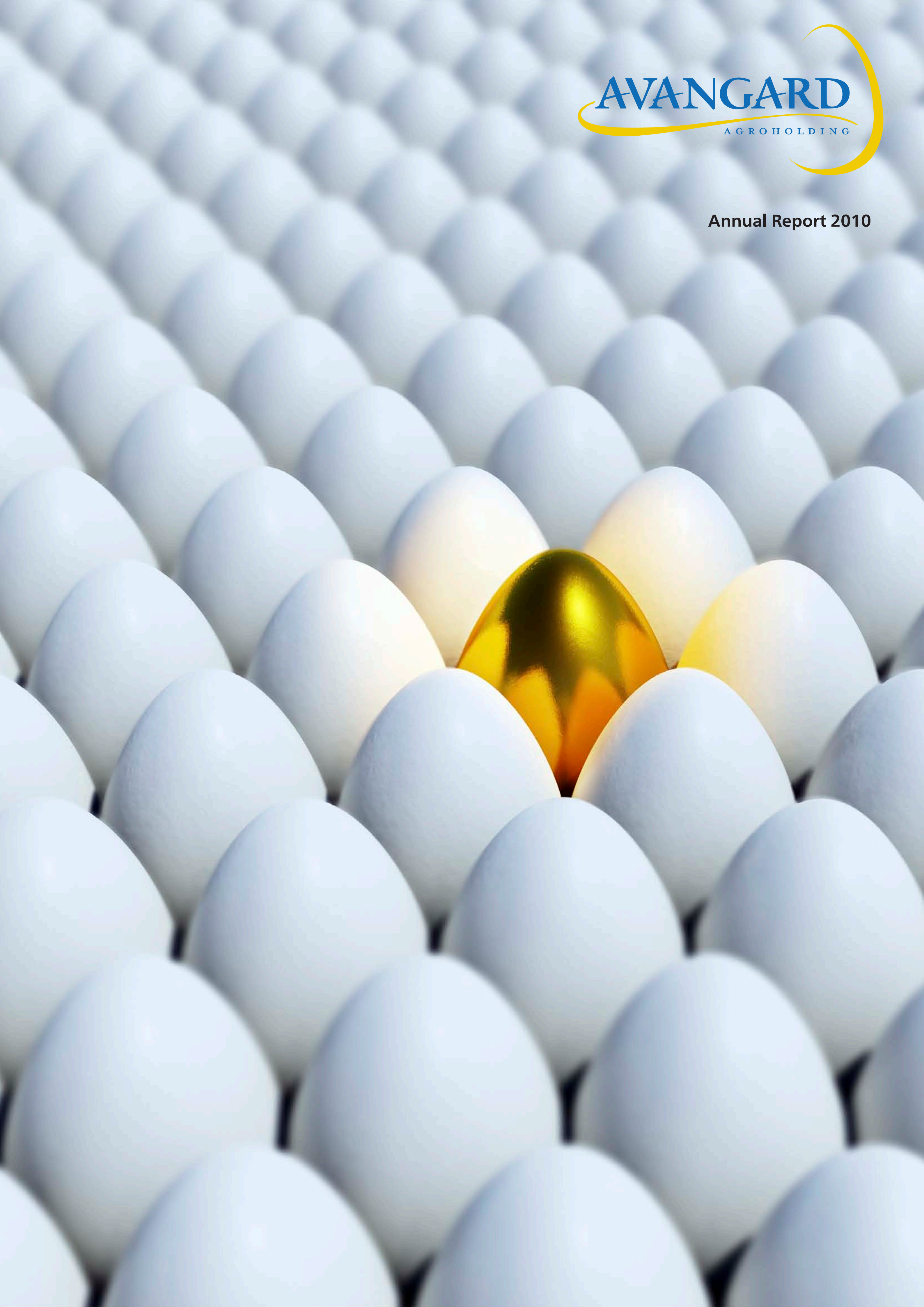
AVANGARD
AGROHOLDING

Annual Report 2010



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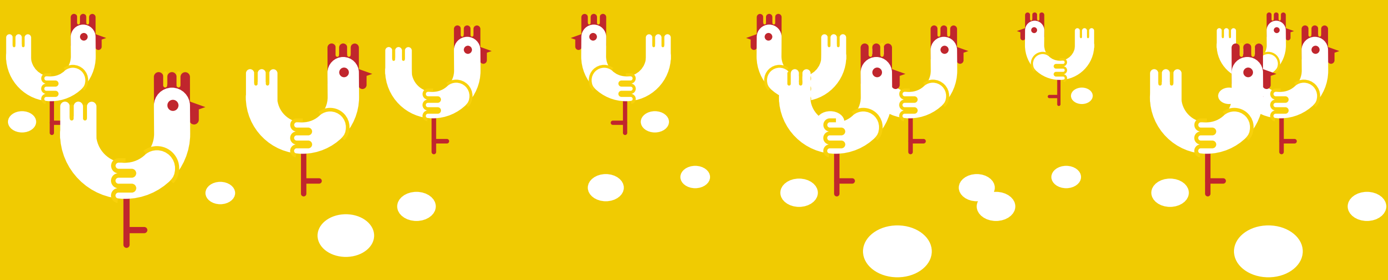
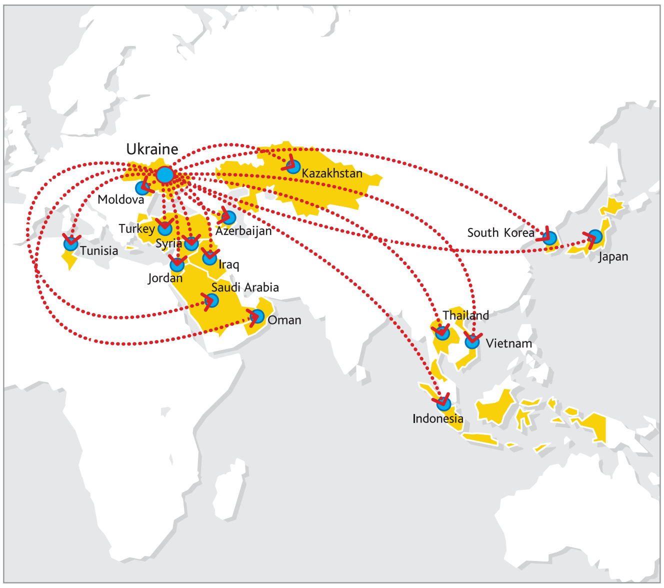
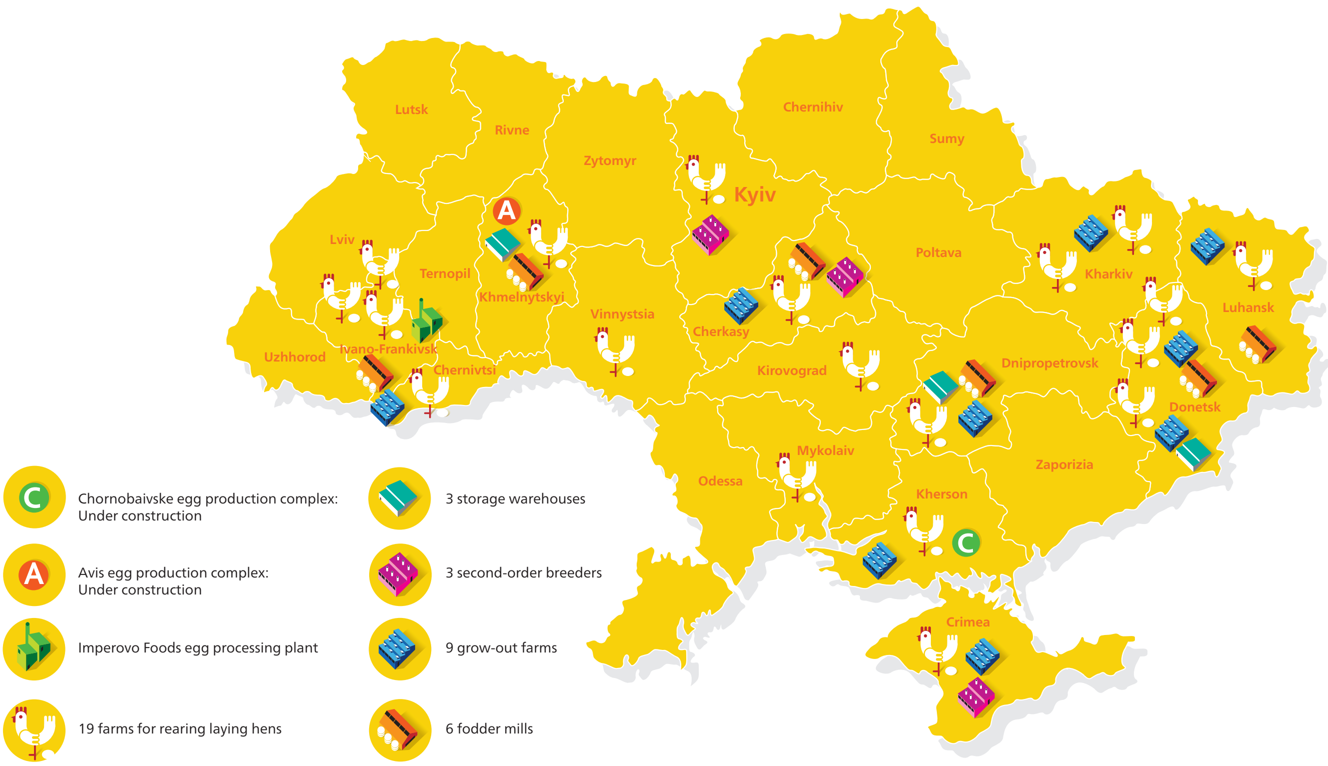


