



**AVANGARDCO INVESTMENTS PUBLIC  
LIMITED**

**Report and Consolidated Financial Statements**

**For the year ended 31 December 2013**

## AVANGARDCO INVESTMENTS PUBLIC LIMITED

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**AVANGARDCO INVESTMENTS PUBLIC LIMITED****Board of Directors and other officers****BOARD OF DIRECTORS:**

Nataliya Vasylyuk (Chairwoman of the Board)  
Oleg Bakhmatyuk (Member of the Board)  
Oleg Michael Pohotsky (Non Executive Director)  
Iryna Marchenko (Chief Executive Officer)  
Oksana Prosolenko (Head of Business Development, resigned on 12 September 2013)

**COMPANY SECRETARY:**

Gliage Investments Limited  
3 Anexartisias & Kyriakou Matsi  
3040 Limassol  
Cyprus

**REGISTERED OFFICE:**

3 Anexartisias & Kyriakou Matsi  
3040 Limassol  
Cyprus

**LEGAL ADVISORS:**

Freshfields Bruckhaus Deringer LLP  
65 Fleet Street  
London EC4Y 1HS  
United Kingdom

Avellum Partners LLC  
Leonardo Business Center  
19-21 Bohdana Khmelnytskoho Str.  
11th floor  
01030 Kyiv, Ukraine

**INDEPENDENT AUDITORS:**

KPMG Limited  
14, Esperidon Str.  
1087 Nicosia, Cyprus

**BANKERS:**

UBS AG  
Postfach, CH-8098 Zurich

Deutsche Bank AG  
De Entree 99-197  
1101 HE Amsterdam  
Postbus 12797  
1100 AT Amsterdam

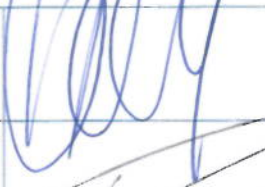

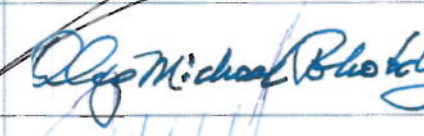

Financial Initiativa  
7/9 Schorsa Str.  
Kyiv, Ukraine

**AVANGARDCO.INVESTMENTS PUBLIC LIMITED**

**Declaration of the Members of the Board of Directors and the person responsible for the preparation of the consolidated financial statements of the Company**

We, the Members of the Board of Directors and the person responsible for the preparation of the consolidated financial statements of AvangardCo Investments Public Limited (the "Company") for the year ended 31 December 2013, based on our opinion, which is a result of diligent and scrupulous work, declare that the elements written in the consolidated financial statements are true and complete.

Members of the Board of Directors:

Nataliya Vasylyuk	
Oleg Bakhmatyuk	
Oleg Michael Pohotsky	
Iryna Marchenko	

Person responsible for the preparation of the consolidated financial statements for the year ended 31 December 2013:

Iryna Melnyk	
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12 March 2014

## AVANGARDCO INVESTMENTS PUBLIC LIMITED

### Board of Directors' Report

The Board of Directors of AvangardCo Investments Public Limited (the "Company") presents to the members its annual report together with the audited consolidated financial statements of the Company and of its subsidiaries (together with the Company referred to as "the Group") for the year ended 31 December 2013.

### Principal activities

The principal activities of the Group are:

- keeping of technical laying hen, production and selling of eggs,
- incubation (production and sale of day-old chick), farming of young poultry for sale, and poultry,
- production and selling of mixed fodder and
- processing of eggs and selling of egg products.

### Financial results

The results of the Group for the year ended 31 December 2013 are set out in the consolidated statement of comprehensive income on page 8 of the consolidated financial statements.

The profit for the year attributable to the owners of the Company amounted to USD 236 032 thousand (2012: USD 225 448 thousand) which the Board of Directors recommends to be transferred to the revenue reserve.

### Examination of the development, position and performance of the activities of the Group

The financial performance of the Group for the year as presented in the consolidated statement of comprehensive income of the consolidated financial statements is considered satisfactory. The Group recorded a profit of USD 238 083 thousand compared to a profit of USD 228 233 thousand in the previous year. The Group's total assets also increased to USD 1 818 913 thousand from USD 1 578 328 thousand mainly as a result of increase in profitability.

### Dividends

The Board of Directors does not recommend the payment of a dividend for the year (2012: USD nil).

### Principal risks and uncertainties

The principal risks and uncertainties faced by the Group are disclosed in notes 38 and 40 of the consolidated financial statements.

### Share capital

There was no change in the share capital of the Company during the year.

### Board of Directors

The members of the Board of Directors as at 31 December 2013 and at the date of this report are presented on page 1.

Nataliya Vasylyuk was appointed Chairwoman of the Board of Directors on 30 January 2013.

There is no requirement in the Company's Articles of Association for the retirement of directors by rotation, thus all Directors presently members of the Board continue in office.

There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

**AVANGARDCO INVESTMENTS PUBLIC LIMITED****Board of Directors' Report (cont.)****Board of Directors (cont.)**

The Directors are responsible for formulating, reviewing and approving the Company's and its subsidiaries' strategies, budgets, certain items of capital expenditures and senior personnel appointments. Although the Company is listed on the London Stock Exchange, it is not subject to the UK Corporate Governance Code issued by the Financial Reporting Council because it is a Cyprus incorporated company. Nevertheless, the Directors intend to establish audit, nomination and remuneration committees and may form other committees as necessary in order to improve corporate governance.

**Events after the reporting period**

The events after the reporting period are presented in note 41 of the consolidated financial statements.

**Branches**

The Group did not operate through any registered branches during the year.

**Related party balances and transactions**

Disclosed in note 34 of the consolidated financial statements.

**Independent Auditors**

The independent auditors of the Company, KPMG Limited have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to reappoint them and fix their remuneration will be proposed at the next Annual General Meeting of the Company.

By Order of the Board of Directors,

Nataliya Vasylyuk  
Chairwoman of the Board

Nicosia, 12 March 2014



**KPMG Limited**  
**Chartered Accountants**  
14 Esperidon Street  
1087 Nicosia, Cyprus  
P.O.Box 21121  
1502 Nicosia, Cyprus

Telephone +357 22 209000  
Fax +357 22 678200  
E-mail nicosia@kpmg.com.cy  
Internet www.kpmg.com.cy

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## INDEPENDENT AUDITORS' REPORT

### TO THE MEMBERS OF

### **AVANGARDCO INVESTMENTS PUBLIC LIMITED**

#### **Report on the consolidated financial statements**

We have audited the accompanying financial statements of AvangardCo Investments Public Limited (the "Company") and its subsidiaries (together with the Company, the "Group") on pages 7 to 74, which comprise the consolidated statement of financial position as at 31 December 2013, 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 financial 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 about 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.

#### **Board Members:**

N.G. Syrimis, A.K. Christofides, E.Z. Hadjizacharias, P.G. Loizou  
A.M. Gregoriades, A.A. Demetriou, D.S. Vakis, A.A. Apostolou  
S.A. Loizides, M.A. Loizides, S.G. Sofocleous, M.M. Antoniadis  
C.V. Vasiliou, P.E. Antoniadis, M.J. Halios, M.P. Michael, P.A. Peleties  
G.V. Markides, M.A. Papacosta, K.A. Papanicolaou, A.I. Shiammoutis  
G.N. Tziortzis, H.S. Charalambous, C.P. Anayiotos, I.P. Ghalanos  
M.G. Gregoriades, H.A. Kakoullis, G.P. Savva, C.A. Kalias, C.N. Kallis  
M.H. Zavrou, P.S. Elia, M.G. Lazarou, Z.E. Hadjizacharias  
P.S. Theophanous, M.A. Karantoni, C.A. Markides

#### **Limassol**

P.O.Box 50161, 3601  
Telephone +357 25 869000  
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#### **Larnaca**

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Telephone +357 24 200000  
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#### **Paphos**

P.O.Box 60288, 8101  
Telephone +357 26 943050  
Fax +357 26 943062

#### **Paralimni / Ayia Napa**

P.O.Box 33200, 5311  
Telephone +357 23 820080  
Fax +357 23 820084

#### **Polis Chrysochou**

P.O.Box 66014, 8330  
Telephone +357 26 322098  
Fax +357 26 322722

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

### *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 2013, 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.

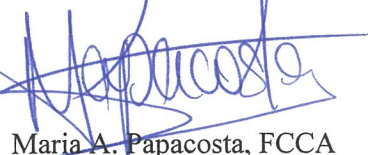
### **Report on other legal requirements**

Pursuant to the requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013, 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, so far as appears from our examination of those books.
- 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 on pages 3 and 4 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 Laws of 2009 and 2013 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.



Maria A. Papacosta, FCCA  
Certified Public Accountant and Registered Auditor  
for and on behalf of

KPMG Limited  
Certified Public Accountants and Registered Auditors  
Esperidon 14  
1087 Nicosia  
Cyprus

12 March 2014



**AVANGARDCO INVESTMENTS PUBLIC LIMITED**

**Consolidated statement of financial position**

AS AT 31 DECEMBER 2013

(in USD thousand, unless otherwise stated)

	Note	31 December 2013	31 December 2012
<b>ASSETS</b>			
Property, plant and equipment	5	1 103 630	920 072
Non-current biological assets	6	76 678	46 724
Deferred tax assets	18	3 059	1 966
Other non-current assets		373	391
<b>Total non-current assets</b>		<b>1 183 740</b>	<b>969 153</b>
Inventories	8	193 382	177 886
Current biological assets	6	60 648	56 889
Trade accounts receivable, net	9	88 972	55 551
Prepaid income tax	18	85	18
Prepayments and other current assets, net	10	30 845	11 966
Taxes recoverable and prepaid	7	104 439	102 567
Cash and cash equivalents	11	156 804	204 298
<b>Total current assets</b>		<b>635 175</b>	<b>609 175</b>
<b>TOTAL ASSETS</b>		<b>1 818 915</b>	<b>1 578 328</b>
<b>EQUITY</b>			
Share capital	12	836	836
Share premium	12	201 164	201 164
Capital contribution reserve		115 858	115 858
Retained earnings		1 132 803	899 357
Foreign currency translation reserve		(68 194)	(68 135)
<b>Equity attributable to owners of the Company</b>		<b>1 382 467</b>	<b>1 149 080</b>
<b>Non-controlling interests</b>		<b>64 631</b>	<b>18 115</b>
<b>Total equity</b>		<b>1 447 098</b>	<b>1 167 195</b>
<b>LIABILITIES</b>			
Long-term loans	13	61 495	3 969
Long-term bond liabilities	14	197 131	195 779
Deferred tax liabilities	18	44	72
Deferred income	32.1	4 743	5 047
Long-term finance lease	21	1	1 283
<b>Total non-current liabilities</b>		<b>263 414</b>	<b>206 150</b>
Short-term bond liabilities	22	-	25 023
Current portion of non-current liabilities	17	14 504	32 114
Short-term loans	15	50 000	94 368
Trade payables	19	15 084	24 435
Other accounts payable	20	28 815	29 043
<b>Total current liabilities</b>		<b>108 403</b>	<b>204 983</b>
<b>TOTAL LIABILITIES</b>		<b>371 817</b>	<b>411 133</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1 818 915</b>	<b>1 578 328</b>

On 12 March 2014 the Board of Directors of AvangardCo Investments Public Limited authorised these consolidated financial statements for issue.

\_\_\_\_\_  
**Nataliya Vasylyuk**  
**Chairwoman**

\_\_\_\_\_  
**Iryna Marchenko**  
**Director, CEO**

The notes on pages 12 to 74 form an integral part of these consolidated financial statements.

**AVANGARDCO INVESTMENTS PUBLIC LIMITED**

**Consolidated statement of comprehensive income**

FOR THE YEAR ENDED 31 DECEMBER 2013

(in USD thousand, unless otherwise stated)

	Note	Year ended	
		31 December 2013	31 December 2012
Revenue	24	661 202	629 306
Profit from revaluation of biological assets at fair value	6	35 158	26 191
Cost of sales	25	(429 695)	(396 960)
<b>GROSS PROFIT</b>		<b>266 665</b>	<b>258 537</b>
General administrative expenses	27	(16 746)	(22 559)
Distribution expenses	28	(25 630)	(20 056)
Income from government grants and incentives	32.1	299	305
Income from special VAT treatment	32.2	55 198	46 484
Other operating (expenses)/income, net	29	(4 036)	1 773
<b>PROFIT FROM OPERATING ACTIVITIES</b>		<b>275 750</b>	<b>264 484</b>
Finance income	31	124	680
Finance costs	30	(38 887)	(36 936)
<b>PROFIT BEFORE TAX</b>		<b>236 987</b>	<b>228 228</b>
Income tax credit	18	1 096	5
<b>PROFIT FOR THE YEAR</b>		<b>238 083</b>	<b>228 233</b>
<b>OTHER COMPREHENSIVE INCOME:</b>			
<i>Items that will never be reclassified to profit or loss</i>			
Effect of translation into presentation currency		(60)	(377)
Effect from changes in ownership		41 880	
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>279 903</b>	<b>227 856</b>
<b>PROFIT FOR THE YEAR ATTRIBUTABLE TO:</b>			
Owners of the Company		236 032	225 448
Non-controlling interests		2 051	2 785
<b>PROFIT FOR THE YEAR</b>		<b>238 083</b>	<b>228 233</b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>			
Owners of the Company		233 387	225 074
Non-controlling interests		46 516	2 782
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>279 903</b>	<b>227 856</b>
<b>Earnings per share, USD (basic and diluted)</b>		<b>37</b>	<b>35</b>

The notes on pages 12 to 74 form an integral part of these consolidated financial statements.

**AVANGARDCO INVESTMENTS PUBLIC LIMITED**

**Consolidated statement of changes in equity**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**  
*(in USD thousand, unless otherwise stated)*

	Attributable to owners of the Company					Total	Non-controlling interests	Total equity
	Share capital (1)	Capital contribution reserve (3)	Share premium (2)	Retained earnings	Foreign currency translation reserve			
<b>As at 1 January 2012</b>	<b>836</b>	<b>115 858</b>	<b>201 164</b>	<b>673 909</b>	<b>(67 761)</b>	<b>924 006</b>	<b>15 333</b>	<b>939 339</b>
<b>Comprehensive income</b>								
Profit for the year	-	-	-	225 448	-	225 448	2 785	<b>228 233</b>
Effect from translation into presentation currency	-	-	-	-	(374)	(374)	(3)	<b>(377)</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>225 448</b>	<b>(374)</b>	<b>225 074</b>	<b>2 782</b>	<b>227 856</b>
<b>As at 31 December 2012</b>	<b>836</b>	<b>115 858</b>	<b>201 164</b>	<b>899 357</b>	<b>(68 135)</b>	<b>1 149 080</b>	<b>18 115</b>	<b>1 167 195</b>
<b>As at 1 January 2013</b>	<b>836</b>	<b>115 858</b>	<b>201 164</b>	<b>899 357</b>	<b>(68 135)</b>	<b>1 149 080</b>	<b>18 115</b>	<b>1 167 195</b>
<b>Comprehensive income</b>								
Profit for the year	-	-	-	236 032	-	236 032	2 051	<b>238 083</b>
Effect from translation into presentation currency	-	-	-	-	(59)	(59)	(1)	<b>(60)</b>
Effect from changes in ownership	-	-	-	(2 586)	-	(2 586)	44 466	<b>41 880</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>233 446</b>	<b>(59)</b>	<b>233 387</b>	<b>46 516</b>	<b>279 903</b>
<b>As at 31 December 2013</b>	<b>836</b>	<b>115 858</b>	<b>201 164</b>	<b>1 132 803</b>	<b>(68 194)</b>	<b>1 382 467</b>	<b>64 631</b>	<b>1 447 098</b>

- (1) In accordance with the Cyprus Companies Law, Cap. 113, Section 55 (2) the share premium can only be used by the Company in (a) paying up unissued shares of the Company to be issued to members of the Company as fully paid bonus shares; (b) writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the Company; and (c) providing for the premium payable on redemption of any redeemable preference shares or of any debentures of the Company.
- (2) Companies incorporated in Cyprus which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defense of the Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special contribution for defence at 20% for the tax years 2012 and 2013 and 17% for 2014 and thereafter will be payable on such deemed dividend to the extent that the owners (individuals and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer, are Cyprus tax residents. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year at any time. This special contribution for defence is paid by the Company for the account of the owners. The above requirements of the Law are not applied in the case of the Company due to the fact that its owners are not residents in Cyprus for tax purposes.
- (3) In the year ended 31 December 2009, the beneficial owner made an Additional Capital Contribution of the amount of UAH 925 122 311 (USD equivalent is USD 115 858 thousand), in his capacity as an owner. This transaction was carried out under a debt for equity swap agreement resulting in a contribution but no issue of shares.

The notes on pages 12 to 74 form an integral part of these consolidated financial statements.

