely sold, the independent appraisers estimated fair value using a depreciated replacement cost approach. The determination of fair value requires significant estimates.

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

The Group’s assessment of the remaining useful life of items of property, plant and equipment may have an impact on the amount of the carrying values of net property, plant and equipment.

**Deferred tax assets**

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

# Open Joint Stock Company "Nutrinvestholding" and its subsidiaries

## Notes to the special purpose consolidated balance sheet (continued)

### 5. Principal subsidiaries

The special purpose consolidated balance sheet includes the special purpose balance sheets of OJSC "Nutrinvestholding" and its subsidiaries listed in the following table:

#	Name of subsidiary	Activity	Country of incorporation	Ownership interest, %
<i>Continuing operations</i>				
1	Nutritek International, Corp.	Holding and finance company	British Virgin Islands	100.00
2	Nutrinvest OJSC	Holding and finance company	Russian Federation	99.82
3	Nutritek OJSC	Holding and finance company	Russian Federation	100.00
4	Nutritek - Agro Ukraine LLC	Holding and finance company	Ukraine	100.00
5	Nutritek Ukraine LLC	Holding and finance company	Ukraine	100.00
6	Nutritek Overseas Pte. Limited	Holding and finance company	Singapore	100.00
7	Nutritek Asia Pte. Limited	Holding and finance company	Singapore	100.00
8	Neliec Holdings Limited	Holding and finance company	Cyprus	100.00
9	Products of Zaural'e CJSC	Manufacturing of baby food	Russian Federation	100.00
10	Nutritek-Penza CJSC	Manufacturing of baby food	Russian Federation	70.00
11	Khorolsky Dairy and Canned Food Combine of Baby Products OJSC	Manufacturing of baby food	Ukraine	84.40
12	Estmilk Production LLC ("Estmilk")	Manufacturing of baby food and breast milk substitute ("BMS")	Estonia	100.00
13	Nutritek Company CJSC	Manufacturing of BMS	Russian Federation	99.91
14	Sibayan Dairy and Canned Food Combine of Baby Products OJSC	Manufacturing of cereals and BMS	Russian Federation	100.00
15	New Zealand Dairies Limited ("NZDL")	Manufacturing of WMP	New Zealand	100.00
16	Canned Food Factory Dinskoy OJSC	Manufacturing of baby mashes and juices	Russian Federation	50.07
17	Aqua Pack Limited	Manufacturing of water	Russian Federation	87.84
18	Bat'kivshina LLC	Agricultural	Ukraine	100.00
19	Chervona Zirka LLC	Agricultural	Ukraine	100.00
20	Agricultural society "Zorya" LLC	Agricultural	Ukraine	85.64
21	Trade Company Nutritek "Special and Baby Food" LLC	Selling and distribution	Russian Federation	100.00
22	Nutritek-Tender CJSC	Selling and distribution	Russian Federation	99.91
23	Trade Company "Skorovarov" CJSC	Selling and distribution	Russian Federation	50.57
24	Nutritek LLC	Selling and distribution	Russian Federation	99.82
25	Trade Company "Special and Baby Food" LLC	Selling and distribution	Ukraine	84.40
26	Dairy Exports New Zealand Limited	Selling and distribution	New Zealand	50.00
27	NZ Best SDN. BHD. Limited	Selling and distribution	Malaysia	100.00
28	Nutritek-Logistics OJSC	Warehouse facility	Russian Federation	100.00
29	Agrofirm Tverskoe LLC	Warehouse facility	Russian Federation	100.00
30	Studholme Corporation Limited	Land owner	New Zealand	100.00
31	Dinskonservstroy LLC	Dormant	Russian Federation	45.06
32	Moskovskiy Zavod Detskogo Pitaniya CJSC	Dormant	Russian Federation	100.00
33	Slavex-Centre CJSC	Dormant	Russian Federation	99.82
34	Trade Company Nutritek CJSC	Dormant	Russian Federation	99.82
35	Transportation Forwarding Company "Nutritek" CJSC	Dormant	Russian Federation	99.82
36	Tritofo Holdings Limited	Dormant	Cyprus	100.00
37	Rengsdorf Limited	Dormant	Cyprus	100.00
38	Dairy New Zealand Limited	Dormant	New Zealand	100.00
39	Food Processor (2006) Limited	Dormant	New Zealand	100.00
40	Nutritek Europe OJSC	Dormant	Estonia	100.00