Who we are

Avangard, a major agro-industrial holding company in Ukraine, specialises in the production and distribution of eggs and egg products. Established in 2003, within seven years we not only became the market leader in Ukraine but also exported our products to **15 countries around the world**. In 2010, Avangard listed on the London Stock Exchange and completed the placing of a five-year US$200 million Eurobond. At the end of that year, we had a **43% share** of Ukraine's market for industrially-produced eggs and a **79% share** of its market for dried-egg products.



Avangard operates production facilities, which were all upgraded between 2007 and 2009, in 14 of the **24 regions of Ukraine** and the Autonomous Republic of Crimea. In 2010 we had approximately **18.9 million laying hens**, which produced more than **5.2 billion eggs**. The introduction of two new poultry facilities is scheduled to increase production **by 32%, to 6.8 billion** eggs a year, by 2012.



Who we are

Avangard Agroholding Company, which currently employs more than **5,000 people**, exercises the principles of corporate social responsibility by creating new jobs in Ukraine and by being involved in the social life of the regions in which it operates.

Avangard's mission is to improve the quality of life of the people of Ukraine by offering high-quality and environmentally-safe products at affordable prices.

Our objectives include:

- consistently improving the **quality** of the products and services we offer;
- increasing the Company's reputation as a reliable producer, supplier and partner;
- developing our business based on the principles of social and environmental responsibility.

Our principal values are **quality, stability and reliability**. We appreciate the potential of our employees and guarantee them adequate compensation, and working conditions that conform to rigorous international standards.

Our principal goal is to build on our **leading positions** in the Ukrainian market and to expand and secure our presence in the world market. We intend to become one of Eurasia's largest producers of eggs and egg products by embracing the principles and practices of business conduct in the European Union, by consistently raising performance and by adhering to our chosen strategy.

Company history

2003
Avangard commenced its operations in 2003 following the acquisition of CJSC Avangard and the incorporation of a subsidiary company Avangard-Agro, the state registration of which took place in April 2004, in Ivano-Frankivsk, western Ukraine. The enterprise specialised in the production and sale of eggs.

2004
Avangard continued to follow a growth strategy through the acquisition of Kirovskyi in central Ukraine, increasing its production capacities and geographical coverage.

2005
Avangard strengthened its market position by acquiring the Chernivetska and Avis farms in western Ukraine and Chornobaivske in southern Ukraine, thereby further increasing its production capacities and geographic coverage.

2006
Avangard further expanded its production capacities by acquiring Donetska in southern Ukraine, Makarivska, SC PF Lozuvatska and Slovyany in central Ukraine, and Rohatynska and Gorodenkivska in western Ukraine. Avangard constructed the Rohatyn-Korm and Kamyanets-Podilsky fodder mills.

2007
The Company was incorporated on 23 October 2007 under the laws of Cyprus, to serve as the ultimate holding company for Avangard. Avangard acquired the Bohodukhivska and Ptytsecomplex farms for laying hens and further increased its production capacities by the construction of farms including SC Chornobaivske, SC PH Donetske, SC Zorya, SC Volnovaske, SC Yuzhnaya-Holding, SC Chervonyi Prapor and SC PH Lozuvatske – for rearing young laying hens. Avangard acquired the Pershe Travnya, Volnovaska, Yuzhnaya-Holding, Chervonyi Prapor, Zorya and Cross, Vuhlehirskyi and Volnovaskyi KHP fodder mills.

2008
Avangard launched a non-convertible five-year bond in an amount of UAH200 million (US$26 million). Avangard acquired Interbusiness and Areal-Snigurivka. The Imperovo egg processing plant started operations (although it was not part of the Group at this stage). Avangard completed the construction of its long-term storage facilities in Donetsk, Dnipropetrovsk and Khmelnytsk regions, which enabled it to increase its long-term storage of eggs to 180 days. Avangard focused its efforts on the construction of the Avis and Chornobaivske egg-production complexes. Avangard obtained approval for the consolidation of most of the Group companies.

2009
The Imperovo egg processing plant joined the Group.

2010
In May 2010 Avangard raised US$208 million from its IPO on the London Stock Exchange.

On 29 October, the Company placed US$200 million 10% Notes, due 29 October 2015.

2010 achievements

Strong financial performance

- In May 2010, Avangard listed on the London Stock Exchange. Our IPO raised US$208 million for the construction of two new complexes, Avis and Chornobaivske, in the Khmelnitsky and Kherson regions. The completion of these poultry facilities, scheduled for late 2011, will significantly increase our production capacity. We estimate that, when they are fully commissioned, their total capacity will enable us to produce around an extra 1.68 billion eggs a year.
- In October, 2010 Avangard placed the first issue of five-year Eurobonds, worth US$200 million with an annual yield of 10%.
- Revenues increased by 36% to US$440 million (2009: US$320 million).
- EBITDA grew by 28% to US$194 million (2009: US$152 million).
- EBITDA margin amounted to 44% (2009: 48%).
- Net profit increased by 38% to US$185 million (2009: US$134 million).
- Net profit margin reduced to 42% (2009: 42%).
- Net debt was US$78 million or 0.4x EBITDA (2009: US$103 million or 0.7x EBITDA).

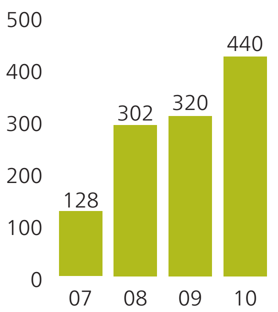
A detailed analysis of 2010's financial performance is on pages 23-26.