**AVANGARDCO INVESTMENTS PUBLIC LIMITED**

**Consolidated statement of cash flows**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**  
*(in USD thousand, unless otherwise stated)*

	Note	Year ended	
		31 December 2013	31 December 2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Profit before income tax		236 987	228 228
Adjustments for:			
Depreciation of property, plant and equipment	5	25 487	15 284
Change in allowance for irrecoverable amounts	29	683	375
Other provisions		131	134
Loss on disposal of current assets	29	377	527
Loss on disposal of property, plant and equipment	29	365	28
Impairment of current assets	29	1 123	846
Other income		-	(2 054)
Effect of fair value adjustments on biological assets	6	(35 158)	(26 191)
Gains realised from accounts payable written-off		(296)	(861)
Amortization of deferred income on government grants		(299)	(302)
Discount on long-term bonds amortization		1 352	1 216
Interest income		(124)	(680)
Interest payable on loans		28 770	32 176
<b>Operating profit before working capital changes</b>		<b>259 398</b>	<b>248 726</b>
Increase in trade receivables		(33 272)	(4 082)
(Increase)/decrease in prepayments and other current assets		(9 785)	14 573
Increase in taxes recoverable and prepaid		(1 872)	(26 269)
(Increase)/decrease in inventories		(16 030)	27 210
Decrease in deferred income		(5)	(2)
Decrease/(increase) in other non-current assets		18	(34)
(Decrease)/increase in trade payables		(9 055)	7 402
Decrease in biological assets		479	25 121
Decrease in finance leases		(2 552)	(2 553)
Increase/(Decrease) in other accounts payable		7 342	(2 615)
<b>Cash generated from operations</b>		<b>194 666</b>	<b>287 477</b>
Interest paid		(7 136)	(9 946)
Income tax paid		(92)	(81)
<b>Net cash generated from operating activities</b>		<b>187 438</b>	<b>277 450</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Payments and receipts - property, plant and equipment		(184 808)	(321 635)
Interest received		124	680
<b>Net cash used in investing activities</b>		<b>(184 684)</b>	<b>(320 955)</b>

The notes on pages 12 to 74 form an integral part of these consolidated financial statements.

**AVANGARDCO INVESTMENTS PUBLIC LIMITED**

**Consolidated statement of cash flows (cont.)**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**  
*(in USD thousand, unless otherwise stated)*

	Note	Year ended	
		31 December 2013	31 December 2012
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
New loans received		85 334	97 048
Repayment of loans		(88 516)	(61 603)
Interest paid for bonds issued		(22 043)	(25 335)
Repayment of short-term bonds		(25 023)	-
Blocked deposit		794	6 380
<b>Net cash (used)/generated from financing activities</b>		<b>(49 454)</b>	<b>16 490</b>
<b>Net decrease in cash</b>		<b>(46 700)</b>	<b>(27 015)</b>
<b>Cash and cash equivalents at 1 January</b>		<b>203 504</b>	<b>230 640</b>
Effect from translation into presentation currency		-	(121)
<b>Cash and cash equivalents at 31 December</b>	11	<b>156 804</b>	<b>203 504</b>

The notes on pages 12 to 74 form an integral part of these consolidated financial statements.

**AVANGARDCO INVESTMENTS PUBLIC LIMITED****Notes to the consolidated financial statements  
FOR THE YEAR ENDED 31 DECEMBER 2013**

*(in USD thousand, unless otherwise stated)*

**1. General information**

AvangardCo Investments Public Limited (the "Company") was incorporated as a limited liability company on 23 October 2007 in accordance with the provisions of the Cyprus Companies Law, Cap. 113, under the name of Ultrainvest Limited. On 8 July 2009, the Registrar of Companies in Cyprus issued a certificate to the effect that the Company was re-registered as a public limited company and changed its name to AvangardCo Investments Public Limited. The Company was listed at London Stock Exchange Main Market on 6 May 2010.

The Company's registered office is at 3 Anexartias & Kyriakou Matsi, 3040 Limassol, Cyprus.

The consolidated financial statements of the Company as at and for the year ended 31 December 2013 comprise the Company and its subsidiaries (together with the Company referred to as the "Group").

In 2009 the principal owner of AvangardCo Investments Public Limited reorganised the Group, as a result of which AvangardCo Investments Public Limited became the holding company of an agricultural group of agricultural enterprises, which in the past were under the common ownership and control of this owner. The restructuring was carried out by the transfer of direct interest in the Group's companies. The restructuring was undertaken to achieve legal consolidation of control over agricultural companies of the Group. The reorganisation did not affect the principal activities of the Group.

The history of "Avangard" began with the acquisition by the principal owner of the first poultry farm "Avangard" located in the Ivano-Frankivsk region of Ukraine. Subsequently, to supply the poultry farm with growing birds, the subsidiary "Avangard-Agro" was established. In 2004 a concept of development of this business line was designed, as a result of which in 2005-2009 other major enterprises of agrarian industry in Ukraine joined the Group.

The Group's activities cover all the links of the value chain: from production of combined feed, maintenance and breeding of chickens to production and sale of eggs and egg products. As at 31 December 2013 the production facilities of the Group include 32 poultry facilities (consisting of 19 egg laying farms, 10 farms for growing young laying hens and 3 breeder farms), 6 fodder mills, 3 long-term egg storage facilities and 1 plant for manufacture of egg products. This vertically-integrated structure of the Group allows processing of approximately 80% of its own fodder. The Group's activities cover almost all the territory of Ukraine.

In order to build a vertically-integrated group, reduce business risk and gain additional profit due to synergies, the Group acquired a hen breeding concern. This ensures breeding of the required number of high quality daily chickens and their timely delivery to factories.

The construction of new full cycle egg production facilities, fully automated, in compliance with European standards of quality is an integral part of the Group's growth strategy.

**AVANGARDCO INVESTMENTS PUBLIC LIMITED**

**Notes to the consolidated financial statements  
FOR THE YEAR ENDED 31 DECEMBER 2013**  
*(in USD thousand, unless otherwise stated)*

**1. General information (cont.)**

The Group's subsidiaries all of which are incorporated in Ukraine, their principal activities and the effective ownership interests are as follows:

Company name	Principal Activity	Country of registration	Ownership interest (%) 31 December 2013	Ownership interest (%) 31 December 2012	
PJSC Avangard	Keeping of technical laying hen, production and selling of eggs	Ukraine	99,00%	99,00%	
PJSC Chornobaivske		Ukraine	97,00%	97,00%	
PJSC Agrofirma Avis		Ukraine	100,00%	100,00%	
PJSC Kirovskiy		Ukraine	100,00%	100,00%	
PJSC Ptakhohospodarstvo Chervonyi Prapor		Ukraine	98,00%	98,00%	
SC Ptakhofabryka Lozuvatska of Avangardco Investments Public Limited		Ukraine	100,00%	100,00%	
LLC Yuzhnaya - Holding		Ukraine	100,00%	100,00%	
LLC Makarivska Ptakhofabryka		Ukraine	100,00%	100,00%	
LLC PF Volnovaska		Ukraine	100,00%	100,00%	
PJSC Cross-PF Zorya		Ukraine	89,00%	89,00%	
PJSC Ptakhofabryka Pershe Travnya		Ukraine	93,00%	93,00%	
PJSC Chernivetska Ptakhofabryka		Ukraine	98,00%	98,00%	
ALLC Donetska Ptakhofabryka		Ukraine	100,00%	100,00%	
LLC Areal-Snigurivka		Ukraine	100,00%	100,00%	
LLC Torgivenlniy Budynok Bohodukhivska Ptakhofabryka		Ukraine	100,00%	100,00%	
PPB LLC Pitysecompleks		Ukraine	100,00%	100,00%	
PSPC Interbusiness		Ukraine	100,00%	100,00%	
SC Avangard-Agro of PJSC Avangard		Incubation (production and sale of day-old chick), farming of young poultry for sale, and poultry	Ukraine	99,00%	99,00%
SC Gorodenkivska Ptakhofabryka of PJSC Avangard			Ukraine	99,00%	99,00%
SC Rogatynska Ptakhofabryka of PJSC Avangard			Ukraine	99,00%	99,00%
SC Ptakhohospodarstvo Donetske of ALLC Donetska Ptakhofabryka	Ukraine		100,00%	100,00%	
LLC Slovyany	Ukraine		90,00%	90,00%	
SC Ptakhohospodarstvo Lozuvatske of Avangardco Investments Public Limited	Ukraine		100,00%	100,00%	
SC Zorya of PJSC Cross-PF Zoraya	Ukraine		89,00%	89,00%	
SC Ptakhofabryka Chervonyi Prapor Poultry, of PJSC Ptakhohospodarstvo ChervonyiPrapor	Ukraine		98,00%	98,00%	
SC Ptakhohospodarstvo Yuzhnaya Holding of LLC Yuzhnaya Holding	Ukraine		100,00%	100,00%	
SC Ptakhogopodarstvo Volnovaske of LLC PF Volnovaska	Ukraine		100,00%	100,00%	
SC Ptakhohospodarstvo Chornobaivske of PJSC Chornobaivske	Ukraine	97,00%	97,00%		
LLC Rohatyn-Korm	Production and selling of animal feed	Ukraine	99,00%	99,00%	
PJSC Vuhlehirskiy Eksperementalniy Kombikormoviy Zavod		Ukraine	100,00%	80,00%	
PJSC Volnovaskiy Kombinat Khiboproductiv		Ukraine	99,00%	72,00%	
LLC Kamyanets-Podilsky Kombikormoviy Zavod		Ukraine	100,00%	100,00%	
LLC Pershe Travnya Kombikormoviy Zavod		Ukraine	93,00%	93,00%	
LLC Imperovo Foods	Processing of eggs and selling of egg products	Ukraine	94,00%	99,00%	
LLC Agrarniy Holding Avangard	Rendering services under guarantee agreements	Ukraine	100,00%	100,00%	
LLC Imperovo LTD	Rental services	Ukraine	94,00%	99,00%	

**AVANGARDCO INVESTMENTS PUBLIC LIMITED**

**Notes to the consolidated financial statements  
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**1. General information (cont.)**

The parent company of the Group is AvangardCo Investments Public Limited, registered in Cyprus, with an issued share capital of 6 387 185 ordinary shares as at 31 December 2013 with nominal value of €0,10 per share.

The shares were distributed as follows:

Owner	31 December 2013		31 December 2012	
	Number of shares	Ownership interest (%)	Number of shares	Ownership interest (%)
Quickcom Limited	1	-	1	-
Omtron Limited	1 848 575	28.9%	1 848 575	28.9%
Tanchem Limited	926 280	14.5%	926 280	14.5%
Mobco Limited	1	-	1	-
BNY (Nominees) Limited	1 437 500	22.5%	1 437 500	22.5%
UkrLandFarming Plc	2 174 825	34.1%	2 174 825	34.1%
Other	3	-	3	-
	<b>6 387 185</b>	<b>100.0%</b>	<b>6 387 185</b>	<b>100.0%</b>

As at 31 December 2013 and 31 December 2012 the interests in Quickcom Limited, Omtron Limited, Tanchem Limited, Mobco Limited, UkrLandFarming Plc beneficially owned by Oleg Bakhmatyuk ("the beneficial owner" hereinafter) were as follows:

	Ownership interest (%) as at 31 December 2013	Ownership interest (%) as at 31 December 2012
Quickcom Limited	100%	100%
Omtron Limited	100%	100%
Tanchem Limited	100%	100%
Mobco Limited	100%	100%
UkrLandFarming Plc	100%	100%



**AVANGARDCO INVESTMENTS PUBLIC LIMITED****Notes to the consolidated financial statements  
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*(in USD thousand, unless otherwise stated)*

**2. Basis of preparation****2.1 Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113.

**2.2 Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis, except for the biological assets which are measured at fair value and bonds and loans which are measured at amortised cost.

**2.3 Functional and presentation currency**

The functional currency of all companies of the Group is the Ukrainian Hryvnia ("UAH"). The currency of Cyprus is the Euro, but the principle exposure of the parent undertaking is through its Ukrainian subsidiaries, and therefore the functional currency of the Company is also considered to be UAH. Transactions in currencies other than the functional currency of the Group's companies are treated as transactions in foreign currencies. The Group's management decided to use US dollar ("USD") as the presentation currency for financial and management reporting purposes. Exchange differences arising are classified as equity and transferred to the Company's translation reserve.

**2.4 Going concern basis**

These consolidated financial statements have been prepared under the going concern basis, which assumes the realisation of assets and settlement of liabilities in the course of ordinary economic activity. Renewals of the Group's assets, and the future activities of the Group, are significantly influenced by the current and future economic environment in Ukraine. The consolidated financial statements do not comprise any adjustments in case of the Group's inability to continue as a going concern.

**2.5 Standards and interpretations*****Adoption of new and revised International Financial Reporting Standards and Interpretations***

As from 1 January 2013, the Group adopted all changes to International Financial Reporting Standards (IFRSs) which are relevant to its operations. This adoption did not have a material effect on the consolidated financial statements of the Company.

The following Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for annual periods beginning on 1 January 2013. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these Standards early.

**AVANGARDCO INVESTMENTS PUBLIC LIMITED**

**Notes to the consolidated financial statements  
FOR THE YEAR ENDED 31 DECEMBER 2013**

*(in USD thousand, unless otherwise stated)*

**2. Basis of preparation (cont.)**

**2.5 Standards and interpretations (cont)**

**(i) Standards and Interpretations adopted by the EU**

- IFRS 10 "Consolidated Financial Statements" (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).
- IFRS 11 "Joint Arrangements" (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).
- IFRS 12 "Disclosure of Interests in Other Entities" (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).
- Investment Entities - Amendments to IFRS 10, 12 and IAS 27 (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).
- Transition Guidance - Amendments to IFRS 10, 11 and 12 (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).
- IAS 27 (Revised) "Separate Financial Statements" (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).
- IAS 28 (Revised) "Investments in Associates and Joint ventures" (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).
- IAS 32 (Amendments) "Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2014).
- IAS 36 (Amendments) "Recoverable Amount Disclosures for Non-Financial Assets" (effective for annual periods beginning on or after 1 January 2014).
- IAS 39 (Amendments) "Novation of Derivatives and Continuation of Hedge Accounting" (effective for annual periods beginning on or after 1 January 2014).

**(ii) Standards and Interpretations not adopted by the EU**

- IFRS 7 (Amendments) "Financial Instruments: Disclosures" – "Disclosures on transition to IFRS 9" (effective for annual periods beginning on or after 1 January 2015).
- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2015).
- IFRS 9 "Financial Instruments: Hedge accounting and Amendments to IFRS 9, IFRS 7 and IAS 39)" (effective for annual periods beginning on or after 1 January 2015).
- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016).
- IAS 19 (Amendments) "Defined Benefit Plans: Employee Contributions" (effective for annual periods beginning on or after 1 July 2014).
- Improvements to IFRSs 2010-2012 (effective for annual periods beginning on or after 1 July 2014).
- Improvements to IFRSs 2011-2013 (effective for annual periods beginning on or after 1 July 2014).
- IFRIC 21 "Bank Levies" (effective for annual periods beginning on or after 1 January 2014).

The Board of Directors expects that the adoption of these financial reporting standards in future periods will not have a material effect on the financial statements of the Group.

**AVANGARDCO INVESTMENTS PUBLIC LIMITED****Notes to the consolidated financial statements  
FOR THE YEAR ENDED 31 DECEMBER 2013**

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**3. Accounting policies*****Changes in accounting policies***

Except for the changes below, the Group has consistently applied the accounting policies set out in this note to all years presented in these consolidated financial statements.

Accounting policies of subsidiaries have been changed where necessary to achieve consistent application of the accounting policies applied by the Group.

The nature and effects of the changes are explained below:

**a) Fair value measurement**

The Group has adopted International Financial Reporting Standard 13 “Fair Value Measurement” with a date of initial application of 1 January 2013.

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. As a result, the Group has included additional disclosures in this regard (see Note 39).

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

**b) Presentation of items of Other Comprehensive Income (OCI)**

A result of the amendments to IAS 1, the Group has modified the presentation of items of OCI in its statement of profit or loss and OCI, to present separately items that would be reclassified to profit or loss from those that would never be. Comparative information has been re-presented accordingly.

***Significant accounting policies*****3.1 Basis of consolidation**

The consolidated financial statements comprise the financial statements of the parent company AvangardCo Investments Public Limited and the financial statements of the companies controlled by the Company as at 31 December 2013.

***Transactions under common control***

Consolidation of companies including organisations and entities under common control requires that all the organisations and enterprises being consolidated are controlled by one and the same party or parties, both before consolidation and after it, and this control is not transitory.

**AVANGARDCO INVESTMENTS PUBLIC LIMITED****Notes to the consolidated financial statements  
FOR THE YEAR ENDED 31 DECEMBER 2013**

*(in USD thousand, unless otherwise stated)*

**3. Accounting policies (cont.)***Significant accounting policies (cont.)***3.1 Basis of consolidation (cont.)***Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies of an organisation in order to receive benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of any potential voting rights currently or potentially exercisable or arising from potential conversion are taken into account when assessing control. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

*Loss of control*

On the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previously owned subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

*Combinations of businesses under common control*

A business combination in which the combining entities are ultimately controlled by the same individual both before and after the combination and the control is not transitory is accounted using the pooling of interests accounting principles (otherwise known as "carry over accounting" or "predecessor accounting"). The principles of predecessor accounting are:

- The Group does not restate assets and liabilities to their fair values. Instead the Group incorporates the assets and liabilities at the amounts recorded in the books of the acquired company (the predecessor carrying values) adjusted only to achieve harmonisation of accounting policies.
- No goodwill arises in predecessor accounting. Predecessor accounting may lead to differences in consolidation, for example the consideration given may differ from the aggregate book value of the assets and liabilities (as of the date of the transaction) of the acquired entity. Such differences are included in equity in retained earnings.
- The consolidated financial statements incorporate the acquired entity's results as if both entities (acquirer and acquiree) had always been combined from the date that common control was achieved. Consequently, the consolidated financial statements reflect both entities' full periods results, even though the business combination may have occurred part of the way through the period. In addition, the corresponding amounts for the previous period also reflect the combined results of both entities, even though the transaction did not occur until the current period.

**AVANGARDCO INVESTMENTS PUBLIC LIMITED****Notes to the consolidated financial statements  
FOR THE YEAR ENDED 31 DECEMBER 2013**

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**3. Accounting policies (cont.)***Significant accounting policies (cont.)***3.1 Basis of consolidation (cont.)***Acquisitions of business not under common control*

The purchase method is applied for the consolidation of subsidiaries being acquired. On acquisition, the identifiable assets and liabilities of the subsidiary are measured at fair value on the acquisition date, irrespective of the extent of any non controlling interest. Non-controlling interests are reflected proportionally to fair value of cost of recognised assets and liabilities.

If necessary, adjustments are entered into the financial statements of subsidiaries to bring the accounting policies used into compliance with the accounting policies used by other companies of the Group.