Open Joint Stock Company “Nutrinvestholding” and its subsidiaries

Notes to the special purpose consolidated balance sheet (continued)

**5. Principal subsidiaries (continued)**

#	Name of subsidiary	Activity	Country of incorporation	Ownership interest, %
<i>Subsidiaries disposed in March 2009</i>				
1	Agro Piim OJSC	Holding and finance company	Estonia	100.00
2	Aravete Agro LLC	Agricultural	Estonia	65.35
3	Peetri Pold ja Piim OJSC	Agricultural	Estonia	100.00
4	Tammsaare LLC	Agricultural	Estonia	70.27
5	Vaimastvere Agro LLC	Agricultural	Estonia	100.00
6	Lelle LLC	Agricultural	Estonia	99.00
7	ArmeTurvas LLC	Agricultural	Estonia	49.35

**6. Intangible assets**

	Right for use of intellectual property	Licenses and resource consents	Other intangible assets	Total
	RUR	RUR	RUR	RUR
Cost	11,137	31,765	3,428	46,330
Accumulated amortization	(2,376)	(2,072)	(779)	(5,227)
<b>Net book value</b>	<b>8,761</b>	<b>29,693</b>	<b>2,649</b>	<b>41,103</b>

**7. Property, plant and equipment**

	Land	Buildings, constructions and transfer devices	Plant and machinery	Equipment and motor vehicles	Construction in progress and advances paid	Total
	RUR	RUR	RUR	RUR	RUR	RUR
Cost or deemed cost	128,011	2,090,596	2,713,768	54,625	63,935	5,050,935
Accumulated depreciation and impairment losses	–	(59,881)	(114,680)	(1,916)	–	(176,477)
<b>Net book value</b>	<b>128,011</b>	<b>2,030,715</b>	<b>2,599,088</b>	<b>52,709</b>	<b>63,935</b>	<b>4,874,458</b>

**8. Biological assets**

Presented below are quantities and the carrying values of biological assets of the Group’s Ukrainian entities as at 31 December 2008.

	Quantity	RUR
<b>Non-current biological assets</b>		
Cows	846	10,024
Calves	830	10,390
Other animals	41	181
<b>Total</b>	<b>1,717</b>	<b>20,595</b>
<b>Current biological assets</b>		
Pigs	593	1,781
Growing crops	–	13,067
<b>Total</b>	<b>593</b>	<b>14,848</b>

# Open Joint Stock Company “Nutrinvestholding” and its subsidiaries

## Notes to the special purpose consolidated balance sheet (continued)

### 9. Deferred taxes

As at 31 December 2008 the Group’s deferred tax assets primarily related to provisions, property, plant and equipment and tax losses carried forward and the Group’s deferred tax liabilities related to property, plant and equipment.

On 20 November 2008, the Russian Government enacted a law which reduced the statutory income tax rate from 24% to 20% effective from 1 January 2009. Deferred tax assets and deferred tax liabilities of Russian companies of the Group were computed at 20% rate.

As at 31 December 2008, there was no recognized deferred tax liability for taxes that would be payable on the unremitted earnings of certain of the Group’s subsidiaries as the Group has determined that accumulated profits of its subsidiaries will not be distributed in the foreseeable future.

### 10. Inventories

	<u>RUR</u>
Raw materials and consumables	210,239
Finished goods and goods for resale	581,783
Work in progress	47,743
Prepaid expenses	<u>7,836</u>
<b>Total inventories at the lower of cost and net realizable value</b>	<b><u><u>847,601</u></u></b>

### 11. Trade and other receivables

	<u>RUR</u>
Trade receivable	671,743
Other receivables	116,028
VAT and GST receivable	<u>190,561</u>
<b>Total trade and other receivables</b>	<b><u><u>978,332</u></u></b>

As at 31 December of 2008 related party trade and other receivables at initial value of RUR 3,287,329 and third party trade and other receivables at initial value of RUR 1,373,516 were impaired and fully provided for.

### 12. Other financial assets

As at 31 December 2008 RUR 165,619 of promissory notes receivables from related parties and RUR 2,249,345 of loans issued to related parties were impaired and fully provided for.