Strong operating results

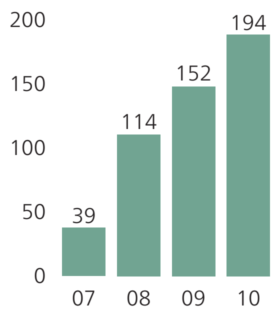
- Egg output increased by 22% to 4,420 million eggs (2009: 3,634 million).
- The number of laying hens increased by 51% to 24.3 million (2009: 16.1 million).
- The average egg price rose by 2% to UAH0.57 (2009: UAH0.56) (excl. VAT).
- In 2010 Avangard exported eggs and egg products to 15 countries, particularly to the Middle East, North Africa and Asia.
- Export of eggs accounted for 5% (US$14.5 million) of total sales of the holding company. Exports of egg products accounted for 74% (US$67 million) of total sales.
- Sales to supermarket chains increased from 2% to 16% of total sales of eggs. We expect sales to supermarkets to continue to increase.
- Construction of two new production complexes, Avis and Chornobaivske, continued to schedule. These facilities are expected to come into operation in 2011.
- On 24 August 2010, Fitch Ratings assigned the following ratings to Avangardco Investments Public Limited, Ukraine: long-term issuer default rating (IDR) in foreign and national currencies, B; and a sovereign long-term rating of A+ (Ukr). The outlook for long-term IDR and long-term sovereign rating is "stable".
- On 8 October 2010, Fitch Ratings assigned a priority unsecured foreign currency rating of B to bonds issued by Avangardco Investments Public Limited.

Financial highlights

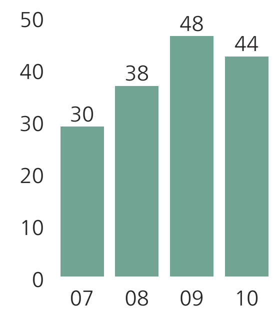
Revenue US$m



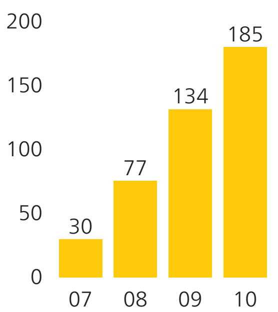
EBITDA US$m



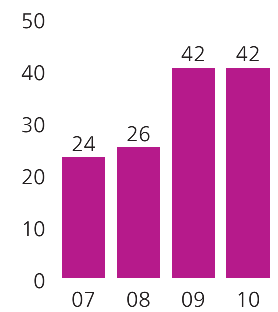
EBITDA margin %



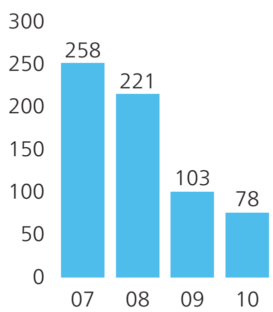
Net profit US$m



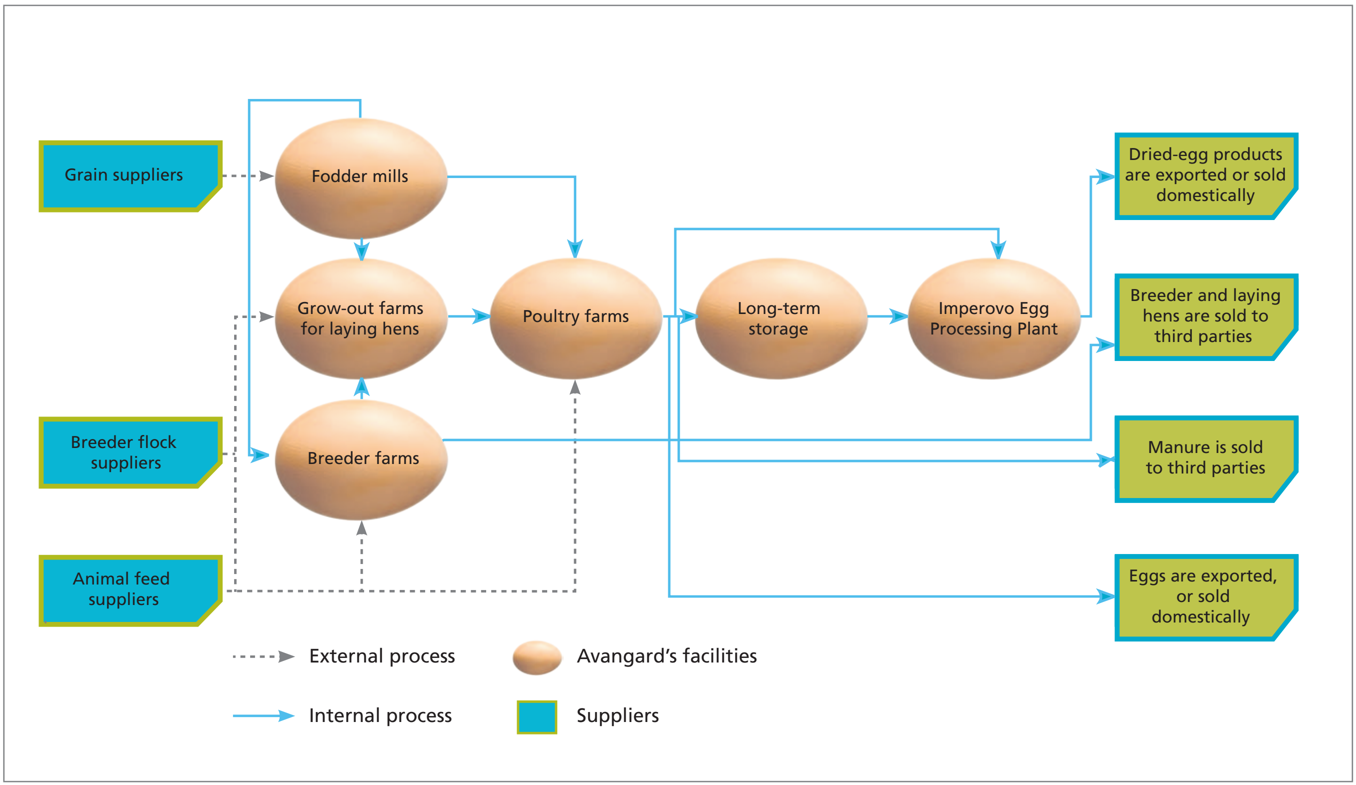
Net profit margin %



Net debt US$m



Our vertically-integrated business model



Advantages of vertical integration

- Efficient cost management
- Efficient monitoring at each production stage
- Strict compliance with biosafety standards
- Efficient quality assurance of products
- Synergy achieved through business diversification

Our vertically-integrated system

- Laying hens are kept in 19 facilities and young poultry is reared in nine areas.
- The Company has three breeding and hatching facilities which meet 100% of its demand for day-old chicks.
- Approximately 83% of the feed the Company requires is produced by its own feed mills. The rest, and all the grain used in making feed, is bought from third parties.
- Imperovo Foods' processing plant meets our processing needs. Its production capacity can be increased from the existing 3 million to 10 million eggs a day.
- Our long-term storage warehouses help to minimise the risk of seasonal change in demand and the risk of price fluctuation.
- Highly-automated systems, and the use of the latest equipment and modern technology, ensure high-quality products at minimum cost.
- All products are sold through wholesalers and retailers in the domestic market, or are exported.
- The Company sells day-old chicks to third parties; it also sells laying hens at the end of their reproductive cycle for further processing in the meat industry.