*Transactions eliminated by consolidation*

All significant transactions and balances between the Group's companies are eliminated from the consolidated financial statements. Unrealised profits and losses, under transactions between the Group's Companies are also subject to elimination.

*Non-controlling interests(NCI)*

NCI is represented by interest in the subsidiaries not owned by the Group. NCI in subsidiaries as at the reporting period is the proportion of fair value of the relevant subsidiaries' identified assets and liabilities attributable to those non-controlling interest as at the date of acquisition, together with their share of changes in their equity after the date of acquisition. Equity attributable to owners of non-controlling interest is reported as a separate item in the consolidated statement of financial position.

*Business combinations and goodwill*

Business combinations (other than those of businesses under common control) are accounted for using the purchase method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit and loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

**AVANGARDCO INVESTMENTS PUBLIC LIMITED**

**Notes to the consolidated financial statements  
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*(in USD thousand, unless otherwise stated)*

**3. Accounting policies (cont.)**

*Significant accounting policies (cont.)*

**3.1 Basis of consolidation (cont.)**

*Business combinations and goodwill (cont.)*

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within the unit that is disposed of, the goodwill associated with the operation disposed of is included in the carrying value of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed in such case is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

**3.2 Foreign currency translation**

*(a) Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities are translated into the functional currency of each company included into the Group, at the rates ruling at the reporting period. Foreign exchange gains and losses, arising from transactions in foreign currency, and also from translation of monetary assets and liabilities into the functional currency of each company included into the Group at the rate ruling at the end of the year, are recognised to profit or loss.

The exchange rates used for the preparation of these consolidated financial statements, are presented as follows:

<b>Currency</b>	<b>31 December 2013</b>	<b>Weighted average for the year ended 31 December 2013</b>	<b>31 December 2012</b>	<b>Weighted average for the year ended 31 December 2012</b>
US dollar to Ukrainian Hryvnia	7,9930	7, 9930	7,9925	7,9908

The foreign currencies may be freely convertible to the territory of Ukraine at the exchange rate which is close to the exchange rate established by the National Bank of Ukraine. At the moment, the Ukrainian Hryvnia is not a freely convertible currency outside of Ukraine.

**AVANGARDCO INVESTMENTS PUBLIC LIMITED****Notes to the consolidated financial statements  
FOR THE YEAR ENDED 31 DECEMBER 2013**

*(in USD thousand, unless otherwise stated)*

**3. Accounting policies (cont.)***Significant accounting policies (cont.)***3.2 Foreign currency translation (cont.)***(b) Presentation currency*

The financial results and position of each subsidiary are translated into the presentation currency as follows:

(1) At each reporting period of financial statements all the assets and liabilities are translated at the exchange rate of the National Bank of Ukraine at that reporting period;

(2) Income and expenses are translated at the average exchange rates (except for the cases when such average exchange rate is not a reasonably approximate value reflecting cumulative influence of all exchange rates prevailing at the date of transaction, in which case income and expenses are translated at the exchange rates at the date of transaction);

(3) All exchange differences are recognised in other comprehensive income.

**3.3 Property, plant and equipment***Initial recognition of property, plant and equipment ("PPE")*

PPE is recognised by the Group as an asset only in a case, when:

- it is probable that the Group will receive certain future economic benefits;
- the historical cost can be assessed in a reliable way;
- it is intended for use during more than one operating cycle (usually more than 12 months).

After completion, PPE previously under construction is transferred to the relevant category of PPE.

*Expenses after the initial recognition of property, plant and equipment*

Any subsequent expenses, increasing the future economic benefits from the asset, are treated as additions. Otherwise, the Group recognises subsequent expenses as expenses of the period, in which they have been incurred. The Group divides all expenses related to the property, plant and equipment, into the following types:

- current repairs and expenses for maintenance and technical service;
- capital refurbishment, including modernisation.

## AVANGARDCO INVESTMENTS PUBLIC LIMITED

### Notes to the consolidated financial statements FOR THE YEAR ENDED 31 DECEMBER 2013

*(in USD thousand, unless otherwise stated)*

#### 3. Accounting policies (cont.)

##### Significant accounting policies (cont.)

#### 3.3 Property, plant and equipment (cont.)

##### *Subsequent measurement of property, plant and equipment*

After initial recognition as an asset, the Group applies the model of accounting for the property, plant and equipment at historical cost, net of accumulated depreciation and any accumulated losses from impairment, taking into account estimated residual values of such assets at the end of their useful lives. Such cost includes the cost of replacing significant parts of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced from time to time, the Group recognises such parts as individual assets with specific estimated useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying value of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the statement of comprehensive income as incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method over the estimated useful lives agreed upon with the technical personnel of the Group.

The estimated useful lives for the property, plant and equipment are as follows:

Land	Not depreciated
Buildings and constructions	10-70 years
Machinery and equipment	5-25 years
Equipment for biological assets	5-30 years
Vehicles	5-10 years
Other equipment	3-10 years
Construction in progress	Not depreciated

Depreciation methods, residual values and useful lives of assets are reviewed at each reporting period and adjusted if appropriate.

An asset is not depreciated during the first year of its availability for use or disposal. The acquired asset is depreciated starting from the following year from the date it is available for use and depreciation is fully accumulated when useful life terminates.

##### *Derecognition*

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in profit or loss when the asset is derecognised.

##### *Impairment*

At each reporting period the Group evaluates whether any indicators of possible impairment of an asset exist. If the recoverable value of an asset or a group of assets within PPE is lower than their carrying (residual) value, the Group recognises such asset or group of assets as impaired, and accrues a provision for impairment of the amount of excess of the carrying value over the recoverable value of the asset. Impairment losses are recognised immediately in profit or loss.



## AVANGARDCO INVESTMENTS PUBLIC LIMITED

### Notes to the consolidated financial statements FOR THE YEAR ENDED 31 DECEMBER 2013

*(in USD thousand, unless otherwise stated)*

#### 3. Accounting policies (cont.)

##### Significant accounting policies (cont.)

#### 3.3 Property, plant and equipment (cont.)

##### *Assets under construction and uninstalled equipment*

Assets under construction comprise costs directly related to construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Construction in progress is not depreciated. Depreciation of the construction in progress, on the same basis as for other property, plant and equipment items, commences when the assets are available for use, i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by the Management.

#### 3.4 Financial instruments

##### *(i) Non-derivative financial assets*

The Group classifies its non-derivative financial assets as loans and accounts receivable and available-for-sale financial assets. The classification depends on the purposes for which the financial assets were acquired. Management takes decision concerning the classification at initial recognition and reviews such classification for reliability at each reporting period.

##### *(a) Loans and accounts receivable*

Loans and accounts receivable are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. Such assets are recognised initially at fair value plus directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise of cash and cash equivalents and trade and other accounts receivable.

Loans issued by the Group are financial assets resulting from delivering cash to the borrower. Loans issued are accounted for at amortised cost using the effective interest method, less any impairment losses.

##### *(b) Available for sale financial assets*

Available for sale financial assets, are non-derivative financial assets that are designated as available for sale or are not classified into any other category of financial assets. Available for sale financial assets are recognised at fair value plus directly attributable transaction costs.

Investments which Management plans to hold for an indefinite period of time, and which may be sold to improve liquidity or due to changes in interest rates, are classified as available for sale financial assets. These assets are included into non-current assets unless the Group has an obvious intention to hold these assets for a period less than twelve months from the reporting period, and if selling these assets will not result from the need of increasing the working capital, in which case they will be included into current assets. Available for sale financial assets are recorded at fair value through equity and changes therein, other than impairment losses and foreign currency differences on available for sale debt instruments, are recognised in other comprehensive income.

Impairment loss on available for sale financial assets is recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

**AVANGARDCO INVESTMENTS PUBLIC LIMITED****Notes to the consolidated financial statements  
FOR THE YEAR ENDED 31 DECEMBER 2013**

*(in USD thousand, unless otherwise stated)*

**3. Accounting policies (cont.)***Significant accounting policies ( cont.)***3.4 Financial instruments (cont.)**

*(i) Non-derivative financial assets (cont.)*

*(b) Available for sale financial assets (cont.)*

The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost net of any principal repayments and amortization and the current fair value, less impairment loss recognized previously in profit or loss. Changes in cumulative impairment losses attributable to the application of the effective interest method are reflected as a component of interest income. If in a subsequent period the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized then the impairment loss is reversed, with the amount of reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognized in other comprehensive income.

*Initial recognition*

All financial assets and liabilities are recognised at fair value plus transaction costs. The best confirmation of fair value at initial recognition is transaction price. Gains or losses on initial recognition are reflected only if the difference between fair value and transaction price is confirmed by other actual and regular market transactions carried out with the same instruments or with such estimation of which the valuation technique is based on open market data.

All acquisitions and sales of financial instruments which are to be carried out on a regular basis, set by regulations or marketing agreements (acquisitions and sales carried out under regular transaction procedures) are recognised at the date of transaction.

Change in value of an asset which is measured at fair value between one date of committing to purchase the assets and settlement date, is recognised either in profit or loss (for assets classified at fair value through profit or loss), or in equity (for assets classified as available-for-sale).

*Principles of fair value measurement*

Fair value of financial instruments is based on their market price prevailing at the reporting period without deduction of transaction costs.

In case the market price is not available, the fair value of an instrument is determined using pricing or discounted cash flow models.

When using a discounted cash flow model, the determination of future cash flows is based on the best estimates of management, and the discount rate is represented by the market interest rate for similar instruments prevailing at the reporting period. When using pricing models, the inputs are based on average market data prevailing at the reporting period.

**AVANGARDCO INVESTMENTS PUBLIC LIMITED**

**Notes to the consolidated financial statements  
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**3. Accounting policies (cont.)**

*Significant accounting policies (cont.)*

**3.4 Financial instruments (cont.)**

*(i) Non-derivative financial assets (cont.)*

*Subsequent measurement*

After the initial recognition all available for sale investments, are measured at fair value except for any instruments which are not traded on an active market and for which fair value cannot be measured reliably; such instruments are measured at cost plus transactions costs less impairment losses.

Loans and accounts receivable, are measured at amortised cost less impairment losses. Amortised cost is calculated using the effective interest method. Premium and discount, including initial transaction costs, are included in the carrying amount of the corresponding instrument and amortised using the effective interest method.

*Impairment of financial assets*

At each reporting period the Group measures whether there is any objective evidence of impairment of financial assets or group of financial assets. A financial asset or group of financial assets is considered to be impaired if and only if there is objective evidence of impairment as a result of one or more events which occurred after initial recognition of the asset and that loss event, had an impact on the estimated future cash flows from the financial asset or group of financial assets that can be reliably estimated.

Impairment evidence may comprise indicators that a debtor or group of debtors is in significant financial difficulties, is unable to repay the debt or makes inaccurate payments of interest or principal amount of debt, and also the probability of bankruptcy or any other financial reorganisation. In addition, such evidence includes other observable data indicating a decrease in expected cash flows from the financial asset which is subject to reliable measurement, for example, an overdue debt. For an investment in an equity security, a significant prolonged decline in its fair value below its cost is objective evidence of impairment.

*Financial assets measured at amortised cost*

The Group considers evidence of impairment for a financial asset measured at amortised cost at both a specific asset and collective level. All individually significant assets are measured for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risks characteristics.

In assessing collective impairment, the group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss in respect of a financial assets at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated cash flows discounted using the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognized. When an event occurring after at the impairment was recognized causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

**AVANGARDCO INVESTMENTS PUBLIC LIMITED****Notes to the consolidated financial statements  
FOR THE YEAR ENDED 31 DECEMBER 2013**

*(in USD thousand, unless otherwise stated)*

**3. Accounting policies (cont.)***Significant accounting policies (cont.)***3.4 Financial instruments (cont.)***(i) Non-derivative financial assets (cont.)**Derecognition*

The financial assets are derecognised if the term of contractual rights for cash flows from financial assets expires, or the Group transfers all the significant risks and benefits from asset ownership.

*(ii) Non-derivative financial liabilities*

The Group initially recognizes debt securities issued and subordinated liabilities on the date that they originated. All other financial liabilities are recognized initially on the trade date which is the date that the Group becomes a party to the contractual provision for the instrument. The Group classifies non-derivative financial liabilities into the other financial liability category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs using the effective interest method.

Other financial liabilities comprise loans and borrowings, bonds liabilities, bank overdrafts and trade and other payables.

*(a) Loans and borrowings*

Loans and borrowings are financial liabilities of the Group resulting from raising borrowings. Loans and borrowings are classified as short-term liabilities except for cases when the Group has vested right to defer the liabilities at least by 12 months from the reporting period.

*Initial recognition*

Financial liabilities are initially recognised at fair value adjusted for directly related transaction costs in case of loans and borrowings.

*Subsequent measurement*

Trade and other accounts payable initially recognised at fair value is subsequently accounted for at amortized value using the effective interest method.

Borrowings initially recognised at fair value of liability net of transaction costs are subsequently reported at amortised cost; any difference between the amount of received funds and amount of repayment is reported within interest expenses during the period in which borrowings were received under the effective interest method.

*Derecognition*

The financial liabilities are derecognised if the term of contractual obligations expires, contractual obligations fulfilled or agreement cancelled.

**AVANGARDCO INVESTMENTS PUBLIC LIMITED****Notes to the consolidated financial statements  
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*(in USD thousand, unless otherwise stated)*

**3. Accounting policies (cont.)***Significant accounting policies (cont.)***3.5 Bonds**

Bonds consists of capital securities and are presented at amortised cost. The amortized cost is the fair value of securities issued after the deduction of interest payments plus the cumulative amortization using the effective interest method of any difference between the initial amount and the amount of maturity.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and allocate revenue or interest expense over the relevant period. The real interest rate is the rate that exactly discounts estimated future cash payments or receipts at the expected term of the financial instruments on when appropriate, a shorter period to the net book value of the financial asset or financial liability.

**3.6 Inventories**

Inventories are measured at the lower of cost and net realisable value. Net realisable value is determined as the estimated selling price less estimated costs of completion and preliminary estimated distribution and selling costs. The cost of inventories is based on the first-in-first-out (FIFO) principle.

The cost of inventories comprises all expenses for acquisition, processing and other expenses incurred in bringing the inventories to their present location and condition. The cost of work in progress and finished goods includes the cost of raw materials, direct labour and other production costs, and also corresponding part of production overheads.

The Group regularly reviews inventories to determine whether there are any indicators of damage, obsolescence, slow movement, or a decrease in net realisable price. When such events take place, the amount by which inventories are impaired, is recognised in profit or loss.

*Impairment of inventories*

At each reporting period, the Group assesses the necessity to impair obsolete and surplus inventory and supplies.

Cost of inventories may be irrecoverable if the realisable value for such inventories has decreased due to their damage, whole or partial obsolescence or resulting from changes in market prices. Cost of inventories may be irrecoverable if possible costs for completion or sale have increased.

Raw and other materials in inventories are not written-off below cost, if finished goods, in which they will be included, will be sold at cost or above. However, when decrease in price for raw materials indicates that cost of finished goods will exceed the net realisable value, raw materials are written-off to net realisation values.

## AVANGARDCO INVESTMENTS PUBLIC LIMITED

### Notes to the consolidated financial statements FOR THE YEAR ENDED 31 DECEMBER 2013

*(in USD thousand, unless otherwise stated)*

#### 3. Accounting policies (cont.)

##### Significant accounting policies (cont.)

#### 3.7 Biological assets

The following groups of biological assets are distinguished by the Group:

- replacement poultry (non-current asset);
  - commercial poultry (current asset);
  - other biological assets (current asset);
- (a) Non current assets - assets with useful life of more than a year. Age of livestock poultry is between 1 – 194 days old.
- (b) Current assets - assets with useful life within one year. Age of livestock poultry is between 195 – 560 days old.

The Group performs a biological asset measurement at initial recognition and as at each reporting period, at fair value less any estimated expenses for sale, except in the cases, where fair value cannot be determined reliably. Costs to sell include all costs that would be necessary to sell the assets, including transportation costs.

The difference between the fair value less estimated costs to sell is recognised in profit or loss.

The Group includes the following elements into cost of laying hens in the process of growing:

- Animal feed
- Depreciation of property, plant and equipment related to the process of growing
- Wages and salaries of personnel related to the process of growing
- Other expenses directly related to the process of growing

##### *Determination of the fair value of biological assets*

Due to an absence of an active market for laying hens in Ukraine, to determine the fair value of biological assets, the Group uses the discounted value of the asset's expected net cash flows.

##### *Determination of the fair value of agricultural produce*

Agricultural produce harvested from biological assets is measured at its fair value less estimated point-of-sale costs at the point of harvest. A gain or loss arising on initial recognition of agricultural produce at fair value less estimated point-of-sale costs is included in the profit or loss in the period in which it arises.

#### 3.8 Cash and cash equivalents

Cash and cash equivalents include cash at banks, cash in hand, cash in transit and issued letters of credit. The bank deposits are held without a specific maturity, are subject to insignificant risk of changes in their fair value and are used by the Group in the management of its short term commitments.

## AVANGARDCO INVESTMENTS PUBLIC LIMITED

### Notes to the consolidated financial statements FOR THE YEAR ENDED 31 DECEMBER 2013

*(in USD thousand, unless otherwise stated)*

#### 3. Accounting policies (cont.)

##### Significant accounting policies (cont.)

#### 3.9 Impairment of non-current assets

The Group assesses at each reporting period the carrying value of its non-current assets to determine whether there is any objective evidence that non-current assets are impaired. If any such evidence exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). If it is not possible to estimate the recoverable amount of the individual asset, the Group shall determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

The expected recoverable amount of a cash-generating unit is the higher of the cash-generating unit's fair value less costs to sell and its value in use. In estimating value in use, the future cash flows are discounted to present value using a pre-tax discount that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

If the expected recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying value, the carrying value of the asset (or cash-generating unit) shall be reduced to its recoverable amount. That reduction is an impairment loss, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset shall be treated as a revaluation decrease. If the impairment loss is reversed subsequently, the carrying value of an asset (or cash-generating unit) increases to the revised and estimated amount of its recoverable amount, where increased carrying value does not exceed the carrying value which could be determined only in the case where no impairment loss for an asset (or cash-generating unit) was recognised in the previous years. Reversal of the impairment loss is recognised as profit immediately.