The following table presents key conditions of unimpaired loans issued to related parties as at 31 December 2008:

Original principal, in thousands	Effective interest rate	Maturity	RUR
RUR 72,000	10.9%	October 2008	78,818
USD 12,000	10%	June 2009	<u>118,966</u>
			<b><u><u>197,784</u></u></b>

In January 2009 the RUR 72,000 loan and related interest receivable were settled through offset with a payable to the same party.

Open Joint Stock Company “Nutrinvestholding” and its subsidiaries

Notes to the special purpose consolidated balance sheet (continued)

**13. Cash and cash equivalents**

	<u>RUR</u>
Cash in hand	497
Current accounts	
RUR	75,794
USD	51,553
EEK	6,302
UAH	6,501
Other currencies	4,753
Deposits with maturity less than 3 months	
USD	60,488
Other currencies	2,656
<b>Total cash and cash equivalents</b>	<b><u><u>208,544</u></u></b>

**14. Assets of disposal group classified as held for sale and related liabilities**

As at 31 December 2008 the assets of OJSC “Agro Piim” and its subsidiaries were classified as held for sale and liabilities directly associated with these assets were as follows:

	<u>RUR</u>
<b>Assets</b>	
Property, plant and equipment	739,714
Biological assets	206,759
Goodwill	17,860
Inventories	130,936
Trade and other receivables	50,309
Cash and short-term deposits	7,191
Other assets	602
<b>Assets classified as held for sale</b>	<b><u><u>1,153,371</u></u></b>
<b>Liabilities</b>	
Trade and other payables	292,546
Loans and borrowings	456,227
<b>Liabilities directly associated with assets classified as held for sale</b>	<b><u><u>748,773</u></u></b>
<b>Reserves of disposal group classified as held for sale</b>	<b><u><u>440,999</u></u></b>

Further, the Group classified its unused Tetra Pak equipment of RUR 290,271 of its subsidiary OJSC “Nutritek” as assets held for sale as at 31 December 2008. On 18 December 2009 this equipment has been disposed as a settlement for an outstanding loan received from CJSC “UniCredit Bank” and related accrued interest (Note 21).

Open Joint Stock Company “Nutrinvestholding” and its subsidiaries

Notes to the special purpose consolidated balance sheet (continued)

**15. Interest-bearing loans and borrowings**

	Principal in the original currency, in thousands	Effective interest rate	Maturity	RUR
<b>Current</b>				
<i>Secured bank borrowings:</i>				
Russian Agricultural Bank	RUR 110,000	16%	March 2009	110,289
Russian Agricultural Bank	EUR 2,400	13%	March 2009	99,671
Raiffeisen Bank Aval	UAH 12,449	16-17%	March 2009	48,667
UkreximBank	EUR 218	8.5%	December 2009	9,030
Swedbank	EUR 46	6-7.8%	December 2009	1,914
<i>Unsecured bank borrowings:</i>				
VTB Bank Europe Plc Singapore Branch	USD 20,000	Libor+4.5%	March 2009	599,788
HSBC Bank	RUR 375,000	MosPrime 3m+2.2%	May 2009	381,695
UniCredit Bank	RUR 280,000	MosPrime 3m+2.5%	March 2009	281,874
Raiffeisen Bank Aval	UAH 759	9,5-14,5%	March 2009	2,926
Raiffeisen Bank Aval	UAH 494	16-17%	August 2009	1,905
<i>Secured loans from related parties</i>				
Vedrine Investments Limited	RUR 318,035	MosPrime 3m+2.7%	December 2009	355,518
<i>Other unsecured borrowings:</i>				
Winterhaven Finance B.V.	USD 50,000	8.75%	December 2008	1,533,595
Winterhaven Finance B.V.	USD 50,000	9%	April 2009	1,494,464
Ruble denominated bonds	RUR 1,200,000	9.5%	June 2009	1,208,011
Leonarda Invest	EUR 10,922	7%	December 2009	16,593
Unsecured loans from related parties	RUR 123,341	–	–	143,953
Other	RUR 21,246	various	various	6,443
<b>Total current interest-bearing loans and borrowings</b>				<b><u>6,296,336</u></b>
<b>Non-current</b>				
<i>Secured bank borrowings:</i>				
Swedbank	EUR 204	6-7.8%	November 2010-2014	8,438
Raiffeisen Bank Aval	UAH 1,074	17%	May 2010- March 2011	4,141
<i>Unsecured bank borrowings:</i>				
Raiffeisen Bank Aval	UAH 2,446	17%	May 2010	9,431
<i>Unsecured other borrowings:</i>				
Leonarda Invest	EUR 10,922	7%	November 2011	452,600
Other	RUR 19,098	various	various	11,213
<b>Total non-current interest-bearing loans and borrowings</b>				<b><u>485,823</u></b>