Key fact

Avangard's market share of industrially-produced eggs in Ukraine almost doubled over three years: from 29% in 2008 to 43% in 2010. During that period, our market share of dried-egg products also rose, from 9% to 79%.

Our markets

The world market
Avangard is active in the world egg market, which is growing steadily both in the number of eggs produced and in financial terms. According to data from the Food and Agriculture Organisation of the United Nations (FAOSTAT), the world market increased by 15.2% between 2004 and 2010 – from 55.4 million tonnes to 63.8 million tonnes – and almost doubled in value.

Demand for eggs and egg products – one of the cheapest sources of protein – was stable during 2010. Consumption increased significantly in Asia and in the MENA (Middle East and North Africa) region. This increased demand required a concomitant increase in these countries' imports: over the past seven years, according to FAOSTAT, imports worldwide increased by a factor of 2.7 in financial terms, while imports of dried-egg products increased by 89.4%.

World demand for dried-egg products is increasing for two principal reasons:

- there is an increased demand for foods, including confectionery and baked goods, which use dried egg in their production; and
- since dried eggs weigh less and have a longer shelf life, they are cheaper to transport.

One of the areas with the greatest potential for developing our worldwide business is the MENA region, which has a population of 420 million and is characterised by:

- rapid population growth – several countries in the region have doubled their population over the past 20 years;
- 60% of these populations live in urban environments;
- an increase in the middle class, which has greater purchasing power;
- low egg consumption: in the MENA region it is currently 90 eggs per capita, against a world average of 152.

According to a report by Pro-Consulting, egg imports in the MENA region are expected to reach 536,000 tonnes by 2012, 5.5 times higher than 2006's figure of 97,000 tonnes.

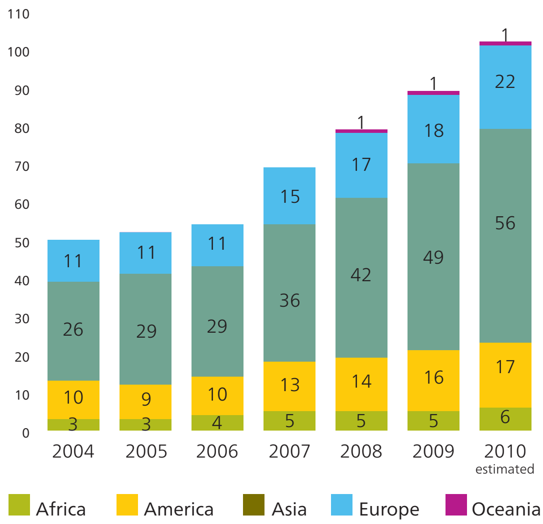
The Ukrainian market
Data from the State Statistics Committee reveals that over the past eight years, Ukraine's domestic market increased by 48.5%, from 11.5 billion eggs in 2003 to 17.0 billion eggs in 2010. In addition, eggs produced at homes and farms fell – from 42% in 2009 to 40% in 2010 – while consolidation of industrial producers of eggs continued: according to data from the Ukrainian Poultry Husbandry and Industry Association (Ptakhoprom), the number of producers decreased from 156 in 2003 to 98 in 2010.

A new record in the production of dried-egg products was set in 2010: the total of 13,000 tonnes was 3.1 times more than in 2009 and 2.4 times more than in 2008 (data from Pro-Consulting). This significant increase was as a result of increased demand (after a period of crisis) and of an increase in exports by Ukraine's principal producers, including Avangard.

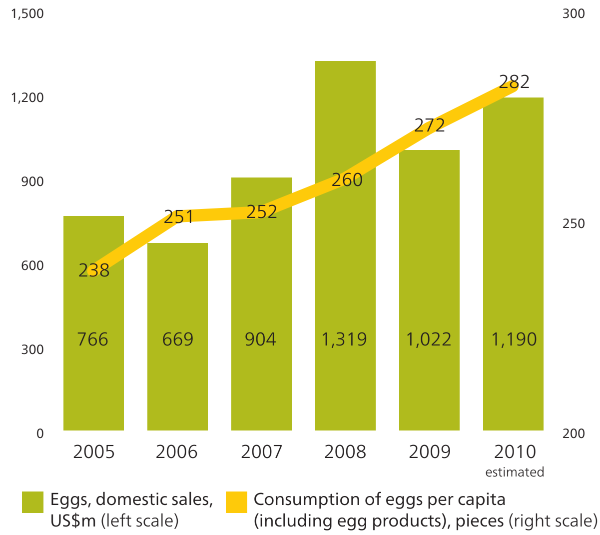
Egg consumption per capita continues to grow in Ukraine, despite a decline in the population's real income: data from the State Statistics Committee revealed that over the past eight years it increased by 31.8% – from 214 per capita in 2003 to 282 in 2010 – and that the upward trend in sales continues. Over the past six years, sales increased by 1.6 times – from a value of US$776 million in 2005 to US$1,190 million in 2010 (data from Pro-Consulting).

We now plan to expand our markets, particularly following the Russian Federation's lifting of its ban on imports of animal products from Ukraine.

Global market (in producer prices), US$bn



Ukrainian market



Chairman's statement

I am pleased to report that 2010 was a defining year in the development of Avangard's business: we strengthened our leading position in the Ukrainian market and expanded our potential in world markets. Our successful IPO on the London Stock Exchange, and the issue of five-year Eurobonds, not only contributed to our international profile, but also provided the proceeds for future investment.

Results
During 2010 an increase in capacity enabled us to make a significant improvement in production volume: we increased the number of laying hens in 2010 by 34% and, by the end of the year, annual production capacity had risen to 5.3 billion eggs. By 2012 – when our two new production complexes will have become operational – we expect that to increase to 7 billion. Our vertically-integrated production process, combined with the use of modern technology and careful monitoring of our operations, enabled us to optimise our cost structure and to ensure that our products were of a consistently high quality.

This had a positive effect on the Company's financial results. Our earnings for the year increased by 38% to US$440 million and net profit increased by 38% to US$185 million. EBITDA improved by 38%. As a result of these significant achievements, I am extremely satisfied with the development of the business and with our chosen strategy.

Strategy and markets
Our strategy is based on long-term planning; the setting of clear goals and the selection of a professional team to achieve them; as well as on the fundamental concept of the business. Demand for eggs – the cheapest source of protein – is very high in Ukraine and in developing countries. There is every reason to believe that, in terms of security of food supply, over the next few years eggs will become the world's most reliable source of protein.

An important element in Avangard's long-term strategy is, therefore, to increase exports and to expand internationally. We currently sell our products in 16 countries (including Ukraine) and pay particular attention to marketing to Middle Eastern, North African and the Asian countries, where demand for eggs and egg products is traditionally high. In addition, during 2011 we expect to achieve authorisation to export to the markets of EU and Russia. The quality and price of our products, combined with our proximity to both these areas, gives us a competitive advantage.

Ukraine continues to be a strategically important market in which our goal is to maintain our leading position with a 40% share of industrially-produced eggs. The launching of two new production complexes, Avis and Chornobaivske, the diversification of our business through the construction of biogas plants, brand development, and the strengthening of our marketing, are all steps in realising our chosen strategy.

Dividend policy
Avangard is not planning to pay a dividend in the next five to six years. We expect the business to grow significantly until 2016. In the near future we plan to make a Secondary Public Offering (SPO) to improve liquidity by increasing the number of shares on the market.