#### 3.10 Value added tax (VAT)

There are two rates of value added taxes: 20% – on import and sales of goods and services in the territory of Ukraine and 0% - on export of goods and rendering of services and works outside Ukraine.

The VAT liability is equal to the total amount of VAT accrued during the reporting period and arises at the earlier of goods shipment to the customer or at the date of receipt of payment from the client.

VAT credit is the amount by which a taxpayer is entitled to reduce his/her VAT liabilities in the reporting period. The right to VAT credit arises on the earlier of the date of payment to supplier or the date of receipt of goods by the company.

The Group's entities apply the special VAT taxation treatment prescribed by the Tax Code of Ukraine, which entered into force on 1 January 2011, regarding the agricultural activities, which provides preferential VAT treatment to support agricultural producers.

For goods and services supplied at the 20% tax rate, revenue, expenses and assets are recognised net of VAT amount, unless:

- the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable;

- receivables and payables that are stated including the value added tax.

## AVANGARDCO INVESTMENTS PUBLIC LIMITED

### Notes to the consolidated financial statements FOR THE YEAR ENDED 31 DECEMBER 2013

*(in USD thousand, unless otherwise stated)*

#### 3. Accounting policies (cont.)

##### Significant accounting policies (cont.)

#### 3.10 Value added tax (VAT) (cont.)

The Group classifies VAT recoverable arising from its operating activities and its capital expenditures. The balance of VAT recoverable may be realised by the Group either through a cash refund from the state budget or by set off against VAT liabilities with the state budget in future periods.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

#### 3.11 Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

##### *Current tax*

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting period. Current tax also includes any tax arising from dividends.

##### *Deferred tax*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting period.

Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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



**AVANGARDCO INVESTMENTS PUBLIC LIMITED****Notes to the consolidated financial statements  
FOR THE YEAR ENDED 31 DECEMBER 2013**

*(in USD thousand, unless otherwise stated)*

**3. Accounting policies (cont.)***Significant accounting policies (cont.)***3.12 Revenue recognition**

Revenue includes the amount of compensation received or to be received for realisation of products and services in the course of the ordinary activities of the Group. Revenue is recognised net of value added tax, returns, trade discounts and intragroup transactions.

Revenue is recognised when persuasive evidence exists that the significant risks and rewards have been transferred to the customer, recovery of the consideration is probable, the associated cost and possible return of goods and the amount of revenue can be measured reliably.

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting period. The stage of completion is assessed by reference to surveys of work performed.

**3.13 Interest income/expense**

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying value of the financial asset or liability. Interest income is included in finance income to the statement of comprehensive income. Foreign currencies gain and loss are reported on a net basis as either a finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

**3.14 Leases**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

A lease is classified as finance lease, when, according to lease terms, the lessee assumes all the significant risks and benefits associated with ownership of the relevant assets. All other leases are classified as operating leases.

*Group as a lessee*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the statement of comprehensive income.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term.

**AVANGARDCO INVESTMENTS PUBLIC LIMITED****Notes to the consolidated financial statements  
FOR THE YEAR ENDED 31 DECEMBER 2013**

*(in USD thousand, unless otherwise stated)*

**3. Accounting policies (cont.)***Significant accounting policies (cont.)***3.14 Leases (cont.)***Group as a lessor*

Initial direct costs incurred in negotiating an operating lease are added to the carrying value of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

**3.15 Distribution of dividends**

The amount payable to the owners of the Company in the form of dividends is recognised as a liability in the financial statements of the Group in the period the dividends were approved by the owners of the Company.

**3.16 Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, which necessarily requires significant time to be prepared for use in accordance with the group's intentions or for sale, are capitalised as the part of initial value of such asset. All other borrowing costs are expensed in the period they were incurred. Borrowing costs include interest payments and other expenses incurred by the Group related to borrowings.

**3.17 Government grants***Recognition of government grants*

The Group recognises government grants when received.

The Group recognises the government grants as other operating income in the same periods as the corresponding expenses, which they compensate, on a systematic basis:

- All grants, compensating the expenses of the preceding periods, shall be recognised by the Group in full in the period of their receipt as other operating income;
- All grants, related to assets not depreciated, such as a land site, shall be correlated by the Group with the expenses to fulfill the obligations. Where a grant in the form of provision of a land site is conditional on construction of a building on the site, the Group divides the recognition of the grant as other operating income over the whole useful life of the building;
- All grants, related to the amortised assets, shall be recognised by the Group as a decrease in the expenses for amortisation during the periods, when the amortisation of these assets is accrued.

*Accounting for government grants for agricultural activities*

The Group recognises unconditional state grants related to biological activities as income only in cases when such government grants are receivable. A contingent government grant, is recognised by the Group as income only after the fulfilment of respective conditions.

**AVANGARDCO INVESTMENTS PUBLIC LIMITED****Notes to the consolidated financial statements  
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*(in USD thousand, unless otherwise stated)*

**3. Accounting policies (cont.)***Significant accounting policies (cont.)***3.17 Government grants (cont.)***Return of the government grants*

If subsidies are returned partially or completely, the amount to be returned shall be deducted from the remaining unused amount of the government subsidies. If an amount, exceeding the unused part of the government subsidies, is to be returned, the Group shall immediately reflect the amount of such excess as the expenses in the reporting period.

**3.18 Contingent assets and liabilities**

Contingent liabilities are not recognised in the consolidated financial statements. Such liabilities are disclosed in the notes to the consolidated financial statements, with the exception of when the probability of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the consolidated financial statements, but are disclosed in the notes in such cases when there is a possibility of receiving economic benefits.

**3.19 Provisions**

A provision is a liability of uncertain amount or timing. Provisions are recognised 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 benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of 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. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

**3.20 Share capital**

Ordinary shares are classified as equity. The difference between the fair value of the consideration received and the nominal value of share capital issued is transferred to share premium. Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from equity.

**3.21 Operating segments**

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses and tax assets and liabilities.

The Group is organised by reportable segments and this is the primary format for segmental reporting. Each segment provides products or services which are subject to risks and rewards that are different from those of other segments.

## AVANGARDCO INVESTMENTS PUBLIC LIMITED

### Notes to the consolidated financial statements FOR THE YEAR ENDED 31 DECEMBER 2013

*(in USD thousand, unless otherwise stated)*

#### 3. Accounting policies (cont.)

##### Significant accounting policies (cont.)

#### 3.22 Events after the reporting period

The Group adjusts the consolidated financial statements amounts if events after the reporting period demand adjustments. Events after the reporting period requiring adjustments of the consolidated financial statements amounts relate to the confirmation or contradiction of the circumstances prevailing at the reporting period, as well as estimates and judgments of management, which are made under conditions of uncertainty and incompleteness of information at the reporting period.

If non-adjusting events that occurred after the reporting period are significant, non-disclosure of information about them may affect the economic decisions of users which are made on the basis of these financial statements. Accordingly, the Group discloses the nature of such events and estimates of their financial effect or states the impossibility of such estimate for each material category of non-adjusting events that occurred after the reporting period.

#### 4. Significant accounting judgements and estimates

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of income, expenses, assets and liabilities. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

In particular, information about significant area of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are disclosed below:

##### 4.1 Basis of consolidation (transactions under common control)

Control is the ability to govern an entity's financial and operating policies with the aim of receiving benefits from its activities. Where control over subsidiaries and the parent company belongs to the ultimate beneficial owner, these transactions are considered to be combinations of business under common control, which are outside the scope of IFRS3: "Business combinations".

##### 4.2 Fair value less costs to sell of biological assets

Biological assets are recorded at fair values less costs to sell. The Group estimates the fair values of biological assets based on the following key assumptions:

- Average production of eggs over lifecycle of poultry
- Average productive life of livestock poultry
- Estimated future sales price
- Projected production costs and costs to sell
- Discount rate
- Mortality rate

**AVANGARDCO INVESTMENTS PUBLIC LIMITED****Notes to the consolidated financial statements  
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**4. Significant accounting judgements and estimates (cont.)****4.3 Useful lives of property, plant and equipment**

The Group estimates the remaining useful life of property, plant and equipment at least once a year at the end of the fiscal year. Should the expectations differ from previous estimates, changes are accounted for as changes in accounting estimates in accordance with IAS 8 "Accounting Policy, Changes in Accounting Estimates and Errors". These estimates may have a significant effect on the carrying value of property, plant and equipment and depreciation recognised in the consolidated statement of comprehensive income.

**4.4 Impairment of non-financial assets**

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is the most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

**4.5 VAT recoverable**

Management classified VAT recoverable balance as current based on expectations that will be realised within twelve months from the reporting period. In addition management assessed whether the allowance for irrecoverable VAT needs to be created.

In making this assessment, management considered past history of receiving VAT refunds from the state budget. For VAT recoverable expected to be set off against VAT liabilities in future periods, management based its estimates on detailed projections of expected excess of VAT input over VAT output in the normal course of business.

**4.6 Impairment of receivables**

The Group provides for doubtful debts to cover potential losses when a customer may be unable to make necessary payments. In assessing the adequacy of provision for doubtful debts, management considers the current economic conditions in general, the age of accounts receivable, the Group's experience in writing off of receivables, solvency of customers and changes in conditions of settlements. Economic changes, industry situation or financial position of separate customers may result in adjustments related to the amount of provision for doubtful debts reflected in the consolidated financial statements as impairments of receivables.

Group approach is used in calculating the impairment of receivables:

*Group approach* - receivables are grouped, and turnover is analysed for the group as a whole, rather than on each individual debt separately. Based on the analysis of accounts receivable according to the previous reporting period data for the share of uncollectible receivables, interest is calculated for calculation of reserve for doubtful debt of current reporting period. Subsequently, to calculate the provision of doubtful debt of current reporting period, interest is applied to outstanding balance for the current period, less the amount of accounts receivable, provision for which is calculated on an individual basis.

## AVANGARDCO INVESTMENTS PUBLIC LIMITED

### Notes to the consolidated financial statements FOR THE YEAR ENDED 31 DECEMBER 2013

*(in USD thousand, unless otherwise stated)*

#### 4. Significant accounting judgements and estimates (cont.)

##### 4.6 Impairment of receivables (cont.)

The amount of impairment in respect of doubtful debt is reported in the statement of comprehensive income in other operating expenses.

Bad debts which are recovered are written-off from the consolidated statement of financial position along with a corresponding adjustment to the provision for doubtful debts, and the recovered amount is recognised in profit or loss.

The Group does not accrue provisions for doubtful debts on balances with intragroup parties regardless of the origin date of current debt, as these would be eliminated on consolidation.

##### 4.7 Legal proceedings

The Group's management applies significant assumptions in the measurement and recognition of provisions for and risks of exposure to contingent liabilities, related to existing legal proceedings and other unsettled claims, and also other contingent liabilities. Management's judgment is required in estimating the probability of a successful claim against the Group or the crystallising of a material obligation, and in determining the probable amount of the final settlement or obligation. Due to uncertainty inherent to the process of estimation, actual expenses may differ from the initial estimates. Such preliminary estimates may alter as new information is received, from internal specialists within the Group, if any, or from third parties, such as lawyers. Revision of such estimates may have a significant effect on the future results of operating activity.

##### 4.8 Impairment of obsolete and surplus inventory

The Group assesses the necessity to impair obsolete and surplus inventory and supplies. To estimate the amount of impairment against obsolete and surplus inventory and supplies, the following approach is used:

Inventory turnover (for each type) = Credit turnover on the accounts of inventories transferred to the production (for the reporting period) / Average carrying value on the accounts of inventories (for the reporting period).

Finished goods turnover = Credit turnover on the accounts of finished goods sold on the spot (for the reporting period) / Average carrying value on the accounts of finished goods (for the reporting period).

Inventory storage period = Duration of reporting period / Inventory turnover

The Group distinguishes all inventories into 4 types depending on storage period or turnover index:

Type	Storage period, months	Turnover index	% of reserve
1	under 3	above 1	0
2	from 3 to 6	from 0,5 to 1	30
3	from 6 to 9	from 0,33 to 0,5	50
4	above 12	under 0,33	100

**AVANGARDCO INVESTMENTS PUBLIC LIMITED****Notes to the consolidated financial statements  
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*(in USD thousand, unless otherwise stated)***4. Significant accounting judgements and estimates (cont.)****4.9 Deferred tax assets**

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective regions in which it operates.

The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group companies' domicile.

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

Deferred tax assets are reviewed at each reporting period and reduced to the extent where no longer exists any probability for sufficient taxable profit to be received, which enables realising the whole number of or a part of deferred tax assets. Estimate of probability includes judgments, which are based on expected characteristics of activity. To estimate the probability of utilising deferred tax assets in future, various factors are used, including previous years' results, operating plans, expiry of tax losses recovery, strategies of tax planning. Should actual results differ from the estimates, and should such estimates need to be reviewed in future periods, this can negatively influence the financial position, financial results and cash flows. Should the estimated utilisation of deferred tax assets be reduced, such reduction is to be recognised in profit or loss.

**4.10 Contingent liabilities**

Contingent liabilities are determined by the occurrence or non-occurrence of one or more future events. Measurement of contingent liabilities is based on Management's judgments and estimates of the outcomes of such future events. In particular, the tax laws in Ukraine are complex and significant management judgement is required to interpret those laws in connection with the tax affairs of the Group, which may be rebutted by the tax authorities.

**4.11 Impact of the global financial and economic crisis**

The ongoing global financial and economic liquidity crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets.

Management is unable to reliably determine the effects on the Group's future financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

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**4. Significant accounting judgements and estimates (cont.)****4.12 Measurement of fair values**

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the CFO.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Board of Directors.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.



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**5. Property, plant and equipment**

	Land	Buildings and structures	Machinery and equipment	Equipment for biological assets	Vehicles	Other equipment	Assets under construction-in- progress and uninstalled equipment	Total
<b>Cost</b>								
<b>As at 1 January 2013</b>	<b>3 464</b>	<b>301 995</b>	<b>48 381</b>	<b>101 353</b>	<b>6 340</b>	<b>3 100</b>	<b>521 381</b>	<b>986 014</b>
Acquisitions	-	501	557	24	30	75	208 233	<b>209 420</b>
Disposals	-	(223)	(158)	(2)	(34)	(37)	(9)	<b>(463)</b>
Foreign currency translation	(1)	(19)	(3)	(8)	-	-	(22)	<b>(53)</b>
Internal transfers	-	60 713	203	5 044	316	119	(66 395)	-
Reclassification	-	30	111	-	-	(30)	(111)	-
<b>As at 31 December 2013</b>	<b>3 463</b>	<b>362 997</b>	<b>49 091</b>	<b>106 411</b>	<b>6 652</b>	<b>3 227</b>	<b>663 077</b>	<b>1 194 918</b>
<b>Accumulated depreciation</b>								
<b>As at 1 January 2013</b>	-	<b>22 612</b>	<b>6 441</b>	<b>32 658</b>	<b>2 851</b>	<b>1 380</b>	-	<b>65 942</b>
Depreciation charge	-	12 719	4 308	7 154	770	536	-	<b>25 487</b>
Depreciation eliminated on disposal	-	(37)	(63)	-	(10)	(27)	-	<b>(137)</b>
Foreign currency translation	-	(2)	-	(2)	-	-	-	<b>(4)</b>
Reclassification	-	22	4	-	-	(26)	-	-
<b>As at 31 December 2013</b>	-	<b>35 314</b>	<b>10 690</b>	<b>39 810</b>	<b>3 611</b>	<b>1 863</b>	-	<b>91 288</b>
<b>Net book value</b>								
<b>As at 31 December 2013</b>	<b>3 463</b>	<b>327 683</b>	<b>38 401</b>	<b>66 601</b>	<b>3 041</b>	<b>1 364</b>	<b>663 077</b>	<b>1 103 630</b>

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**5. Property, plant and equipment (cont.)**

	Land	Buildings and structures	Machinery and equipment	Equipment for biological assets	Vehicles	Other equipment	Assets under construction-in-progress and uninstalled equipment	Total
<b>Cost</b>								
<b>As at 1 January 2012</b>	<b>3 465</b>	<b>173 848</b>	<b>22 042</b>	<b>91 371</b>	<b>5 306</b>	<b>2 460</b>	<b>264 936</b>	<b>563 428</b>
Acquisitions	-	17 383	1 071	47	854	448	406 874	<b>426 677</b>
Disposals	-	(4)	(52)	-	(33)	(17)	(3 731)	<b>(3 837)</b>
Foreign currency translation	(1)	(86)	(13)	(33)	(2)	(1)	(118)	<b>(254)</b>
Internal transfers	-	110 854	25 915	9 423	215	173	(146 580)	-
Reclassification	-	-	(582)	545	-	37	-	-
<b>As at 31 December 2012</b>	<b>3 464</b>	<b>301 995</b>	<b>48 381</b>	<b>101 353</b>	<b>6 340</b>	<b>3 100</b>	<b>521 381</b>	<b>986 014</b>
<b>Accumulated depreciation</b>								
<b>As at 1 January 2012</b>	-	<b>17 220</b>	<b>4 671</b>	<b>25 778</b>	<b>2 156</b>	<b>909</b>	-	<b>50 734</b>
Depreciation charge	-	5 399	1 959	6 727	715	484	-	<b>15 284</b>
Depreciation eliminated on disposal	-	-	(24)	-	(19)	(13)	-	<b>(56)</b>
Foreign currency translation	-	(7)	(2)	(10)	(1)	-	-	<b>(20)</b>
Reclassification	-	-	(163)	163	-	-	-	-
<b>As at 31 December 2012</b>	-	<b>22 612</b>	<b>6 441</b>	<b>32 658</b>	<b>2 851</b>	<b>1 380</b>	-	<b>65 942</b>
<b>Net carrying value</b>								
<b>As at 31 December 2012</b>	<b>3 464</b>	<b>279 383</b>	<b>41 940</b>	<b>68 695</b>	<b>3 489</b>	<b>1 720</b>	<b>521 381</b>	<b>920 072</b>

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**5. Property, plant and equipment (cont.)**

As at 31 December 2013 and 31 December 2012 the property, plant and equipment that was used as security for long-term and short-term loans was as follows:

	<b>Carrying value of security as at</b>	
	<b>31 December 2013</b>	<b>31 December 2012</b>
Buildings and structures	81 346	66 520
Machinery and equipment	161	5 914
Equipment for biological assets	7 123	10 054
Vehicles	221	265
Other equipment	4	293
Assets under construction-in-progress and uninstalled equipment	41 430	46 288
	<b>130 285</b>	<b>129 334</b>

As at 31 December 2013 and 31 December 2012 the net book value of property, plant and equipment which were acquired under finance leases amounted to USD 7 784 thousand and USD 10 486 thousand respectively. The carrying amount of contractual commitments is presented in Note 21.