## Open Joint Stock Company "Nutrinvestholding" and its subsidiaries

### Notes to the special purpose consolidated balance sheet (continued)

#### **15. Interest-bearing loans and borrowings (continued)**

The loans of OJSC "Russian Agricultural Bank" were secured by personal guaranty of one of the Group's ultimate shareholders.

On 11 December 2008 the Group was not able to repay USD 50,000,000 loan and relating interest which were due from Nutritek International, Corp. to Winterhaven Finance B.V. ("Winterhaven"). This default also triggered a default in respect of the second loan agreement between Nutritek International, Corp. and Winterhaven (also USD 50,000,000).

As at 31 December 2008 OJSC "Nutritek" had RUR 355,518 loan and interest payable to Vedrines Investments Limited ("Vedrines"). At the same time, OJSC "Nutritek" jointly guaranteed Vedrines' obligation under its EUR 9,000,000 loan received from CJSC "UniCredit Bank". On 18 December 2009 OJSC "Nutritek" transferred its unused Tetra-Pack equipment to OJSC "UniCredit Bank" and this transaction extinguished the guarantee and the loan and interest payable to Vedrines.

Unsecured current loans from related parties in the amount of RUR 140,997 were presented as per the statutory accounting records since no reliable supporting documentation was available.

#### **16. Government grants**

In 1997-2003 CJSC "Company Nutritek", OJSC "Canned Food Factory Dinskoy" and OJSC "Sibayan Dairy and Canned Food Combine of Baby Products" received grants from the Russian Government under the program "Children of Russia" which took the form of transfer of plant and machinery for baby food production. These plant and machinery are under legal ownership of Russian government bodies, the Group holds them for use in the production of baby food. The conditions of the grants are that the companies of the Group must continue to use the related plant and machinery for baby food production. As at 31 December 2008 certain items of plant and machinery were not used by the Group. The Group started to use some of these items during 2009; however, management does not have plans to use rest of these plant and machinery items in the future as they are impaired. As a result, the Group recognized these impaired items of plant and equipment and related grants at zero in its special purpose consolidated balance sheet.

Management believes that it has substantially complied with this condition and will continue to comply in the future.

#### **17. Finance lease liabilities**

As at 31 December 2008 Estmilk, the Group's entity, was a party to a lease contract which the Group classified as a finance lease. The Group included the related leased property, plant and equipment of RUR 436,266 and finance lease liabilities of RUR 76,198 in the special purpose consolidated balance sheet and measured them in their carrying amounts as recognized in the statutory accounting records of Estmilk.

# Open Joint Stock Company “Nutrinvestholding” and its subsidiaries

## Notes to the special purpose consolidated balance sheet (continued)

### 18. Trade and other payables

	<u>RUR</u>
Trade payables to related parties	275,244
Trade payables to third parties	444,481
Taxes payables	109,820
Payables to employees	57,390
Advances received	14,656
Liability relating to 6,000,000 shares in NZDL (Note 2.2)	263,692
Accruals and provisions	70,981
Other payables to related parties	136,277
Other payables to third parties	82,747
<b>Total trade and other payables</b>	<b><u>1,455,288</u></b>

Included in trade and other payables are trade and other payables to third and related parties in amount of RUR 342,176 which were presented as per the statutory accounting records since no reliable supporting documentation was available.