Corporate governance
Avangard Investments Public Limited, the holding company, is registered in Cyprus and is not, therefore, subject to the UK's Combined Code on Corporate Governance. We have in place an effective corporate governance policy which complies with our overall strategy and enables us to manage the Group effectively.

The Board of Directors comprises six directors – the Non-Executive Chairman, three Executive Directors (Chief Executive Officer, Chief Financial Officer, Head of Business Development), and Administrative Officer, and one independent Non-executive Director. Initially, we plan to hire one more independent director in 2011. The knowledge and experience independent directors bring to the Company makes a significant contribution to our development and to our entry into new markets.

Our people
Avangard is one of the largest companies in Ukraine's agro-industrial sector. We currently employ more than 5,000 people and, as our new facilities come into production, that number will increase. The education, skill and experience of each employee contributes to our development, and our ability to attain our targets, and I thank them all for their contribution and the quality of their work. We offer good working conditions, excellent welfare and adequate compensation.

Outlook
During the next three years, our plan is to export 40% of our total production. This will have a positive effect on our financial and operational results, will increase capitalisation, and will decrease political and economic risks. I am confident that our entire team will make every effort to ensure that Avangard continues with its dynamic development and becomes a major multinational company.

Oleg Bakhmatyuk
Chairman of the Board of Directors

Chief Executive Officer's review

Achieving our objectives

As the Chief Executive of Avangard, I have set myself some clear objectives: expansion of the business, strengthening the export potential of our products, improving our financial and operating results, and the effective start-up and development of investment projects. It is by these that we measure the progress of our business.

Strategy
Our principal strategy is to become one of the world's leading producers and exporters of eggs and egg products while, at the same time, maintaining our position as the leader in the Ukrainian market.

We also have a sound strategy for growth which has enabled us to achieve our current success and which we will continue to follow. The efforts of our well co-ordinated and efficient management team will ensure that the achievement of our goals will be reflected in our business and its capitalisation, in building our reputation, and in strengthening our position in domestic and foreign markets.

One of the key events of 2010 was our entry into global financial markets through an IPO on the London Stock Exchange – the largest placement by a Ukrainian company in London over the past three years – and the issue of Eurobonds.

Avangard's strategic goal is to build on its leading position as a major agro-industrial holding company in Ukraine, to develop the export potential of its products, and to expand internationally by entering promising markets of developing countries. In our drive to achieve this, in 2011 we aim to:

- increase exports of eggs and egg products by 30%;
- strengthen our positions in the Middle East and North African markets and increase sales;

- increase egg sales to supermarket chains;
- complete the construction and commissioning of industrial areas at the Avis and Chornobaivske complexes;
- increase egg output by 32%, to 6.4 billion a year;
- commission and launch two biogas plants;
- promote partnerships with major transnational food companies (including Nestlé).

Business

Our operations are in line with our general strategy for growth: in a single year we increased our production by 22%, the number of laying hens by 34%, and export sales by 22%. Our new facilities at the Avis and Chornobaivske complexes will enable us to increase production still further. The additional 1.6 billion eggs they will produce each year, will enable us to accelerate our export drive. An eventual doubling of exports, from the current 22% to 40% over the next few years, will enable us to manage effectively the risks of fluctuations in exchange rates, overproduction, and seasonal price variations, which result from reduced demand for eggs and egg products. Each year, as an insurance against fluctuations in grain prices, we sign forward contracts for the grain we need to produce mixed feed.

The operating results in all our activities are evidence of the success of our targeted strategy for growth.

We are not currently considering any potential acquisitions – in Ukraine or abroad. The construction of our two new production facilities will enable us to meet the objectives we have set ourselves, including the development of new markets. We already sell egg products in 16 countries and, in 2011, plan to extend that to the European Union, Russia and the Middle East, as well as continuing to increase our client base in the promising Asian markets.

In our domestic market, our objective over the next few years is to increase egg sales to supermarket chains and other retailers from 16% to 30%. To achieve that, we are developing a new national egg brand, "Kvochka", and are increasing our marketing budget.

The market

There are no competitors in Ukraine which are capable of making a serious impact on our market position. Our 43% share of the industrially-produced egg market (and nearly 26% on the national market), puts us in a different category from our nearest competitors, which control between 2% and 5% of the market. Companies in India and China are the world's largest exporters of egg products, but we do not consider that to be a threat. The market potential is enormous: in financial terms, Asian markets are growing by 3% a year, but consumption is growing by 4%.

The competitiveness of our products is beyond question: their quality matches that of European companies (this is confirmed by our partners, including the Nestlé corporation) and they are considerably cheaper.

Our management team's focus on growth is based on our competitive advantages:

- a steady increase in gross production;
- an annual increase in the number of laying hens;
- control of production costs and the ratio between price and quality;
- vertical integration of the production process;
- highly profitable operations;
- strict biosecurity standards.

The commissioning of two biogas plants, planned for late 2011, is an effective combination of food production and energy generation. It will not only enable us to optimise our own spending on electricity, but will also become a new source of income. In addition, a first in Ukraine, we plan to use a "green tariff" mechanism.

The main factors are, I believe, positively reflected in Avangard's work and capitalisation:

- leading positions in the rapidly-growing egg and egg-products markets, the potential of which are still far from exhausted;
- a dense geographic coverage of production facilities in many regions of Ukraine;
- a balanced structure in Ukraine – from wholesale companies to retailers – and steady growth in the client base abroad;
- potential for further growth in exports;
- vertically-integrated production, which makes it possible to cut costs and ensure quality control;
- modernised production lines at the production facilities and our own certified laboratories;
- high biosecurity standards;
- a highly-skilled and experienced management team and an efficient centralised system for managing the holding company;
- impressive financial results.

Financial results

In 2010, all key financials were positive, and growth in revenue, net profit, EBITDA and profitability exceeded our expectations. The financial statements presented in this annual report prove that our business and operational strategies are on target and in line with market realities. The potential of the world market gives us reason to believe that, in the long term, our business will continue to grow at an even greater rate.

Today Avangard is a financially stable, highly profitable and strong company, which follows a defined strategy. Stability and growth are our main assets. I am confident that we will continue to be the undisputed leading agrobusiness in Ukraine.

Nataliya Vasylyuk
Chief Executive Officer

Strategy outline

Slovyany breeder farm

Brand promotion

Avangard currently has five registered trademarks for its eggs and egg products. The strong position of our regional brands underscores our reputation as a producer of high-quality, reliable products and helps us to maintain our pricing strategy. We continue to strengthen our marketing efforts by increasing advertising budgets for further brand development.

In 2010 we launched an own-label programme with our leading retail partner, Fozzy Foods, and plan to roll out this programme with other major operators of retail networks.

In the second half of 2010 we launched the national egg brand, "Kvochka" ("Broody hen").

Avangard's strategic goal is to strengthen its positions as the leading agro-industrial holding Company in Ukraine, to develop the export potential of its own products and to expand internationally by entering new and promising markets in developing countries.