At each reporting period, the Group reviews the book values of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). As at 31 December 2013 and 31 December 2012 the recoverable amount was estimated at the lower of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate of 20%. As a result, no impairment indications were identified in the years ended 31 December 2013 and 2012.

**6. Biological assets**

	<b>Note</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
<b>Non-current biological assets</b>			
Replacement poultry	a), b)	76 678	46 724
		<b>76 678</b>	<b>46 724</b>
<b>Current biological assets</b>			
Commercial poultry	a), b)	60 646	56 886
Other biological assets	c)	2	3
		<b>60 648</b>	<b>56 889</b>
<b>Total</b>		<b>137 326</b>	<b>103 613</b>

a) Commercial poultry and replacement poultry were as follows:

	<b>31 December 2013</b>		<b>31 December 2012</b>	
	<b>Number, thousand head</b>	<b>Fair value</b>	<b>Number, thousand head</b>	<b>Fair value</b>
Loman	2 370	13 833	-	-
Hy-Line	28 244	117 673	27 020	100 843
Hisex	1 288	3 288	499	2 767
Brown Nick	630	2 530	-	-
	<b>32 532</b>	<b>137 324</b>	<b>27 519</b>	<b>103 610</b>

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**6. Biological assets (cont.)**

b) Reconciliation of commercial and replacement poultry fair value was as follows:

<b>As at 1 January 2012</b>	<b>103 217</b>
Acquisitions	50 051
Increase in value as a result of increase in weight/number	60 292
Net change in fair value	26 191
Decrease in value resulting from assets disposal	(47 124)
Effect from translation into presentation currency	(35)
Decrease in value resulting from hens slaughtering	(88 815)
Other changes	(167)
<b>As at 31 December 2012</b>	<b>103 610</b>
<b>As at 1 January 2013</b>	<b>103 610</b>
Acquisitions	114 401
Increase in value as a result of increase in weight/number	132 523
Net change in fair value	35 158
Decrease in value resulting from assets disposal	(97 157)
Effect from translation into presentation currency	-
Decrease in value resulting from hens slaughtering	(150 903)
Other changes	(308)
<b>As at 31 December 2013</b>	<b>137 324</b>

Due to the absence of an active market for laying hen in Ukraine, to determine the fair value of biological assets, the Group uses the discounted net present value of future net cash flows expected from the biological assets. As a discount rate, the rate of 25.0% prevailing as at 31 December 2013 was applied (for the year ended 31 December 2012: 25.0%).

The line item “Other changes” includes hen mortality, discarding and utilisation of poultry.

c) Other current biological assets include pigs, bees and sheep.

*Regulatory and environmental risk*

The Group is subject to laws and regulation in Ukraine. The Group has established environmental policies and procedures aimed at compliance with local environment and other laws.

**7. Taxes recoverable and prepaid**

Taxes recoverable and prepaid as at 31 December 2013 and 31 December 2012 were as follows:

	Note	<u>31 December 2013</u>	<u>31 December 2012</u>
VAT settlements	a)	104 346	102 455
Other taxes prepaid		93	112
		<b><u>104 439</u></b>	<b><u>102 567</u></b>

a) VAT settlements related to VAT recoverable arising from operating activities and capital expenditure, is subject to:

- cash refund through release of budgetary funds by the Government;
- settlement of future tax liabilities of the entity under this tax within non-agricultural transactions.

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**7. Taxes recoverable and prepaid (cont.)**

The VAT settlements are receivable within one year based on the prior years' pattern, history of cash refunds and expectations that funds will be realised within twelve months from the reporting period.

**8. Inventories**

Inventories as at 31 December 2013 and 31 December 2012 were as follows:

	<u>31 December 2013</u>	<u>31 December 2012</u>
Raw and basic materials	132 264	144 752
Work-in-progress	606	1 153
Agricultural produce	2 150	2 417
Finished goods	33 939	11 487
Package and packing materials	13 997	6 168
Goods for resale	6 350	8 707
Other inventories	4 076	3 202
	<u><b>193 382</b></u>	<u><b>177 886</b></u>

Raw and basic materials mainly consist of grains and mixed fodder inventories.

The Group produced shell eggs in the quantity of 7 018 584 086 (2012: 6 287 065 555 items) which have fair value amounted to USD 605 883 thousand (2012: USD 550 752 thousand).

In 2012 raw and basic materials with carrying amount 32 thousand were pledged as a security for the Group's loans (Note 16).

**9. Trade accounts receivable, net**

Trade accounts receivable as at 31 December 2013 and 31 December 2012 were as follows:

	<u>31 December 2013</u>	<u>31 December 2012</u>
Trade receivables-gross	89 040	55 768
Provision for doubtful debts	(68)	(217)
	<u><b>88 972</b></u>	<u><b>55 551</b></u>

As at 31 December 2013 an amount of USD 11 077 thousand or 12.5% of the total carrying value of trade accounts receivable is due from the single most significant debtor (as at 31 December 2012—see note 38).

The fair values of trade accounts receivable due within one year approximate to their carrying amounts as presented above.

The exposure of the Group to credit risk and impairment losses in relation to trade accounts receivable is reported in note 38 of the consolidated financial statements.

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**10. Prepayments and other current assets, net**

Prepayments and other current assets as at 31 December 2013 and 31 December 2012 were as follows:

	<b>31 December 2013</b>	<b>31 December 2012</b>
Prepayments	18 144	9 823
Provision for doubtful debts	(1 213)	(765)
Other non-trade accounts receivable	13 914	2 908
	<b>30 845</b>	<b>11 966</b>

The exposure of the Group to credit risk and impairment losses in relation to prepayments and other current assets is reported in note 38 of the consolidated financial statements.

**11. Cash and cash equivalents**

Cash and cash equivalents as at 31 December 2013 and 31 December 2012 were as follows:

	<b>31 December 2013</b>	<b>31 December 2012</b>
Cash in banks	154 771	202 249
Cash in hand	33	49
Other bank accounts in foreign currency	2 000	2 000
<b>Cash and cash equivalents</b>	<b>156 804</b>	<b>204 298</b>
Less blocked deposit		
Other bank accounts in foreign currency	-	(794)
<b>Cash and cash equivalents represented in consolidated statement of cash flows</b>	<b>156 804</b>	<b>203 504</b>

Blocked deposit represents letter of credit opened with banks under the contracts for purchase of property, plant and equipment.

The exposure of the Group to credit risk and impairment losses and to liquidity risk in relation to cash and cash equivalents is reported in note 38 of the consolidated financial statements.

**12. Share capital**

	<b>31 December 2013</b>		<b>31 December 2012</b>	
	<b>Number of shares</b>	<b>Share capital, USD ths</b>	<b>Number of shares</b>	<b>Share capital, USD ths</b>
<i>Authorised</i>				
Ordinary shares Euro 0,10 each	6 500 000	908	6 500 000	908
<i>Issued and fully paid</i>				
<b>As at 31 December</b>	<b>6 387 185</b>	<b>836</b>	<b>6 387 185</b>	<b>836</b>

On 22 April 2010 the Company increased its authorized share capital by 1 500 000 ordinary shares of EUR 0,10 per share

In May and June 2010 the Company issued 1 387 185 ordinary shares with nominal value EUR 0,10 per share.

In respect of this share issue, the Company generated net share premium amounting to USD 201 164 thousand (net of share issue costs of USD 6 914 thousand) (10 GDR are equal to 1 ordinary share) as a result of initial placement of 14 375 000 GDR on the main market of London Stock Exchange, out of which the 13 871 859 GDR were issued.

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**13. Long-term loans**

Long-term loans as at 31 December 2013 and 31 December 2012 were as follows:

	<u>31 December 2013</u>	<u>31 December 2012</u>
Long-term bank loans in national currency	2 860	4 290
Long-term bank loans in foreign currency	70 448	27 832
<b>Total loans</b>	<b>73 308</b>	<b>32 122</b>
Commodity credit	1 109	1 109
	<u><b>74 417</b></u>	<u><b>33 231</b></u>
Current portion of non-current liabilities for bank loans in national currency	(1 430)	(1 430)
Current portion of non-current liabilities for bank loans in foreign currency	(11 492)	(27 832)
	<u><b>61 495</b></u>	<u><b>3 969</b></u>

a) As at 31 December 2013 and 31 December 2012 the long-term bank loans by maturities were as follows:

	<u>31 December 2013</u>	<u>31 December 2012</u>
Less than one year (current portion) (note 17)	12 922	29 262
From 1 to 2 years	13 165	1 430
From 2 to 3 years	12 619	1 430
From 3 to 4 years	10 133	-
From 4 to 5 years	6 375	-
Over 5 years	18 094	-
	<u><b>73 308</b></u>	<u><b>32 122</b></u>

b) As at 31 December 2013 and 31 December 2012 the long-term bank loans by currencies were as follows:

	<u>31 December 2013</u>	<u>31 December 2012</u>
Long-term bank loans in UAH	2 860	4 290
Long-term bank loans in USD	-	27 832
Long-term bank loans in EUR	70 448	-
	<u><b>73 308</b></u>	<u><b>32 122</b></u>

c) As at 31 December 2013 and 31 December 2012 the interest rates for long-term bank loans were as follows:

	<u>31 December 2013</u>	<u>31 December 2012</u>
Long-term bank loans denominated in UAH	14%	14-21%
Long-term bank loans denominated in USD	-	11%
Long-term bank loans in EUR	1.5%+EURIBOR- 1.75%+EURIBOR	-

Interest rates for long-term bank loans are fixed rates.

d) Commodity credit in the amount of USD 1 109 thousand is represented by a liability of the Group's companies, OJSC "Volnovahskyi Kombinat Khilboproduktiv" and OJSC "Ptakohospodarstvo Chervonyi Prapor" for an interest-free budget loan received in the years 1995-1998 for the acquisition of agricultural products under a Government contract. In case of default after the maturity of the loan the Group's companies are subject to fine and, according to Ukrainian laws, is set equal to compulsory payments in the State budget of Ukraine, applying sanctions stipulated by the laws with regard to late payment of taxes and making of non-tax payments. The commodity credit does not have a maturity date.

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**13. Long-term loans (cont.)**

The exposure of the Group to interest rate risk and liquidity risk in relation to loans and borrowings is reported in note 38 of the consolidated financial statements.

**14. Long-term bond liabilities**

Long-term bond liabilities as at 31 December 2013 and 31 December 2012 were as follows:

	<u>31 December 2013</u>	<u>31 December 2012</u>
Par value	200 000	200 000
Discount on issued bonds	(2 869)	(4 221)
	<b>197 131</b>	<b>195 779</b>
	<u>31 December 2013</u>	<u>31 December 2012</u>
Coupon payable	3 462	3 462

On 29 October 2010, the Company issued 2 000 five year non-convertible bonds with par value equal to USD 100 000 each. The Notes have been admitted to the official list of the UK listing Authority and to trading on London Stock Exchange plc's regulated market with effect from 1 November 2010. The USD 200 000 000 10% Notes, bear interest from 29 October 2010 at a rate of 10% per annum payable semi annually in arrears on 29 April and 29 October in each year, commencing on 29 April 2011. The maturity date is 29 October 2015 and the placement price was 98 093% of the principal amount of the Notes.

Surety providers of the bonds were as follows: (1) LLC Areal Snigurivka, (2) CJSC Agrofirma Avis, (3) LLC Torgivelnii Budynok Bohodukhivska Ptahofabryka, (4) CJSC Chernivetska Ptakhofabryka, (5) OJSC Ptakhohospodarstvo Chervonyi Prapor, (6) APP CJSC Chornobaivske, (7) CJSC Avangard, (8) ALLC Donetska Ptakhofabryka, (9) SC Gorodenkivska Ptakhofabryka, (10) LLC Imperovo Foods, (11) PSPC Interbusiness, (12) SC Rohatynska Ptahofabryka, (13) SC Ptakhofabryka Lozuvatska, (14) LLC PF Volnovaska, (15) PJSC Cross P/F Zorya.

The exposure of the Group to interest rate risk and liquidity risk in relation to long term-bond liabilities is reported in note 38 of the consolidated financial statements.

**15. Short-term loans**

Short-term loans as at 31 December 2013 and 31 December 2012 were as follows:

	<b>Note</b>	<u>31 December 2013</u>	<u>31 December 2012</u>
Short-term loans in national currency		-	32
Short-term bank loans in foreign currency	a), b), c)	50 000	94 336
		<b>50 000</b>	<b>94 368</b>

a) As at 31 December 2013 and 31 December 2012 the short-term bank loans by maturity were as follows:

	<u>31 December 2013</u>	<u>31 December 2012</u>
Less than 3 months	-	-
From 3 to 6 months	50 000	94 336
	<b>50 000</b>	<b>94 336</b>



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**15. Short-term loans (cont.)**

b) As at 31 December 2013 and 31 December 2012 the short-term bank loans by currencies were as follows:

	<u>31 December 2013</u>	<u>31 December 2012</u>
Short-term bank loans in USD	50 000	50 004
Short-term bank loans in EUR	-	44 332
	<u><b>50 000</b></u>	<u><b>94 336</b></u>

c) Short-term bank loans by currencies as at 31 December 2013 and 31 December 2012 were as follows:

	<u>31 December 2013</u>	<u>31 December 2012</u>
Short-term bank loans denominated in USD	10,25%	10,25%
Short-term bank loans denominated in EUR	-	1.5%+EURIBOR- 1.75%+EURIBOR

The exposure of the Group to interest rate risk and liquidity risk in relation to short term borrowings is reported in note 38 of the consolidated financial statements.

**16. Securities**

Long-term loans (Note 13) and short-term loans (Note 15) as at 31 December 2013 and 31 December 2012 were secured on assets as follows:

	<u>31 December 2013</u>	<u>31 December 2012</u>
Buildings and structures	81 346	66 520
Machinery and equipment	161	5 914
Equipment for biological assets	7 123	10 054
Vehicles	221	265
Other equipment	4	293
Assets under construction-in-progress and uninstalled equipment	41 430	46 288
<i>Property, plant and equipment, total</i>	<u>130 285</u>	<u>129 334</u>
Inventories	-	32
<b>Total</b>	<u><b>130 285</b></u>	<u><b>129 366</b></u>

As at 31 December 2012, 116 404 961 shares of APP CJSC Chornobaivske were pledged under long-term bank loans.

As at 31 December 2013 surety providers of the bonds of UkrLandFarming Plc were as follows: PJSC Agrofirma Avis , LLC Areal-Snigurivka, PJSC Chernivetska Ptakhofabryka, PJSC Chornobaivske, ALLC Donetska Ptakhofabryka, SC Gorodenkivska Ptakhofabryka of PJSC Avangard, LLC Imperovo Foods, PSPC Interbusiness, LLC Makarivska Ptakhofabryka, PJSC Ptakhofabryka Pershe Travnya, PJSC Ptakhohospodarstvo Chervonyi Prapor, LLC Slovyany, LLC Torgivenlniy Budynok Bohodukhivska Ptakhofabryka, LLC PF Volnovaska.

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**17. Current portion of non-current financial liabilities**

The current portion of non-current financial liabilities as at 31 December 2013 and 31 December 2012 was as follows:

	<u>31 December 2013</u>	<u>31 December 2012</u>
<i>Trade and other payables</i>		
Deferred income (current portion)	304	304
<i>Financial liabilities</i>		
Current portion of finance lease liabilities	1 065	2 123
VAT included in current portion of finance lease liabilities	213	425
Current portion of non-current liabilities for bank loans in foreign currency	11 492	27 832
Current portion of non-current liabilities for bank loans in national currency	1 430	1 430
	<u><b>14 504</b></u>	<u><b>32 114</b></u>

The exposure of the Group to liquidity risk in relation to non-current financial liability is reported in note 38 of the consolidated financial statements.