### 19. Commitments and contingencies

#### Contractual commitments

As at 31 December 2008 the Group had contractual commitments of RUR 62,742 (EUR 1,514 thousand) for purchase of property, plant and equipment and of RUR 15,883 for purchase of the land plots under the production facilities of OJSC “Canned Food Factory Dinskoy” and CJSC “Nutritek Company”. OJSC “Sibayan Canned Food Combine of Baby Products” has entered into 50-years lease agreement in relation to the land plot under its production facilities for RUR 904 annual rent fees which the lessor can adjust at least annually.

#### Taxation

Russian and Ukrainian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. The tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be accrued.

Management believes that as at 31 December 2008 its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained. Russian and Ukrainian legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax burden of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Group.

## Open Joint Stock Company “Nutrinvestholding” and its subsidiaries

### Notes to the special purpose consolidated balance sheet (continued)

#### **19. Commitments and contingencies (continued)**

##### **Litigations**

As at 31 December 2008 the Group was involved in an unresolved claim litigation from International Process Systems Limited (“IPS”) regarding the quantum of fees payable to IPS for its role in establishing NZDL factory in Studholme. The amount claimed by IPS totals NZD 1,637 thousand (GST inclusive) plus interest. The Group has accrued NZD 829 thousand (GST inclusive) under trade and other payables in the special purpose consolidated balance sheet.

As at 31 December 2008 the Group was involved in an unresolved claim litigation from Owsley and St Crox Holdings Limited (“SCHL”) regarding work allegedly done by two of the founding shareholders of NZDL on the project prior to NZDL’s incorporation. The amount claimed by Owsley and SCHL equals NZD 407 thousand (GST inclusive) plus interest. The Group fully accrued the amount claimed under trade and other payables in the special purpose consolidated balance sheet.

##### **Negative net assets in statutory financial statements**

Certain subsidiaries of the Parent Company, CJSC “Trade Company Nutritek”, CJSC “Transportation Forwarding Company “Nutritek”, LLC “Nutritek, Estmilk, have negative net assets at their statutory balance sheets as at 31 December 2008. In accordance with the Russian legislation, in the event that a company’s net assets in its second or each consecutive year fall below the minimum charter capital required by law, its creditors may accelerate their claims or demand early performance of obligations and demand payment of damages. In these circumstances, government authorities may seek the involuntary liquidation of the company. In accordance with the Estonian legislation, in the event that a company’s net assets fall below the minimum charter capital required by law; its participants should take the decision to increase its net assets or to file the announcement on the company’s bankruptcy or initiate other forms of cessation of its activities.

##### **Operating environment of the Parent Company**

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent on these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government. The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting refinancing of foreign debt for Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group’s financial position, results of operations and business prospects.

The Group’s management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances. Unexpected further deterioration in the areas described above could negatively affect the Group’s financial position.

## Open Joint Stock Company “Nutrinvestholding” and its subsidiaries

### Notes to the special purpose consolidated balance sheet (continued)

#### **20. Events after the balance sheet date**

##### **Disposal of Estonian agricultural operations**

In March 2009 the Group disposed of its ownership interest in OJSC “Agro Piim” and its Estonian agricultural subsidiaries to OJSC “Leonarda Invest” (“Leonarda”) for a consideration of EEK 1 (see Note 14). The resulting loss of this transaction was booked in 2009.

##### **Litigations**

On 27 January 2007 and as amended on 30 November 2009 Templeton Strategic Emerging Markets Fund II, LDC (“Templeton”) brought an arbitration against Marshall Milk Investments Limited, Nutritek International, Corp., the Parent Company and OJSC “Nutrinvest” (the “Respondents”). Templeton alleged that the Respondents breached warranty provisions of a sale and purchase agreement (the “SPA”) entered into by the parties on 26 July 2006 in respect of sale of the Parent Company’s shares to Templeton. The claim made by Templeton against the Respondents amount to USD 9,460 thousand plus interest at the rate of LIBOR+3% from 1 August 2006 until payment and costs. The Group has been advised by its legal counsel that it is only possible, not probable, that Templeton will be successful in its claim and accordingly no provision for any liability has been made in the special purpose consolidated balance sheet.

##### **Increase of share capital**

On 11 March 2009 the Parent Company’s board of directors approved additional emission of 100,000,000 shares with a nominal value of 0.01 Russian ruble.