Our strategy

- Increase exports of eggs and egg products
- Increase production capacity and develop the effectiveness of the production process
- Expand the Company's customer base
- Diversify the business by launching biogas plants
- Develop and promote the Company's brands

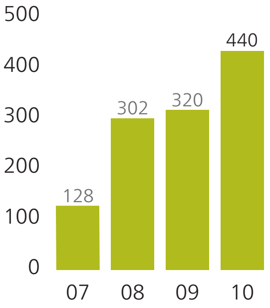
Key objectives for 2011

- Increase exports of eggs and egg products by **30%**
- Strengthen and increase sales in the Middle East and North Africa markets
- Obtain the necessary permits to enter EU markets
- Enter the Russian market
- Increase sales of eggs to supermarkets
- Complete construction and launch the Avis and Chornobaivske production complexes
- Increase egg production by 32% to **6.8 billion** per year
- Commission and launch two biogas plants
- Strengthen partnerships with major transnational food corporations (such as Nestlé)

Key Performance Indicators (KPIs)

Financial and operating indicators

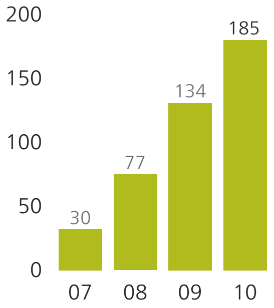
Revenue, US$m



Strategy
To use revenue as an indication of the size of the Company's business and its potential for growth. Revenue growth is one of the clearest indicators that the Company is developing in line with its strategy.

Performance
Revenue, which has increased three-fold to US$440 million shows the expansion of the business.

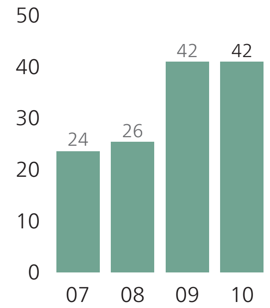
Net profit, US$m



Strategy
To consider net profit as an accurate measure of how well the Company is performing and meeting its strategic goals.

Performance
As a result of optimising costs and of its vertically-integrated production system, since 2007 the Company has increased net profit approximately six-fold, against a three-fold increase in revenue.

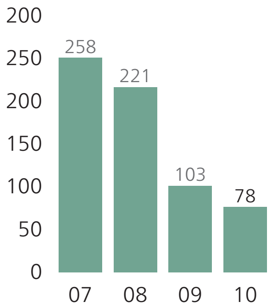
Net profit margin, %



Strategy
To increase profit margin by entering new high-margin markets and to maintain our products' competitive advantage.

Performance
Increasing volumes of manufacturing resulted in increased profitability.

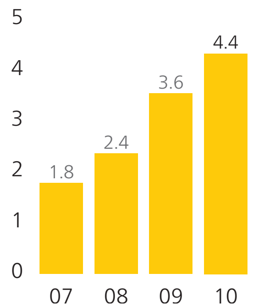
Net debt, US$m



Strategy
To maintain a comfortable level of debt and to service it in a timely manner.

Performance
Avangard decreased its net debt position to 0.4x EBITDA between 2007 and 2010. The Company safeguards its reputation through careful financial management.

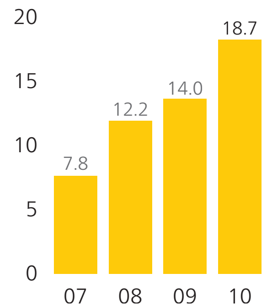
Output, eggs, billions



Strategy
To increase output to enable the Company to meet its objective of strengthening exports and expanding the markets in which it operates.

Performance
Each year the Company has increased capacity by 30-50% by developing the potential of existing facilities and building new ones. Construction of modern industrial complexes, will increase production by one-third to 6.8 billion.

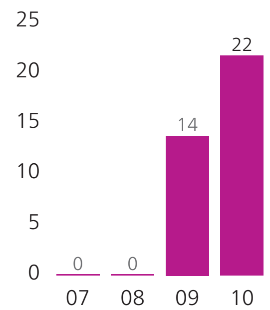
Number of laying hens, millions



Strategy
To increase output by increasing the number of laying hens. To use its vertically-integrated production system to provide a 100% pedigree population and to ensure strict veterinary and phytosanitary monitoring.

Performance
In 2010 the number of laying hens increased by 34% to 18.7 million. The Avis and Chornobaivske complexes, which will be launched in 2011-2012, will increase the number to 24.9 million.

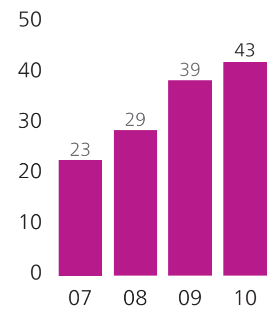
Export sales of eggs and egg products as % of total sales



Strategy
To increase exports as a percentage of total sales by developing our client base abroad.

Performance
In 2009-2010 export sales increased dramatically, from 14% to 22%. Products were exported to 15 countries in the Middle East, North Africa and the CIS.

Share of Ukraine's industrially-produced egg market, %



Strategy
To become the leader in the Ukrainian egg and egg-products market and to maintain its market positions by expanding direct sales to large wholesalers and supermarket chains.

Performance
The Company achieved its goal: it now controls 43% of the industrially-produced egg market and is the largest company in the market.

A leading business

Number “1” in Ukraine
Avangard is a leading player in the large and dynamic egg and egg-products market in Ukraine, where increasing consumption and higher incomes offer significant prospects for further growth.

Country-wide cover
The location of our production facilities, in 14 regions of Ukraine, and the Autonomous Republic of Crimea, enables us to simplify the distribution of our products – through wholesalers and large retail networks – to manage logistics costs and to control the quality of our products which are bought by consumers.

Exports to 15 countries
Avangard is Ukraine’s largest exporter of eggs (52% of exports) and egg products (97% of exports).

Our activities

Avangard, a major agro-industrial holding company in Ukraine, specialises in the production and distribution of eggs and egg products. In 2010, we held a 43% share of the market for industrially-produced eggs in Ukraine and produced 79% of egg products. Our production facilities are located in 14 of the 24 regions of Ukraine, and the Autonomous Republic of Crimea.

Our products

While Avangard principally specialises in the production and distribution of eggs and egg products, its business comprises five main divisions:

1) Eggs

Eggs are our principal product. In 2010, egg production and distribution was responsible for around 63.7% (US$280.3 million) of total sales (excluding inter-Group sales). Our eggs are sold on the Ukrainian market and are exported to Jordan, Turkey, Saudi Arabia, Kuwait, Indonesia, Thailand, South Korea, Oman, Pakistan, Iraq, Syria and some CIS countries, including Moldova, Georgia, Armenia, Kazakhstan and Azerbaijan. Our current capacity enables us to produce 5.2 billion eggs a year; the launch of the additional facilities, Avis and Chornobaivske, will increase our capacity by around a third, to 6.8 billion eggs a year.

In the future, we expect revenue from this division to represent a larger proportion of total sales as we increase the quantity of eggs produced to meet the demand of an increase in the production of egg products.