**18. Deferred tax assets and liabilities, income tax expense**

The principal components of deferred tax assets and liabilities before netting off on a company basis as at 31 December 2013 and 31 December 2012 were as follows:

	<u>31 December 2013</u>	<u>31 December 2012</u>
<b>Influence of temporary differences on deferred tax assets</b>		
Property, plant and equipment, non-current assets	2 811	1 718
Provisions	205	181
<b>Total deferred tax assets</b>	<u><b>3 016</b></u>	<u><b>1 899</b></u>
<b>Influence of temporary differences on deferred tax liabilities</b>		
Deferred expenses	(1)	(5)
<b>Total deferred tax liabilities</b>	<u><b>(1)</b></u>	<u><b>(5)</b></u>
<b>Net deferred tax assets</b>	<u><b>3 015</b></u>	<u><b>1 894</b></u>
	<u>31 December 2013</u>	<u>31 December 2012</u>
Total deferred tax assets	3 059	1 966
Total deferred tax liabilities	(44)	(72)
<b>Net deferred tax assets</b>	<u><b>3 015</b></u>	<u><b>1 894</b></u>

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**18. Deferred tax assets and liabilities, income tax expense (cont.)**

**Principal components of income tax expense**

As at 31 December 2013 the rate of income tax in Ukraine was equal to 19% (31 December 2012: 21%)

	<b>31 December 2013</b>	<b>31 December 2012</b>
Current income tax	(25)	(64)
Deferred tax asset	1 121	70
Effect of translation into presentation currency	-	(1)
<b>Income tax credit for the year</b>	<b>1 096</b>	<b>5</b>

**Reconciliation of deferred tax liabilities**

	<b>31 December 2013</b>	<b>31 December 2012</b>
<b>Balance as at 1 January</b>	1 894	1 836
Deferred tax credit	1 121	70
Effect of translation into presentation currency	-	(12)
<b>Balance as at 31 December</b>	<b>3 015</b>	<b>1 894</b>

*Reconciliation between income tax expense and accounting profit multiplied by the rate of income tax*

	<b>31 December 2013</b>	<b>31 December 2012</b>
Accounting profit before tax	236 987	228 228
Less accounting profit of the companies being fixed agricultural tax payers	(294 850)	(252 424)
	(57 863)	(24 196)
Accounting loss of the companies being income tax payers at the rate 12,5%, 10%	(33 024)	(26 786)
Accounting profit/(loss) of the companies being income tax payers at the rate 19%, 21%	(24 839)	2 590
	(57 863)	(24 196)
Income tax, taxable at the rate of 12,5%, 10%	(4 128)	2 679
Income tax, taxable at the rate of 19%, 21%	(4 719)	(544)
Tax effect of allowances and income not subject to tax	9 943	(2 130)
<b>Tax as per consolidated statement of comprehensive income - credit</b>	<b>1 096</b>	<b>5</b>

<b>As at 1 January 2012</b>	-
Income tax accrued for the year	(64)
Income tax paid for the year	81
Effect of translation into presentation currency	1
<b>As at 31 December 2012 / 1 January 2013</b>	<b>18</b>
Income tax accrued for the year	(25)
Income tax paid for the year	92
Effect of translation into presentation currency	-
<b>As at 31 December 2013</b>	<b>85</b>

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**18. Deferred tax assets and liabilities, income tax expense (cont.)**

The income tax payers in 2013 and 2012 were the following companies: LLC “Rohatyn-Korm”, OJSC “Vuhlehirskiy Ekspermentalnyi Kombikormoviy Zavod”, OJSC “Volhovatskiy Kombinat Khiboproductiv”, LLC “Kamyanskyi Podilsky Kombikormoviy Zavod”, LLC “Pershe Travnaya Kombikormoviy Zavod”, LLC “ImperovoFoods”, LLC “Agrarniy Holding Avangard”, AvangardCo Investments Public Limited and LLC “Imperovo LTD”. All other companies of the Group were payers of the fixed agricultural tax.

According to the Tax Code of Ukraine, the taxation for the fixed agricultural tax payers is based on the agricultural area, which is submitted to a manufacturer of agricultural products in the property or for use.

**19. Trade payables**

Trade payables as at 31 December 2013 and 31 December 2012 were as follows:

	Note	31 December 2013	31 December 2012
Trade payables		12 514	22 608
Short-term notes issued	a)	2 570	1 827
		<b>15 084</b>	<b>24 435</b>

a) As at 31 December 2013 and 31 December 2012 the short-term notes issued were represented by promissory, non interest-bearing, notes.

The exposure of the Group to liquidity risk in relation to trade payables is reported in note 38 of the consolidated financial statements.

**20. Other accounts payable**

Other accounts payable as at 31 December 2013 and 31 December 2012 were as follows:

	Note	31 December 2013	31 December 2012
Accrued expenses for future employee benefits		1 575	1 453
Other accrued expenses		291	282
Wages and salaries and related taxes liabilities		2 569	3 070
Other taxes and compulsory payments liabilities	a)	2 034	3 113
Accounts payable for property, plant and equipment		5 721	13 546
Advances received from customers	b)	4 779	1 856
Interest payable		1 397	722
Accrued coupon on bonds		3 462	4 013
Other payables	c)	6 987	988
		<b>28 815</b>	<b>29 043</b>

- a) Other taxes and compulsory payments liabilities mainly comprises of liabilities for VAT and community charges.
- b) Advances received from customers consist of prepayments for the sale of agriculture products and finished goods from buyers.
- c) Other payables consist of payables for electricity, gas, water, security services, lease and other.

The exposure of the Group to liquidity risk in relation to other accounts payable is reported in note 38 of the consolidated financial statements.

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**21. Finance lease liabilities**

	Minimum lease payments	Future finance charges	Current value of minimum lease payments
<b>As at 31 December 2013</b>			
Less than one year	1 141	76	1 065
Between one and five years	1	-	1
<b>Total</b>	<b>1 142</b>	<b>76</b>	<b>1 066</b>

	Minimum lease payments	Future finance charges	Current value of minimum lease payments
<b>As at 31 December 2012</b>			
Within a year	2 869	321	2 548
Between one and five years	1 356	73	1 283
<b>Total</b>	<b>4 225</b>	<b>394</b>	<b>3 831</b>

The finance lease liabilities also contain the VAT payments that are as follows:

	31 December 2013	31 December 2012
Short-term VAT payable	213	425
Long-term VAT payable	-	213
<b>Total</b>	<b>213</b>	<b>638</b>

Net carrying value of property, plant and equipment acquired via finance lease as at 31 December 2013 and 31 December 2012 was as follows:

	31 December 2013	31 December 2012
Equipment for biological assets	7 766	10 456
Vehicles	18	30
	<b>7 784</b>	<b>10 486</b>

Non-current assets under finance lease include equipment for biological assets, construction-in-progress and uninstalled equipment and vehicles with finance lease term of 3-4 years. Interest rate under finance lease agreements is LIBOR+8% per annum for the year ended 31 December 2013 and 31 December 2012. Finance lease agreements do not provide the possibility of changing the initial terms of agreements.

The exposure of the Group to interest rate risk and liquidity risk in relation to finance lease liabilities is reported in note 38 of the consolidated financial statements.

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**22. Short-term bond liabilities**

Short-term bond liabilities as at 31 December 2013 and 31 December 2012 were as follows:

	<b>31 December 2013</b>	<b>31 December 2012</b>
Nominal value	-	25 023
	-	<b>25 023</b>

As at 31 December 2013 and 31 December 2012 current liabilities for bonds were presented as liabilities for A-type bonds with nominal value of USD 0 thousand and USD 25 023 thousand respectively, which was equivalent to UAH 200 000 thousand, issued by CJSC “Avangard” on 2 July 2008. Those bonds were issued in book-entry form in number of 200 000 items. The bonds issue were secured by SC “Zorya, LLC Cross-PF Zorya”, LLC “Cross-PF Zorya”, OJSC “Ptakhohospodarstvo Chervonyi Prapor”, SC “Ptakhofabryka Lozuvatska”, SC “Ptakhofabryka Chervonyi Prapor Poultry Farm, of OJSC Ptakhohospodarstvo Chervonyi Prapor”, OJSC “Volnovaskyi Kombinat Khiboproduktiv”, OJSC “Vuhlehirskiyi Eksperementalnyi Kombikormoviyi Zavod”, ALLC “Donetska Ptakhofabryka”, LLC “PF Volnovaska”, SC “Ptakhohospodarstvo Lozuvatskoe”, SC “Gorodenkivska Ptakhofabryka of CJSC Avangard”, SC “Rogatynska Ptakhofabryka of CJSC Avangard”, SC “Avangard-Agro of CJSC Avangard”, CJSC “Chernivetska Ptakhofabryka”, CJSC “Agrofirma Avis”, LLC “Kamyanets-Podilsky Kombikormoviy Zavod”, OJSC “Kirovskiy”, LLC “Slovyany”, OJSC “Ptakhofabryka Pershe Travnnya”, SC “Ptakhohospodarstvo Yuzhnaya Holding of LLC Yuzhnaya Holding”, LLC “Yuzhnaya Holding”, LLC “Areal-Snigurivka”. The Guarantors are fully responsible for the issuer’s liabilities to bond holders.

Bond interest coupon is payable over 20 periods of 91 days each. The interest rate on the above mentioned bonds for the first-fourth coupon periods is set at 17% per annum. The procedure of interest rate determination for the fifth-eighth, ninth-twelfth, thirteenth-sixteenth and seventeenth-twentieth periods is set by the issuer board of directors based on market conditions, but not be less than the National Bank of Ukraine bank rate on the date of the decision of determining the interest rate. The bonds owner has the right to present the bonds to the issuer for payment on the following dates: 25 May 2009, 24 May 2010, 23 May 2011 and 21 May 2012, under the notification conditions. The bonds circulation period is from 2 July 2008 to 19 May 2013.

The exposure of the Group to interest rate risk and liquidity risk in relation to short term bond liabilities is reported in note 38 of the consolidated financial statements.

**23. Profit from operating activities**

Profit from operating activities is stated after (charging)/crediting the following items:

		<b>Year ended</b>	
	<b>Note</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
Depreciation of property, plant and equipment	5	(25 487)	(15 284)
Loss on disposal of non current assets	29	(365)	(28)
Provisions for doubtful debts and amounts written off	29	(683)	(375)
Payroll and related expenses	33	(29 634)	(33 639)
Independent auditors' remuneration for statutory audit of annual accounts		(494)	(355)

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**24. Revenue**

Sales revenue for the year ended 31 December 2013 and 31 December 2012 were as follows:

	<u>31 December 2013</u>	<u>31 December 2012</u>
Revenue from finished goods	659 240	627 615
Revenue from goods sold and services rendered	1 962	1 691
	<u><b>661 202</b></u>	<u><b>629 306</b></u>

For the year ended 31 December 2013 USD 44 615 thousand (2012: USD 49 156 thousand) or 6.8% (2012: 7.8%) from the Group's revenue refers to the sales transactions carried out with one of the Group's clients.

**25. Cost of sales**

Cost of sales for the year ended 31 December 2013 and 31 December 2012 was as follows:

	<b>Note</b>	<u>31 December 2013</u>	<u>31 December 2012</u>
Cost of finished goods sold	26	(428 141)	(395 004)
Cost of goods sold and services rendered		(1 554)	(1 956)
		<u><b>(429 695)</b></u>	<u><b>(396 960)</b></u>

**26. Cost of sales by elements**

The cost of finished goods sold (Note 25) for the year ended 31 December 2013 and 31 December 2012 as follows:

	<b>Note</b>	<u>31 December 2013</u>	<u>31 December 2012</u>
Raw materials		(354 379)	(324 260)
Payroll of production personnel and related taxes	33	(20 313)	(23 098)
Depreciation		(24 556)	(14 639)
Services provided by third parties		(28 670)	(32 824)
Other expenses		(223)	(183)
	25	<u><b>(428 141)</b></u>	<u><b>(395 004)</b></u>

Services provided by third parties consists of expenses for electricity, storage services, gas, water, current repairs of production premises, sanitary cleaning services, veterinary services and other.

**27. General administrative expenses**

General administrative expenses for the year ended 31 December 2013 and 31 December 2012 were as follows:

	<b>Note</b>	<u>31 December 2013</u>	<u>31 December 2012</u>
Salaries and wages of administrative personnel	33	(8 563)	(8 391)
Services provided by third parties		(5 957)	(12 538)
Depreciation		(132)	(104)
Repairs and maintenance costs		(150)	(81)
Tax expenses, except for income tax		(444)	(338)
Material usage		(575)	(605)
Other expenses		(925)	(502)
		<u><b>(16 746)</b></u>	<u><b>(22 559)</b></u>

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**28. Distribution expenses**

Distribution expenses for the year ended 31 December 2013 and 31 December 2012 were as follows:

	Note	31 December 2013	31 December 2012
Salaries and wages of distribution personnel	33	(758)	(2 150)
Transport expenses		(11 146)	(9 853)
Depreciation		(740)	(541)
Services provided by third parties		(11 425)	(4 854)
Packing materials		(1 002)	(1 939)
Repairs and maintenance costs		(61)	(68)
Other expenses		(498)	(651)
		<b>(25 630)</b>	<b>(20 056)</b>

**29. Other operating income/(expenses), NET**

Other operating income/(expenses), net for the year ended 31 December 2013 and 31 December 2012 were as follows:

	31 December 2013	31 December 2012
Loss on disposal of current assets	(377)	(527)
Loss on disposal of non current assets	(365)	(28)
Impairment of current assets	(1 123)	(846)
Gain realised from writing-off of accounts payable	296	861
Losses on exchange	(2 359)	(5 932)
Foreign currency sale income	3 111	11 722
Provision for doubtful debts and amounts written off	(683)	(375)
Fines, penalties recognized	(1 366)	(1 114)
Other income	(1 170)	(1 988)
	<b>(4 036)</b>	<b>1 773</b>

**30. Finance cost**

Finance cost for the year ended 31 December 2013 and 31 December 2010 was as follows:

	31 December 2013	31 December 2012
Interest payable on loans	(7 811)	(9 951)
Capitalised interest	533	3 259
<b>Total finance expenses on loans</b>	<b>(7 278)</b>	<b>(6 692)</b>
Finance expenses on finance lease	(328)	(546)
Finance expenses on bonds (interest)	(22 844)	(25 484)
Other finance expenses	(8 437)	(4 214)
	<b>(38 887)</b>	<b>(36 936)</b>

**31. Finance income**

Finance income for the year ended 31 December 2013 and 31 December 2012 includes the interest income from placement of deposits, amounted to USD 124 thousand and USD 680 thousand respectively.



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**32. Government grants received**

**32.1 Income from government grants and incentives**

Income from government grants and incentives received for the year ended 31 December 2013 and 31 December 2012 was as follows:

	Note	31 December 2013	31 December 2012
Amortization of deferred income on government grants	a)	299	305
		<b>299</b>	<b>305</b>

*a) Partial compensation of interest for loans received by agro-industrial enterprises from financial institutions*

In compliance with the legislation of Ukraine, the agricultural producers received partial compensation of interest rates by loans received by agro-industrial enterprises from financial institutions based on competitiveness and compensation principles.

*b) Partial compensation of complex agricultural equipment cost*

Enterprises of the Group received partial compensation of complex agricultural equipment cost during the years 2004-2010 according to Ukrainian laws. The total amount of compensations received for the above mentioned period is UAH 60 608 thousand. Those grants were recognised as deferred income and reflected within the "Deferred income" item in the consolidated statement of financial position. The deferred income is amortised over the estimate useful life of the relevant asset (generally 25 years) and the amortisation is reflected in the above table.

*c) Other grants*

The item "Other grants" comprises the following grants: grants for sowing of winter crops, grants for meat, grants for maintaining parent flock.

**32.2 Income from special VAT treatment**

Income from special VAT treatment received for the year ended 31 December 2013 and 31 December 2012 amounted to USD 55 198 thousand and USD 46 484 thousand respectively.

According to the Tax Code of Ukraine agricultural enterprises (those with a relative value of agricultural products in total sales not less than 75% for the previous 12 months) have a tax benefit for VAT on agriculture transactions. Positive VAT balance (positive difference between tax liability and tax credit) from agricultural transactions shall be recognized as government grants on special VAT treatment and transferred to special current account in a financial institution and negative balance (negative difference between tax liability and tax credit) is not subject to budgetary refund and credited to the tax credit for the next reporting (tax) period.

All members of the Group that met the criteria for the use of these VAT benefits except: from (LLC Rohatyn-Korm, LLC Kamyanskyi Podilsky Kombikormoviy Zavod, OJSC Vuhlehirskyi Eksperimentalnyi Kombikormoviy Zavod, OJSC Volnovaskyi Kombinat Khiboprodyktiv, LLC Pershe Travnnya Kombikormoviy Zavod, LLC Imperovo Foods, LLC Imperovo LTD, LLC Agrarnyi Holding Avangard, AvangardCo Investments Public Limited).

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**33. Payroll and related taxes**

	Note	<u>31 December 2013</u>	<u>31 December 2012</u>
Salary		(18 583)	(21 095)
Contributions to state funds		(11 051)	(12 544)
	23	<u>(29 634)</u>	<u>(33 639)</u>

	Note	Year ended	
	Note	<u>31 December 2013</u>	<u>31 December 2012</u>
Payroll of production personnel and related taxes	26	(20 313)	(23 098)
Salaries and wages of administrative personnel	27	(8 563)	(8 391)
Salaries and wages of distribution personnel	28	(758)	(2 150)
		<u>(29 634)</u>	<u>(33 639)</u>

	Year ended	
	<u>31 December 2013</u>	<u>31 December 2012</u>
Average number of employees, persons	4 549	5 575

**34. Related party balances and transactions**

The Company is controlled by Oleg Bakhmatyuk, who directly or indirectly owns 77.5% of the Company's share capital. The remaining 22.5% of the shares are widely owned.

For the purposes of these consolidated financial statements, parties are 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. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Group enters into transactions with both related and unrelated parties. It is generally not possible to objectively determine whether any transaction with a related party would have been entered into if the parties had not been related, or whether such transactions would have been effected on the same terms, conditions and amounts if the parties had not been related.

According to these criteria the related parties of the Group are divided into the following categories:

- A. Key management personnel;
- B. Companies having the same top management;
- C. Companies in which the Group's owners have an equity interest;
- D. Companies in which activities are significantly influenced by the Group's owners.