##### **NZDL’s outstanding share purchase**

In 2009 the Group became defendant in a lawsuit from a minority shareholder of NZDL relating to the Group’s failure to fulfill its obligations under the forward purchase contract with regard to 6,000,000 shares in NZDL (see Note 2.2. and 18). In June 2009 the Group fulfilled its obligation under this contract by acquiring 6,000,000 shares in NZDL and, as a result, it increased its ownership interest in NZDL to 100%. The consideration was settled in cash to NZDL minority shareholder in the amount of NZD 16,700 thousand.

#### **21. Going concern**

At 31 December 2008 the financial position of the Group was as following:

- ▶ As at 31 December 2008 the net assets of the Group, attributable to the shareholders of the Company, were negative and amounted to RUR 1,827,086,
- ▶ As at 31 December 2008 the Group current liabilities exceeded current assets by RUR 5,741,942,
- ▶ On 11 December 2008 the Group was not able to repay a USD 50,000,000 loan and related interest on USD 50,000,000 loan agreement between Nutritek International, Corp. and Winterhaven. This fact resulted in events of default under this agreement and under the “up to USD 100 million” agreement between Nutritek International, Corp. and Winterhaven (see Note 15),
- ▶ As at 31 December 2008 certain trade and other payables of the Group were past due which resulted in events of default under several loan agreements.

## Open Joint Stock Company “Nutrinvestholding” and its subsidiaries

### Notes to the special purpose consolidated balance sheet (continued)

#### 21. Going concern (continued)

Starting from April 2009 the Group was not able to repay its matured key loans and borrowings, which are loans under the agreements with Winterhaven, UniCredit Bank CJSC (“UniCredit Bank”), HSBC Bank (RR) (Limited Liability Company) (“HSBC”), Russian Agricultural Bank OJSC (“Rosselkhozbank”), VTB Bank Europe Plc Singapore Branch and Ruble-denominated non-convertible notes (“Ruble notes”), as well as related interest due, and as a result, these Group’s loans and borrowings became in default and immediately payable. Further, holders of ruble bonds filed lawsuits against the Parent Company for repayment of its obligations under default bonds in the amount of RUR 400,050. The Group started the negotiations with its key lenders which resulted in the following:

- ▶ On 18 December 2009 UniCredit Bank and the Parent Company signed an additional agreement to the loan agreement dated 26 February 2008 relating to RUR 280,000 ruble loan,
- ▶ On 21 December 2009 Nutritek International, Corp. signed amended agreements with Winterhaven related to a USD 50,000,000 loan agreement dated 9 June 2007 and the “up to USD 100,000,000” loan agreement dated 16 April 2008,
- ▶ On 21 December 2009 Nutrinvestholding signed with Earthy Business Ltd. an additional agreement to the credit facility agreement dated 30 May 2008 relating to RUR 375,000 loan which was originally provided by HSBC,
- ▶ In January 2010 the Company published on its website an offering documentation relating to the proposed exchange of the defaulted ruble notes of RUR 1,200,000 for new notes with amended terms. In February 2010 the Group started the exchange of the defaulted notes for new notes,
- ▶ On 16 February 2010 the Group signed with Rosselkhozbank additional agreements to the original RUR 110,000 and EUR 2,400 thousand loan agreements dated 24 March 2008.

The following are key conditions of debt restructuring for the key Group’s loans and borrowings above:

- ▶ The unpaid interest up to the date of signing of the amended agreements is to be capitalized;
- ▶ 4% of Ruble notes’ principle should be repaid on 31 December 2010, 8% - on 30 June 2010, 10% - semiannually starting from 31 December 2011 till 31 December 2013 and 38% on 30 June 2014;
- ▶ 10% of the principle of loans from Earthy Business Ltd., UniCredit Bank and Rosselkhozbank are payable on 30 June 2012, 20% - on 31 December 2012 and 70% - 30 June 2013;
- ▶ 5% of principle of the loans from Winterhaven is be paid for 30 June 2012 and 31 December 2012, 10% - on 30 June 2013, 31 December 2013 and 30 June 2014 and the remaining 30% - on 31 December 2014 and 30 June 2015;
- ▶ Partial cash settlement of the interest is to be made from the date of signing of the amended agreements to 31 December 2010. Starting from 2011 the full amount of accrued interest will be settled in cash;
- ▶ After 31 December 2010 interest payments will be made quarterly to the banks and semiannually - to holders of ruble notes and holders of notes under the agreement with Winterhaven;