2) Egg products

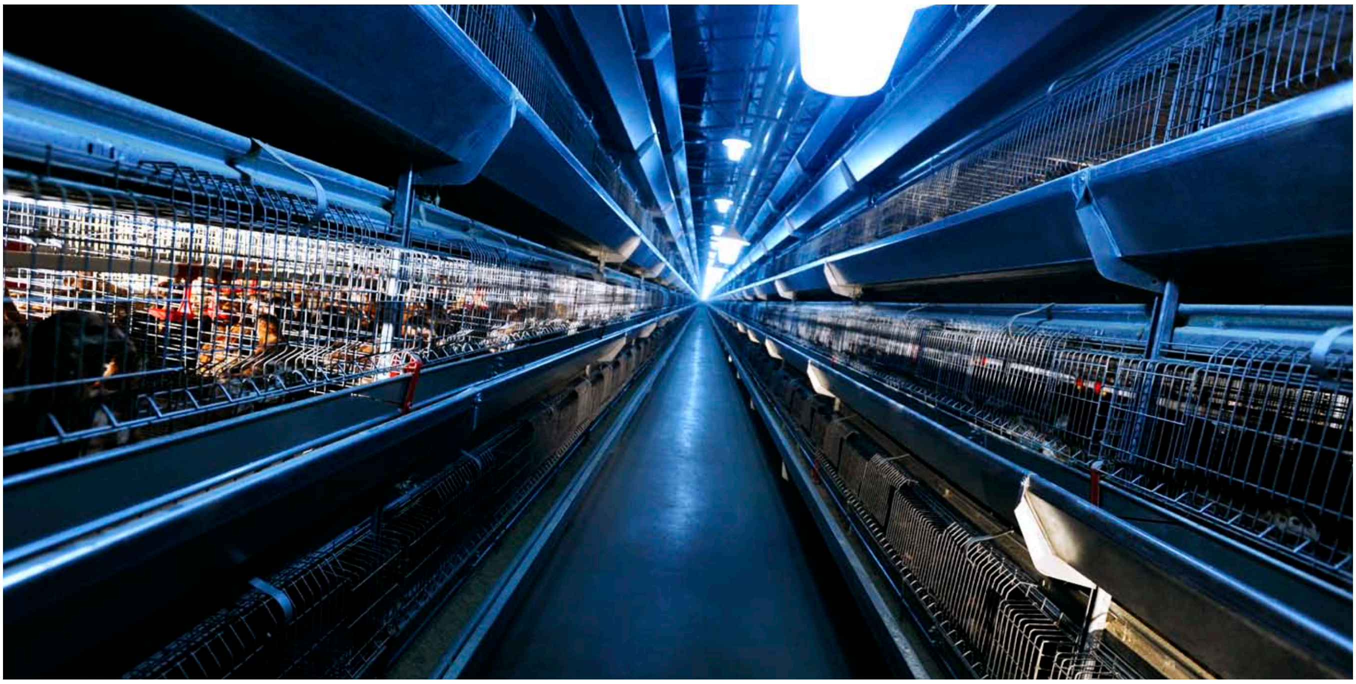
A proportion of the eggs we produce are used by Imperovo Foods – a company that became part of the Group in 2009 – to make dried-egg products. In 2010, this division generated 20.7% (US$91.0 million) of total sales. Imperovo Foods currently processes 3 million eggs a day. The bulk, 74.4%, of our egg products are exported to 15 countries, with the remainder being sold in the domestic market. Egg-product exports earned US$67 million in 2010.

In the next couple of years we expect revenue from the sale of egg products to grow from 20.7% to 30-40%, primarily through increasing exports.

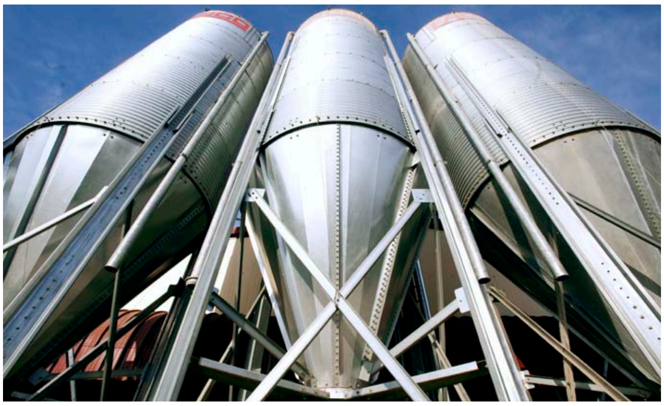
3) Poultry

In 2010, production and distribution of poultry (including day-old chicks, young poultry and pedigree laying hens which have completed their production cycle) generated 11.1% (US$48.8 million) of total revenue. This division is not, however, among Avangard's top priorities and we expect the percentage of revenue from this division to decline as sales of day-old chicks, young poultry and pedigree laying hens decline, in line with our increasing need for stock to meet our output of eggs and egg products.

Avis, grow-out farm



Our activities



Avis, grow-out farm

Avis, farm for rearing laying hens

4) Mixed feed
Mixed feed plants are an important element in our vertically-integrated production model. Today, we use almost all the mixed feed we produce, although a small proportion is sold to third parties. Sales in 2010 generated 1.2% (US$5.3 million) of Group revenue (excluding sales to Group companies). We expect revenue from sales of mixed-feed to continue to be low as our increasing population of laying hens will consume the vast majority of the feed we produce.

5) Other products
This division, which involves the production and distribution of goods and services, and the sale of poultry carcasses and litter, is again not a priority for Avangard. During the most profitable period, we freeze poultry carcasses for later sale, but we do not sell ready pre-packaged poultry to retailers. In 2010, this division generated around 3.3% (US$14.4 million) of total revenue and we do not expect this to increase substantially.

Key fact
In 2010, Avangard was responsible for 97% of exports of dried-egg products, and 52% of exports of eggs from Ukraine.

Production capacity
Avangard, which has the most advanced production facilities in Ukraine, considers vertical integration to be a key element in its strategy: vertical integration ensures high-quality products and reduces production costs through economies of scale. Our goal is to introduce integrated monitoring systems at all production sites.

- Egg production facilities
  We own 19 vertically-integrated facilities for egg production. In 2010 our laying hens produced around 4.4 billion eggs (22% more than in 2009). To support these facilities, we own three second-order reproducers, nine areas for rearing young laying hens and six mixed-feed plants. We also operate three warehouses for long-term egg storage. We believe that vertical integration helps us reduce production costs, maximise co-ordination and control of all production stages, and consistently improve the quality of our products. We buy day-old pedigree chicks from a third party, Hy-Line International. We are significantly expanding our production capability by building two new complexes which will be incorporated into our existing sites at Avis, in the Khmelnitsky region, and Chornobaivske, in the Kherson region. When operating at full capacity each of these new complexes is forecast to produce about 840 million eggs a year.

- Egg processing facilities
  We manufacture dried-egg products at our Imperovo Foods plant, in Ivano-Frankovsk region. Imperovo, which currently processes 3 million eggs a day, is one of the most technologically-advanced plants for processing egg products in the CIS countries. We plan to expand the plant's capacity to process 10 million eggs a day.

Biogas plants
The new facilities, Avis and Chornobaivske, which are scheduled for completion during 2011, will include mixed-feed plants, other production sites, and biogas plants. The biogas plants will process poultry manure, and slaughterhouse and other animal waste in the production of valuable biological fertilisers, heat and biogas (a type of biofuel). We plan to generate electricity for sale as well as to meet our own power needs at the new complexes. Our ability to apply "green rates" to the sale of electricity to the Ukraine national grid will make us a contender in a variety of national and international environmental projects. During 2011, capital expenditure of approximately US$155 million will be needed to complete the construction of the Avis and Chornobaivske complexes, as estimated. VadoGroup and GHD USA have been contracted to supply the equipment for the biogas plants.

Domestic and export sales
Eggs and egg products made by Avangard are sold to national wholesalers and large retail networks, or exported. We sell our products to more than 820 companies in 16 countries of the world, including Ukraine.

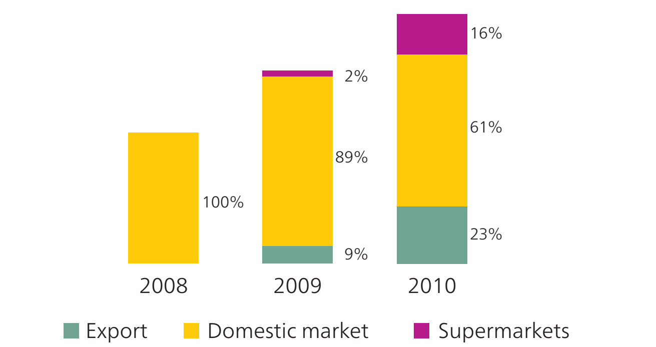
In 2010 national wholesalers accounted for about 78% (US$2.2 million) of total egg sales, with supermarket networks and other retail stores accounting for about 16% (US$43.8 million) and supermarkets and other retail shops 1% (US$2.7 million). Exports of eggs reached 5% (US$14.5 million).