Salary costs of key management personnel for the year ended 31 December 2013 and 31 December 2012 were as follows:

	<u>31 December 2013</u>	<u>31 December 2012</u>
Salary	2 430	1 951
Contributions to state funds	720	564
	<u>3 150</u>	<u>2 515</u>

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**34. Related party balances and transactions (cont.)**

Outstanding amounts of the Group for transactions with related parties as at 31 December 2013 and 31 December 2012 were as follows:

	<b>Outstanding balances with related parties as at</b>	
	<b>31 December 2013</b>	<b>31 December 2012</b>
<b>Prepayments and other current assets, net</b>		
C. Companies in which the Group's owners have an equity interest;	59	1
D. Companies in which activities are significantly influenced by the Group's owners	10 386	47
	<b>10 445</b>	<b>48</b>
<b>Trade accounts receivable</b>		
C. Companies in which the Group's owners have an equity interest;	76	2
D. Companies in which activities are significantly influenced by the Group's owners	184	10
	<b>260</b>	<b>12</b>
<b>Cash and cash equivalents</b>		
D. Companies in which activities are significantly influenced by the Group's owners	9 913	12 103
	<b>9 913</b>	<b>12 103</b>
<b>Short-term loans</b>		
D. Companies in which activities are significantly influenced by the Group's owners	-	32
	<b>-</b>	<b>32</b>
<b>Trade accounts payable</b>		
C. Companies in which the Group's owners have an equity interest;	12	2
D. Companies in which activities are significantly influenced by the Group's owners	198	12
	<b>210</b>	<b>14</b>
<b>Other current liabilities</b>		
C. Companies in which the Group's owners have an equity interest;	45	5
D. Companies in which activities are significantly influenced by the Group's owners	717	16
	<b>762</b>	<b>21</b>

On 2<sup>nd</sup> July 2013 UkrLandFarming Plc acquired a direct shareholding percentage of 7.11% in the share capital of LLC Imperovo Limited partially through contribution of technological equipment for elevators.

From 2<sup>nd</sup> July 2013 thereafter the share capital of LLC Imperovo Limited was increased through contributions from other Group companies, therefore the direct shareholding percentage of UkrLandFarming Plc was decreased to 4.72% at 31 December 2013.

As at 31 December 2013 Prepayments and other current assets, net include unpaid contribution to the share capital of LLC Imperovo Foods in the amount of USD 9 926 thousand.

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**34. Related party balances and transactions (cont.)**

The Group's transactions with related parties for the year ended 31 December 2013 and 31 December 2012 were as follows:

	<b>Transactions with related parties for the year ended</b>	
	<b>31 December 2013</b>	<b>31 December 2012</b>
<b>Sales revenue</b>		
C. Companies in which the Group's owners have an equity interest;	16	14
D. Companies in which activities are significantly influenced by the Group's owners	1 046	254
	<b>1 062</b>	<b>268</b>
<b>General administrative expenses</b>		
C. Companies in which the Group's owners have an equity interest;	(67)	(88)
D. Companies in which activities are significantly influenced by the Group's owners	(126)	(228)
	<b>(193)</b>	<b>(316)</b>
<b>Distribution expenses</b>		
C. Companies in which the Group's owners have an equity interest;	(455)	(19)
D. Companies in which activities are significantly influenced by the Group's owners	(395)	(198)
	<b>(850)</b>	<b>(217)</b>
<b>Other operating income/(expenses), net</b>		
C. Companies in which the Group's owners have an equity interest;	117	(63)
D. Companies in which activities are significantly influenced by the Group's owners	(11)	(47)
	<b>106</b>	<b>(110)</b>
<b>Finance income</b>		
D. Companies in which activities are significantly influenced by the Group's owners	118	289
	<b>118</b>	<b>289</b>

For the year ended 31 December 2013 and 31 December 2012 transportation, slaughtering and rent services were provided to the Group by related parties in the amount of USD 2 221 thousand and USD 948 thousand respectively. All those services were provided on market terms.

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**35. Operating segments**

A reportable segment is a separable component of a business entity that produces goods or provides services to individuals (or groups of related products or services) in a particular economic environment that is subject to risks and generate revenues other than risks and income of those components that are peculiar to other reportable segments.

For the purpose of management the Group is divided into the following reportable segments on the basis of produced goods and rendered services, and consists of the following 5 reportable segments:

- shell eggs - breeding of industrial laying hens, production and sale of shell eggs;
- poultry - incubation (production and sale of baby chicks), breeding of young birds for sale, as well as sale of birds for slaughter;
- animal feed - production and sale of feeds;
- egg products - processing and sale of egg products;
- other activities - including sale of goods and services, sale of poultry meat and by-products, sale of plant production, sale of poultry manure etc.

Management monitors the operating results of each of the units separately for the purposes of making decisions about resources allocation and evaluation of operating results. The results of segments' activities are measured on the basis of operating profit or loss, its measurement is carried out accordingly to measurement of operating profit or loss in the consolidated financial statements.

Reportable segment information for the year ended 31 December 2013 was as follows:

	Shell eggs	Poultry	Animal feed	Egg products	Other activities	Adjustments and elimination	Total
Sales revenue	681 136	135 270	279 740	153 110	7 878	-	1 257 134
Intra-group elimination	(244 322)	(90 210)	(255 522)	-	(5 878)	-	(595 932)
Revenue from external buyers	<b>436 814</b>	<b>45 060</b>	<b>24 218</b>	<b>153 110</b>	<b>2 000</b>	-	<b>661 202</b>
Income from revaluation of biological assets at fair value	26 296	8 862	-	-	-	-	35 158
Other operating income/(expenses)	(3 032)	(434)	(616)	2 187	(2 141)	-	(4 036)
Income from government grants and incentives	299	-	-	-	-	-	299
<b>OPERATING PROFIT/(LOSS)</b>	<b>223 315</b>	<b>10 071</b>	<b>(7 796)</b>	<b>60 958</b>	<b>(10 798)</b>	-	<b>275 750</b>
Finance income	85	7	9	17	6	-	124
Finance costs, including:	(4 458)	-	-	(5 196)	(29 233)	-	(38 887)
Interest payable on loans	(652)	-	-	(5 196)	(1 430)	-	(7 278)
Income tax (expense)/credit	-	-	(261)	1 384	(27)	-	1 096
<b>NET PROFIT/(LOSS) FOR THE YEAR</b>	<b>218 942</b>	<b>10 078</b>	<b>(8 048)</b>	<b>57 163</b>	<b>(40 052)</b>	-	<b>238 083</b>
<b>TOTAL ASSETS</b>	<b>2 689 258</b>	<b>100 595</b>	<b>526 735</b>	<b>716 109</b>	<b>591 226</b>	<b>(2 805 008)</b>	<b>1 818 915</b>
Capitalised expenses	153 472	7 651	13 103	2 513	32 682	-	209 420
Depreciation	12 826	1 075	421	10 459	706	-	25 487
<b>TOTAL LIABILITIES</b>	<b>941 016</b>	<b>16 431</b>	<b>463 284</b>	<b>421 590</b>	<b>343 449</b>	<b>(1 813 953)</b>	<b>371 817</b>

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**35. Operating segments (cont.)**

Reportable segment information for the year ended 31 December 2012 was as follows:

	Shell eggs	Poultry	Animal feed	Egg products	Other activities	Adjustments and elimination	Total
Sales revenue	608 880	65 837	219 757	106 644	6 861	-	1 007 979
Intra-group elimination	(150 572)	(41 105)	(183 221)	-	(3 775)	-	(378 673)
Revenue from external buyers	<b>458 308</b>	<b>24 732</b>	<b>36 536</b>	<b>106 644</b>	<b>3 086</b>	-	<b>629 306</b>
Income from revaluation of biological assets at fair value	19 633	6 558	-	-	-	-	26 191
Other operating income/(expenses)	(1 902)	563	(2 580)	395	5 297	-	1 773
Income from government grants and incentives	301	4	-	-	-	-	305
<b>OPERATING PROFIT/(LOSS)</b>	<b>229 932</b>	<b>2 902</b>	<b>(4 471)</b>	<b>49 666</b>	<b>(13 545)</b>	-	<b>264 484</b>
Finance income	405	37	15	-	223	-	680
Finance costs, including:	(7 491)	(24)	-	(5 296)	(24 125)	-	(36 936)
Interest payable on loans	(771)	(21)	-	(5 296)	(604)	-	(6 692)
Income tax expense	-	-	(50)	23	32	-	5
<b>NET PROFIT/(LOSS) FOR THE YEAR</b>	<b>222 848</b>	<b>2 915</b>	<b>(4 507)</b>	<b>44 393</b>	<b>(37 416)</b>	-	<b>228 233</b>
<b>TOTAL ASSETS</b>	<b>1 970 074</b>	<b>86 004</b>	<b>466 936</b>	<b>302 426</b>	<b>49 631</b>	<b>(1 296 746)</b>	<b>1 578 328</b>
Capitalised expenses	299 071	743	510	791	170	-	301 285
Depreciation	12 654	1 032	344	600	654	-	15 284
<b>TOTAL LIABILITIES</b>	<b>665 873</b>	<b>17 505</b>	<b>416 310</b>	<b>329 885</b>	<b>310 365</b>	<b>(1 328 805)</b>	<b>411 133</b>

The Group's revenue from external customers and information about its non-current assets by geographical location are presented as follows:

	Revenue from external customers		Non-current assets	
	For the year ended		As at	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Ukraine	470 483	501 540	1 183 740	967 187
Middle East and North Africa	124 898	86 543	-	-
Far East	41 989	17 626	-	-
Central and West Africa	21 199	21 276	-	-
Rest of the World	2 633	2 321	-	-
<b>Total</b>	<b>661 202</b>	<b>629 306</b>	<b>1 183 740</b>	<b>967 187</b>

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**36. Earnings per share**

*Basic earnings per share*

The calculation of basic earnings per share for the year ended 31 December 2013 and 31 December 2012 was based on profit attributable to the owners of the Company, and a weighted average number of ordinary shares as follows:

	<b>Year ended</b>	
	<b>31 December 2013</b>	<b>31 December 2012</b>
<i>Profit attributable to the owners of the Company:</i> (in USD thousands)		
Profit attributable to the owners of the Company	236 032	225 448
<i>Weighted average number of shares:</i>		
Weighted average number of ordinary shares at 31 December	6 387 185	6 387 185
<i>Earnings per share (USD)</i>	37	35

Earnings per share is the profit for the year after taxation divided by the weighted average number of shares in issue for each year.

There are no options or instruments convertible into new shares and so basic and diluted earnings per share are the same.

**37. Contingent and contractual liabilities**

*Economic environment*

Main operating activity of the Group is carried out within Ukraine. Laws and other regulatory acts affecting the activities of entities in Ukraine may be subject to changes during short periods of time. As a result, assets and operating activity of the Group may be exposed to risk in case of any unfavourable changes in political and economic environment.

Management believes that it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances. Any unexpected deterioration in the areas described above may negatively affect the Group's activities.

*Taxation*

As a result of unstable economic situation in Ukraine, tax authorities in Ukraine pay more and more attention to the business cycles. In connection with it, tax laws in Ukraine are subject to frequent changes. Furthermore, there are cases of their inconsistent application, interpretation and execution. Non-compliance with laws and norms may lead to serious fines and penalties.

The Company operates in the Cypriot tax jurisdiction and its subsidiaries in the Ukrainian tax jurisdiction. The Company's management must interpret and apply existing legislation to transactions with third parties and its own activities. Significant judgment is required in determining the provision for direct and indirect taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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**37. Contingent and contractual liabilities (cont.)***Taxation (cont.)*

The Group's uncertain tax positions are reassessed by Management at every 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 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 reporting period.

The Group considers that it operates in compliance with tax laws of Ukraine, although, a lot of new laws about taxes and transactions in foreign currency have been adopted recently, and their interpretation is rather ambiguous.

In December 2010, the Tax Code of Ukraine was officially published. In its entirety, the Tax Code of Ukraine became effective on 1 January 2011, while some of its provisions took effect later. Apart from changes in CIT rates from 1 April 2011 and planned abandonment of VAT refunds for agricultural industry from 1 January 2018, respectively, the Tax Code also changes various other taxation rules.

While the Group's management believes the enactment of the Tax Code of Ukraine will not have a significant negative impact on the Group's financial results in the foreseeable future, as of the date these financial statements were authorized for issue management was in the process of assessing its effects of its adoption on the operations of the Group.

*Pension and other liabilities*

Most of the Group's employees receive pension benefits from the Pension Fund, Ukrainian state organization, in accordance with the regulations and laws of Ukraine. Group is obliged to deduct a certain percentage of salaries to the Pension Fund to pay pensions.

As at 31 December 2013 and 31 December 2012 the Group had no liabilities for any supplementary pension payments, health care, insurance or other benefits after retirement to their working or former employees.

*Legal matters*

In the course of its economic activities the Group is involved in legal proceedings with third parties. In most cases, the Group is the initiator of such proceedings with the purpose of preventing from losses in the economic sphere or minimize them.

The Group's management considers that as at the reporting period, active legal proceedings on such matters will not have any significant influence on its financial position.



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### Notes to the consolidated financial statements FOR THE YEAR ENDED 31 DECEMBER 2013

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#### 38. Financial risk management

The Group has exposure to the following risks arising from financial instruments:

- a) credit risk;
- b) liquidity risk;
- c) market risk;
- d) livestock disease risk.

#### *Risk management framework*

The Company's board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group is not a finance company, thus it uses financial instruments as may be necessary in order to obtain finance for its activities, not for the purpose of receiving income. In the process of its activities the Group uses the following financial instruments: cash and cash equivalents, loans to and from related parties, accounts receivable, bonds, bank loans, finance leases and accounts payable.

The Group is exposed to the following risks resulting from use of financial instruments: credit risk, liquidity risk and market risk (including foreign currency risk and interest rate risk of fair value). This explanation contains information relating to the Group's exposure to each of the risk types mentioned above, Group's objectives, its policy and procedures of these risks measurement and management.

Additional disclosures of quantitative information are presented in many other sections of these consolidated financial statements, including:

- information on finance income and expenses is disclosed in Notes 30, 31 (all finance income and expenses are recognised as a part of profit or loss for the year, other than interest capitalised which is allocated to the cost of the relevant asset);
- information on cash is disclosed in Note 11;
- information on trade and other accounts receivable is disclosed in Notes 9, 10;
- information on trade and other accounts payable is disclosed in Notes 19, 20;
- information on significant terms of borrowings and loans granting is disclosed in Notes 13, 15, 17;
- information on timing and terms of effective contracts for finance lease is disclosed in Note 21;
- information on significant conditions of issued bonds is disclosed in Note 14, 22.

#### **a) Credit risk**

Credit risk is the risk of financial loss to the Group in case of non-fulfillment of financial obligations by a client or counterparty under the respective agreement. In the reporting period the Group's financial assets which are exposed to credit risk are represented as follows: cash and balances on bank accounts, trade and other accounts receivable (except for receivables that are not represented by financial assets), financial assistance issued, prepayments for bonds, bank deposits.

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**38. Financial risk management (cont.)**

**a) Credit risk (cont.)**

Exposure to credit risk

The carrying value of financial assets represents the maximum exposure to credit risk. Maximum level of credit risk as at 31 December 2013 and 31 December 2012 was presented as follows:

<b>Financial assets</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
Cash and cash equivalents	156 804	204 298
Trade accounts receivable	89 040	55 768
<b>Total</b>	<b>245 844</b>	<b>260 066</b>

The majority of the Group's cash and cash equivalents as at 31 December 2013 are held with banks which are rated A2 as per Moody's Rating Agency and the minority is held with financial institutions rated as B1, Ba1, B2, Baa2, Caa3 and financial institutions in Ukraine which are not rated.

The Group's exposure to credit risk regarding trade accounts receivable is primarily dependent on specific characteristics of each client. The Group's policy for credit risk management provides systematic work with debtors, which includes: analysis of solvency, determination of maximum amount of risk related to one customer or a group of customers and control over timeliness of debt repayment. The majority of Group's clients are longstanding clients, there were no significant losses during the year ended 31 December 2013 and 2012 resulting from non-fulfillment of obligations by clients. Concentration of credit risk on trade accounts receivable is characterised by the following indicators:

For the year ended 31 December 2013 USD 44 615 thousand or 6.8% from the Group's revenue refers to the sales transactions carried out with one of the Group's clients. As at 31 December 2013 USD 11 077 thousand or 12.5% of the total carrying value of trade accounts receivable is due from the single most significant debtor.

For the year ended 31 December 2012 USD 49 156 thousand or 7.8% from the Group's revenue is refers to the sales transactions carried out with one of the Group's clients. As at 31 December 2012 USD 7 632 thousand or 13.7% of the total carrying value of trade accounts receivable is due from the single most significant debtor.

Trade receivables as at 31 December 2013 and 31 December 2012 by dates of origin were presented as follows:

<b>31 December 2013</b>	<b>0-30 days</b>	<b>31-60 days</b>	<b>61-90 days</b>	<b>91-120 days</b>	<b>121-180 days</b>	<b>181-365 days</b>	<b>over one year</b>	<b>TOTAL</b>
Carrying value of trade accounts receivable	31 198	22 631	18 118	6 459	2 638	7 920	8	<b>88 972</b>
<b>31 December 2012</b>	<b>0-30 days</b>	<b>31-60 days</b>	<b>61-90 days</b>	<b>91-120 days</b>	<b>121-180 days</b>	<b>181-365 days</b>	<b>over one year</b>	<b>TOTAL</b>
Carrying value of trade accounts receivable	52 554	2 215	590	71	84	37	-	<b>55 551</b>

The amounts in column 0-30 days represent the amounts not past due nor impaired.

The amounts due from related parties are not generally provided where there is no reason to doubt the solvency of the debtor.

Related parties tend to be given longer credit terms and the older amounts generally relate to these related parties.

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**38. Financial risk management (cont.)**

**b) Liquidity risk**

Liquidity risk is the risk of the Group's failure to fulfill its financial obligations at the date of maturity. The Group's approach to liquidity management is to ensure, to the extent possible, permanent availability of sufficient liquidity of the Group to fulfill its financial obligations in due time (both in normal conditions and in non-standard situations), by avoiding unacceptable losses or the risk of damage to the reputation of the Group.