## Open Joint Stock Company “Nutrinvestholding” and its subsidiaries

### Notes to the special purpose consolidated balance sheet (continued)

#### 21. Going concern (continued)

- ▶ After 1 July 2014 the lenders under the restructured loans and borrowings, whose principle amounts are not repaid in full, will have the automatic right to receive shares at no cost up to 10% of the Parent Company’s issued capital;
- ▶ The lenders are to be provided with the additional securities in form of pledge of shares/stakes in key production subsidiaries in Russia, Ukraine and Estonia, their property, plant and equipment and intellectual property rights;
- ▶ The Group is to use an excess cash for debt repayment; this excess cash is to be computed based on a specified formula taking into consideration amounts required for operating activities, regular financing activities and capital expenditures;
- ▶ Additional corporate governance measures are to be introduced including increasing the number of board members by 9 in the board of directors of the Company including 2 board members proposed by note holders under the loans from Winterhaven, 1 board member proposed by holders of ruble notes and 1 board member proposed by UniCredit Bank, Rosselkhozbank and Earthy Business Ltd., approval of the Company’s annual budget and any loan extension to a 3rd party and other important decisions by at least 6 board members.

The amended agreements stipulates a number of events of default upon occurrence of which and at any time after the lenders may declare the outstanding borrowings and interest to be immediately payable or payable on demand . At the date when this special purpose consolidated balance sheet is authorized for issuance, management believes that the Group has complied with all the covenants and conditions and no events of default has occurred except for the fact that the Group was not able to sign the additional agreements to the original RUR 110,000 and EUR 2,400 thousand Rosselkhozbank loan agreements before 31 January 2010 and within the agreed cure period of 10 business days; this delay has led to events of default under 18 December 2009 UniCredit Bank additional agreement and 21 December 2009 amended agreements with Winterhaven. No notice has been received from Winterhaven and from UniCredit Bank relating to their rights for payment demand. Management of the Group is negotiating the waivers for these defaults with note holders under the loans from Winterhaven and with UniCredit Bank.

Further, on 31 December 2009 NZDL signed a facility agreement with VTB Capital plc for USD 18,656 thousand which was to be used to settle USD 20,000 thousand NOPL loan from VTB Bank Europe Plc Singapore Branch. The loan under the facility matures on second anniversary of the loan utilization date with NZDL having the right to request for one year delay in repayment.

On 1 April 2009 Estmilk signed the loan agreement with Leonarda under which its outstanding liabilities including accrued interest under two outstanding agreements were transformed into a new liability of EUR 9,731 thousand which is repayable in the period from 1 April 2012 to 1 April 2014.

On 18 December 2009 OJSC “Nutritek”, a company of the Group, transferred unused Tetra-Pak equipment to UniCredit Bank as a settlement for RUR 318,775 loan and related unpaid interest.

## Open Joint Stock Company “Nutrinvestholding” and its subsidiaries

### Notes to the special purpose consolidated balance sheet (continued)

#### **21. Going concern (continued)**

In addition, the Group started to implement operational improvement initiatives which includes measures aimed increasing sales by introduction of value-added products and by entering into new marketing and distribution channels, decreasing inventory stock, introduction of debtors' credit control, improvements in cash management, streamlining the production process, centralizing the key functions and reviewing the Group structure for identification of non-core operations and dormant companies. Management believes that its initiatives will allow the Group to generate sufficient cash to finance debt servicing and repayments and to improve financial position of the Group.

The Group's dependence on (a) its ability to generate sufficient cash flows from operations for repayment of restructured debts, (b) its compliance with all the undertakings, conditions and covenants under the restructured debt agreements, and (c) the successful completion of negotiations with note holders under the loans with Winterhaven and UniCredit Bank with regard to February 2010 events of default indicate the existence of a material uncertainty that casts a significant doubt on the Group's ability to continue as a going concern and to realize its assets and to discharge its liabilities in the normal course of business.

Based on the Group's plans described above and after consideration of related uncertainties, the management believes that the Group will be able to secure sufficient resources to continue its operations in the foreseeable future. As a result, these special purpose consolidated balance sheet has been prepared on the going concern basis.