The aim of the Group is the maintenance of balance between continuous financing and flexibility in usage of bank loans and settlements with suppliers.

In accordance with plans of the Group, its working capital needs are satisfied by cash flows from operating activities, as well as by use of loans if cash flows from operating activities are insufficient for liabilities to be settled. The table below represents the expected maturity of components of working capital:

Exposure to liquidity risk

**31 December 2013**

<b>Non-derivative financial liabilities</b>	<b>Contractual cash flows</b>	<b>Less than 3 months</b>	<b>From 3 months to 1 year</b>	<b>From 1 to 5 years</b>	<b>Over 5 years</b>
Bank loans	(134 371)	-	(67 743)	(47 280)	(19 348)
Finance lease (including VAT)	(1 142)	-	(1 141)	(1)	-
Current liabilities for bonds	(3 462)	-	(3 462)	-	-
Long-term bond liabilities	(240 000)	-	(20 000)	(220 000)	-
Trade accounts payable	(15 084)	(15 084)	-	-	-
	<b>(394 059)</b>	<b>(15 084)</b>	<b>(92 346)</b>	<b>(267 281)</b>	<b>(19 348)</b>

**31 December 2012**

<b>Non-derivative financial liabilities</b>	<b>Contractual cash flows</b>	<b>Less than 3 months</b>	<b>From 3 months to 1 year</b>	<b>From 1 to 5 years</b>	<b>Over 5 years</b>
Bank loans	(133 878)	-	(130 634)	(3 244)	-
Finance lease (including VAT)	(4 225)	-	(2 869)	(1 356)	-
Current liabilities for bonds	(27 194)	-	(27 194)	-	-
Long-term bond liabilities	(260 000)	-	(20 000)	(240 000)	-
Trade accounts payable	(24 435)	(24 435)	-	-	-
	<b>(449 732)</b>	<b>(24 435)</b>	<b>(180 697)</b>	<b>(244 600)</b>	<b>-</b>

**c) Market risk**

Market risk is the risk of negative influence of changes in market prices, such as foreign exchange rates and interest rates, on revenue position of the Group or on the value of the Group's available financial instruments.

The objective of market risk management provides control over the Group's exposure to market risk, as well as keeping its level within reasonable limits. Description of the Group's exposure to such market components as currency risk and interest rate risk, is given below.

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**38. Financial risk management (cont.)**

**c) Market risk (cont.)**

**i) Foreign currency risk**

Foreign currency risk which represents a part of market risk is the risk of change in the value of financial instruments due to changes in foreign exchange rates.

Management does not use derivative financial instruments to hedge foreign currency risks and does not follow the official policy for distribution of risks between liabilities in one or another currency. However, in the period of receiving new borrowings and loans, management uses its own estimates to take the decision as for which currency of denomination will be more favourable for the Group during the expected period until maturity.

Exposure to foreign currency risk

The Group's exposure to foreign currency risk and the amount in local currency as at 31 December 2013 based on carrying amounts was as follows:

(in conversion to USD thousand)	<b>USD</b>	<b>EUR</b>	<b>TOTAL</b>
Long-term bond liabilities	197 131	-	<b>197 131</b>
Short-term bank loans (including overdrafts)	50 000	-	<b>50 000</b>
Long-term bank loans	-	70 448	<b>70 448</b>
Trade accounts payable	263	847	<b>1 110</b>
Accounts payable for property, plant and equipment	6	5 576	<b>5 582</b>
Other accounts payable	24	26	<b>50</b>
Cash and cash equivalents	(143 152)	(3 621)	<b>(146 773)</b>
Trade accounts receivable	(32 098)	-	<b>(32 098)</b>
Accrued coupon on bonds	3 462	-	<b>3 462</b>
<b>Net exposure to foreign currency risk</b>	<b>75 636</b>	<b>73 276</b>	<b>148 912</b>

The Group's exposure to foreign currency risk and the amount in local currency as at 31 December 2012 based on carrying amounts was as follows:

(in conversion to USD thousand)	<b>USD</b>	<b>EUR</b>	<b>TOTAL</b>
Long-term bond liabilities	195 779	-	<b>195 779</b>
Short-term bank loans (including overdrafts)	50 004	44 332	<b>94 336</b>
Trade accounts payable	264	517	<b>781</b>
Accounts payable for property, plant and equipment	15	6 995	<b>7 010</b>
Other accounts payable	-	69	<b>69</b>
Cash and cash equivalents	(193 904)	-	<b>(193 904)</b>
Trade accounts receivable	(6 371)	-	<b>(6 371)</b>
Other accounts receivable	-	(160)	<b>(160)</b>
Accrued coupon bond	3 462	-	<b>3 462</b>
<b>Net exposure to foreign currency risk</b>	<b>49 249</b>	<b>51 753</b>	<b>101 002</b>

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**38. Financial risk management (cont.)**

**c) Market risk (cont.)**

*Sensitivity analysis (foreign currency risk)*

Below there is a sensitivity analysis of income (or loss) of the Group before tax to the possible changes in foreign currency rates. This analysis is conducted based on the assumption that all other variables and interest rates in particular, remain unchanged.

<b>Effect in USD thousand: 31 December 2013</b>	<b>Increase in currency rate against UAH</b>	<b>Effect on profit before tax</b>	<b>Effect on equity</b>
USD	15%	(11 345)	(11 345)
EUR	10%	(7 328)	(7 328)

<b>Effect in USD thousand: 31 December 2012</b>	<b>Increase in currency rate against UAH</b>	<b>Effect on profit before tax</b>	<b>Effect on equity</b>
USD	15%	(7 387)	(7 387)
EUR	10%	(5 175)	(5 175)

**ii) Interest rate risk**

Interest rate risk is connected with a possibility of changes in value of financial instruments resulting from changes in interest rates.

At present, the Group's approach to limitation of interest rate risk consists of borrowings at fixed interest rates.

Structure of interest rate risk

As at 31 December 2013 and 31 December 2012 the structure of interest financial instruments of the Group, grouped according to the types of interest rates, was presented as follows:

	<b>31 December 2013</b>	<b>31 December 2012</b>
<b>Instruments with fixed interest rate</b>		
Financial liabilities	(249 991)	(304 069)
<b>Instruments with variable interest rate</b>		
Financial liabilities	(71 728)	(48 163)

Interest rate risk related to the liabilities with the floating interest arises from the possibility that changes in interest rates will affect the value of the financial instruments. For variable rate borrowings, interest is linked to LIBOR or EURIBOR.

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**38. Financial risk management (cont.)**

**c) Market risk (cont.)**

**ii) Interest rate risk (cont.)**

As at 31 December 2013 and 31 December 2012 the Group's sensitivity to changes of LIBOR or EURIBOR by 5% was presented as follows:

<b>Effect in USD thousand:</b>	<b>Increase/(decrease) of floating rate</b>	<b>Effect on profit before tax</b>
<b>31 December 2013</b>		
LIBOR	5%	(1)
LIBOR	-5%	1
EURIBOR	5%	(14)
EURIBOR	-5%	14
<b>31 December 2012</b>		
LIBOR	5%	(1)
LIBOR	-5%	1
EURIBOR	5%	(8)
EURIBOR	-5%	8

The effect of interest rate sensitivity on owners' equity is equal to that on the consolidated statement of comprehensive income.

Such financial instruments as cash and cash equivalents, trade accounts receivable, financial assistance issued, interest receivable for deposits, prepayment for bonds, other non trading accounts receivable are not included in the table given below, since possible effect of changes in interest rate risk (discount rates) under these financial instruments is not material.

*Capital management*

The Group's management follows the policy of providing the firm capital base which allows supporting the trust of investors, creditors and market and ensuring future business development.

In relation to capital management the Group's objectives are as follows: maintaining the Group's ability to adhere to the going concern principle in order to provide income for owners and benefits to other interested parties, and also maintaining the optimal capital structure with the purpose of its cost reduction.

To manage capital, the Group's management, above all, uses the calculations of the financial leverage coefficient (ratio of leverage ratio) and the ratio between net debt and EBITDA.

Financial leverage is calculated as a ratio between net debt and total amount of capital. Net debt is calculated as cumulative borrowings net of cash and cash equivalents. Total amount of capital is calculated as own capital reflected in the balance sheet plus the amount of net debt.

This ratio measures net debt as a proportion of the capital of the Group, i.e. it correlates the debt with total equity and shows whether the Group is able to pay the amount of outstanding debts. An increase in this coefficient indicates an increase in borrowings relative to the total amount of the Group's capital. Monitoring this indicator is necessary to keep the optimal correlation between own funds and borrowings of the Group in order to avoid problems from over leverage.

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**38. Financial risk management (cont.)**

**c) Market risk (cont.)**

**ii) Interest rate risk (cont.)**

*Capital management (cont.)*

Financial leverage ratio calculation

For the ratio of net debt to EBITDA, the calculation of net debt is as above. EBITDA is an indicator of income before taxes, interest depreciation and amortisation. It is useful for the Group's financial analysis, since the Group's activity is connected with long-term investments in property, plant and equipment. EBITDA does not include depreciation, so that in the Group's opinion, it reflects the approximate cash flows deriving from the Group's income in a more reliable way.

The ratio of net debt to EBITDA gives an indication of whether income obtained from operating activities is sufficient to meet the Group's liabilities.

As at 31 December 2013 and 31 December 2012 the Group's financial leverage coefficient was 10.3% and 11.2% respectively.

	<b>Carrying value</b>	
	<b>31 December 2013</b>	<b>31 December 2012</b>
Short-term loans	50 000	94 368
Long-term loans	61 495	3 969
Current portion of long-term loans	12 922	29 262
Long-term finance lease (including VAT)	1 280	3 831
Long-term bond liabilities	197 131	195 779
Short-term bond liabilities	-	25 023
<b>Total borrowings</b>	<b>322 828</b>	<b>352 232</b>
Cash and cash equivalents	(156 804)	(204 298)
<b>Net debt</b>	<b>166 024</b>	<b>147 934</b>
Share capital	836	836
Share premium	201 164	201 164
Capital contribution reserve	115 858	115 858
Retained earnings	1 132 803	899 357
Foreign currency translation reserve	(68 194)	(68 135)
Non-controlling interests	64 631	18 115
<b>Total equity</b>	<b>1 447 098</b>	<b>1 167 195</b>
<b>Total amount of equity and net debt</b>	<b>1 613 122</b>	<b>1 315 129</b>
<b>Financial leverage coefficient</b>	<b>10,3%</b>	<b>11,2%</b>

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**38. Financial risk management (cont.)**

**c) Market risk (cont.)**

**ii) Interest rate risk (cont.)**

*Capital management (cont.)*

Financial leverage ratio calculation (cont.)

For the year ended 31 December 2013 and 31 December 2012 ratio of net debt to EBITDA amounted to:

	Year ended	
	31 December 2013	31 December 2012
<b>PROFIT FOR THE YEAR</b>	238 083	228 233
Income tax credit	(1 096)	(5)
Finance income	(124)	(680)
Finance expenses	38 887	36 936
<b>EBIT (earnings before interest and income tax)</b>	<b>275 750</b>	<b>264 484</b>
Depreciation	25 487	15 284
<b>EBITDA (earnings before interest, income tax, depreciation and amortisation)</b>	<b>301 237</b>	<b>279 768</b>
Net debt at the year end	166 024	147 934
<b>Net debt at the year end / EBITDA</b>	<b>0,55</b>	<b>0,53</b>

During the year there were no changes in the approach to capital management. The Group is not subject to external regulatory requirements regarding capital.

**d) Livestock diseases risk**

The Group's agro-industrial business is subject to risks of outbreaks of various diseases. The Group faces the risk of outbreaks of disease which are highly contagious and destructive to susceptible livestock, such as avian influenza or bird flu for its poultry operations. These and other diseases could result in mortality losses. Disease control measures were adopted by the Group to minimise and manage this risk. The Group's management is satisfied that its current existing risk management and quality control processes are effective and sufficient to prevent any outbreak of livestock diseases and related losses.

**39. Fair values**

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).



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**39. Fair values (cont.)**

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized.

	Level 1	Level 2	Level 3	Total
<b>31 December 2013</b>				
<i>Financial Assets</i>				
Biological Assets	-	-	137 326	137 326

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the year ended 31 December 2013.

The fair value of biological assets is determined as the discounted value of net cash flows expected from assets.

The Group has an established control framework with respect to the measurement of fair values. This framework includes a valuation team that reports directly to the Chief Financial Officer, and has overall responsibility for fair value measurement of biological assets.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. The valuation team assesses and documents the evidence obtained to support the conclusion that the valuation meets the requirements of IFRS, including the level in the fair value hierarchy. Significant valuation issues are reported to the Chief Financial Officer.

The valuation requires management to make certain assumptions about unobservable inputs to the model, of which the significant unobservable inputs are disclosed in the table below:

	<b>As at</b>	
	<b>31 December 2013</b>	<b>31 December 2012</b>
Discount rate	25%	25%
Inflation rate	100,5%	100,6%

The higher the discount rate the lower the fair value of biological assets, and the higher the inflation rate the higher the fair value of biological assets. Any interrelationship between the unobservable inputs is not considered to have a significant impact within the range of reasonably possible alternative assumptions.

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**39. Fair values (cont.)**

Sensitivity analysis of biological assets fair value to the possible changes in foreign currency rates is disclosed in the table below:

Effect in USD thousand:	Increase/decrease of rate	Effect on fair value of biological assets
<b>31 December 2013</b>		
Discount rate	1%	(1 303)
Discount rate	-1%	1 318
Inflation rate	0,5%	6 075
Inflation rate	-0,5%	(6 059)
<b>31 December 2012</b>		
Discount rate	1%	(923)
Discount rate	-1%	933
Inflation rate	0,5%	4 656
Inflation rate	-0,5%	(4 656)

There were no transfers to/from Level 3 of the fair value hierarchy during the year ended 31 December 2013.

The reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy is analyzed in note 6 of these consolidated financial statements.

Total gain or losses for the year as shown in the reconciliation (note 6) are presented on the face of the consolidated statement of comprehensive income as “Profit from revaluation of biological assets at fair value” (31 December 2013: USD 31 158 thousand).

The following table analyses the fair values of financial instruments not measures at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorized:

	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
<b>31 December 2013</b>					
<i>Financial Assets</i>					
Cash and cash equivalents	-	156 804	-	156 804	156 804
Trade and other receivables	-	-	88 972	88 972	88 972
<i>Financial Liabilities</i>					
Trade payables	-	-	15 084	15 084	15 084
Bank loans	-	124 417	-	124 417	124 417
Long term bond liabilities	201 984	-	-	201 984	197 131

*Assumptions in assessing fair value of financial instruments and assessment of their subsequent recognition*

As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instruments. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holding of a particular instrument.

As at 31 December 2013, the following methods and assumptions, which remained the same as the prior year, were used by the Group to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

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*(in USD thousand, unless otherwise stated)*

**39. Fair values (cont.)**

*Cash and cash equivalents* - the fair value is estimated to be the same as the carrying value for these short-term financial instruments.

*Trade and other accounts receivable, financial assistance issued* - the fair value is reasonably estimated to be the same as the carrying value, as provision for doubtful debts is reasonable estimation of discount needed for reflection of credit risk influence.

*Trade and other accounts payable* - the fair value is estimated to be the same as the carrying value for trade and other accounts payable.

Application of the effective interest rate method for calculating carrying value of short-term accounts receivable, interest free loans granted and received and accounts payable does not significantly influence the relevant rates in the consolidated financial information of the Group.

*Short-term and long-term bank loans, finance lease liabilities, short-term bonds issued* - the fair value of short-term and long-term bank loans, finance lease liabilities, short-term bonds issued is estimated to approximate the total carrying value as the nominal interest rate of long-term bank loans is approximately tied to the market rate concerning bank loans with similar credit risk rate and repayment period at the reporting period.

*Long-term bonds issued* - the fair value of long-term bonds issued is measured using the available quoted market prices from the relevant stock exchange which the bonds are listed.

As at 31 December 2013 the fair value of the above financial instruments approximated to their carrying amount besides long-term bonds whose fair value was USD 201 984 thousand (31 December 2012: USD 189 000 thousand).

**40. Risks related to the Group's operating environment in Ukraine**

Since obtaining independence in 1991, Ukraine has undergone substantial political transformation from a constituent republic of the former Soviet Union to an independent sovereign state and has been progressively developing into a market economy. Although substantial progress has been made since independence in reforming Ukraine's economy, along with the country's political and judicial systems to some extent, Ukraine still lacks the necessary legal infrastructure and regulatory framework essential to support market institutions, effective transition to a market economy and broad-based social and economic reforms.

Conditions for the Ukrainian economy have been extremely unstable during the course of 2009 and this instability has continued into 2013. Despite signs of stabilisation, major concerns remain over the performance of the Ukrainian economy at a macro level. The economy has remained very energy intensive and is still insufficiently diversified, with exports remaining centred on metallurgical products. Consequently, the economy remains vulnerable to fluctuations in steel prices and to shocks resulting from Russia's control over the supply of gas. In terms of business environment, high taxes, legal uncertainties and bureaucratic impediments have conspired to create a difficult business environment in which to operate. In addition, the lack of an enduring political consensus on reforms has created uncertainty over the modernisation of the economy.

In 2014 there is unrest in the political environment of Ukraine and new presidential elections are in the pipeline. This unstable situation may negatively affect the economic environment of the country as well.

**AVANGARDCO INVESTMENTS PUBLIC LIMITED****Notes to the consolidated financial statements  
FOR THE YEAR ENDED 31 DECEMBER 2013**  
*(in USD thousand, unless otherwise stated)***41. Events after the reporting period**

There were no material events after the reporting period which affect the consolidated financial statements as at 31 December 2013.

The consolidated financial statements were approved and authorized for issue by the Board of Directors on 12 March 2014.