In 2010, about 74% (US$67.1 million) of our egg products were exported; the rest were sold, on a wholesale basis, on Ukraine's domestic market.

One of our principal strategic goals is to increase exports. During the year, we exported eggs and egg products to Jordan, Turkey, Saudi Arabia, Kuwait, Indonesia, Thailand, South Korea, Oman, Pakistan, Iraq, Syria, and to some CIS countries, such as Moldova, Georgia, Armenia, Kazakhstan and Azerbaijan. In 2011 we plan to develop our Middle-Eastern and African business by selling to the United Arab Emirates and Egypt, and to enter the markets of the EU and Russia. Our aim is, in the future, to increase exports to represent 40% of total revenue.

Cost of sales
The cost of sales includes raw materials, labour and other employee costs, depreciation, and services provided by third parties. While this figure increases each year as output grows, the percentage of revenue it represents generally reduces: in 2010, cost of sales went down to 70% of revenue (2008: 77%).

Sales by distribution channels, in egg equivalent (volume)



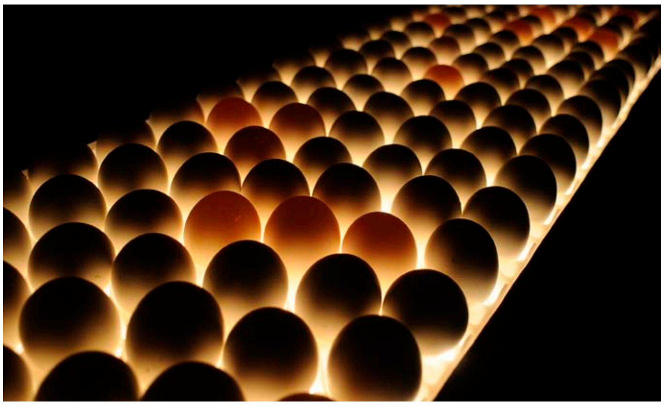
Profit margin
Over the past four years we increased our profit margin substantially, from 26% in 2008 to 42% in 2010. This was the result of:

- a high degree of vertical integration, particularly the manufacture of our own mixed feed;
- the use of modern technology to reduce production losses, minimise human error and reduce man-hours;
- the increase in productivity resulting from the use of pedigree stock, supplied by Hy-Line International (UK) Limited;
- the favourable impact of long-term partnerships with suppliers;
- our ability to optimise and create reserves of raw materials (including grain) during a "low-price" period and to manage the stock of finished products effectively so that they can be sold during a "high-price" period;
- effective sales and the maintenance of high margins achieved through strong regional brands, a reputation as a producer of high-quality products, and the ability to supply large customers;
- government subsidies and exemption from VAT, even though this reduced markedly in absolute and relative terms in 2009-2010.

16%

Key fact on Avangard
Sales to supermarkets increased from 2% to 16% of total egg sales in 2010.

Our activities



Incubating eggs at Slovyany breeder farm

Avis, our farm for rearing laying hens

Biosecurity

Avangard employs a wide range of biosecurity measures to minimise the risk of an outbreak of disease: poultry populations are kept in closed premises at production sites; their condition is monitored on a daily basis in terms of Core CPI; access by personnel to sites is rigidly controlled; vehicles and employees at the poultry facilities are disinfected; and the health of Avangard's workers is monitored regularly.

In accordance with international best practice, Avangard houses poultry of the same age together to prevent the transmission of disease from older to younger flocks. In addition, we follow the practice of using a large number of geographically-dispersed poultry yards to ensure that any outbreak of disease can be localised quickly. Production lines at all our facilities are disinfected regularly.
All employees responsible for the operation of production facilities undergo a mandatory training course and regularly attend training modules on biosecurity systems and their management/control.

Avangard follows vaccination recommendations by inoculating all newly-hatched chicks against Newcastle disease, Marek's disease, bronchitis, infectious Bursal disease, and other diseases, as required by Ukrainian law. We have never had an incident of bird flu, Newcastle disease or Marek's disease.

In addition, we have instituted tough biosecurity measures at our mixed-feed plants, including restricted access, the installation of disinfection barriers, the disinfection of warehouses, and regular selective monitoring of incoming raw materials and outgoing finished products by in-house and regional laboratories.

Avangard has 23 unaccredited in-house laboratories which are regulated by Ukrainian Law on Veterinary Medicine. The Company employs around 120 vets.

Key fact

Avangard's facilities are currently developing and introducing the ISO's Quality Management and a Food Safety Management System. In the course of 2008 and 2009 Imperovo received ISO: 9001:2008, ISO 9001:2000 and ISO 22000:2005 certificates.

A quality business

Modern production
The use of advanced technologies and high standards of biological and phytosanitary safety enable us to offer high-quality products and, as a result, increase our reputation as a reliable supplier and partner.

Vertical integration
Our vertically-integrated production system reduces costs and ensures quality during each production cycle. To increase our vertical integration, we are currently building two biogas plants; these will use organic waste to produce cheap energy for our own use and for sale to third parties.

Entry to the EU market
We expect to receive approval during 2011 for the export of our egg products to the EU market.

Risk management

Avangard's risk management strategy is designed to ensure a balance between profitability and risk. To achieve that, we have developed an effective process to manage, monitor, control and minimise existing and potential risks.

The key risks facing Avangard's operations are macroeconomic, operational, regulatory and financial.

Country-specific risks

Macroeconomic risk
In the context of political instability in Ukraine, political risk is one of the most significant risks. After declaring its independence in 1991, Ukraine underwent a profound political transformation, from a republic that was part of the former USSR to an independent sovereign nation. This was coupled with a change in the economic model. Formerly operating as a planned economy, Ukraine was accorded the status of a market economy by the EU in late 2005 and joined the World Trade Organisation (WTO) in 2008.

Despite some progress in reforming the Ukrainian economy, its political system and judiciary, the legal infrastructure and legislation cannot be described as perfect. In addition, the Ukrainian economy and, particularly, its GDP growth rates were strongly affected by the global economic crisis of 2008-2009. In 2009 Ukraine's GDP fell by around 15.1% compared with 2008. In 2010 GDP dynamics became positive again – the year-on-year growth rate was 3.7% (based on preliminary figures).

Political risk
The rate of economic, political and legal transformation has been negatively affected by political instability. In recent years, Ukrainian politics have been characterised by confrontation between political parties, as well as between the President and the Prime Minister. After Victor Yanukovich was appointed President of Ukraine in February 2010, however, the political situation stabilised to a considerable degree. Nevertheless, if political instability continues or intensifies it could negatively affect both the Ukrainian economy and Avangard's operations.

Avangard's Chairman says: "Political risk is the most significant risk for business in general. This has always been the case: one can't be successful in an unsuccessful country. Today's political situation offers great opportunities for Ukraine's economic development. The country's agriculture has strong potential for growth to at least double today's volumes."

Regulatory risks

The risk of trade barriers being lifted
Ukraine has introduced import tariffs of 12% for eggs, 5% for incubator eggs, 10% for dried, liquid and frozen yolk products, and 2% for egg-white products. If egg-product tariffs were reduced or cancelled, imports could increase and affect Avangard's financial position.

The risk of changes in the Ukrainian tax system
Ukraine's agricultural producers, including Avangard, are allowed to keep the difference between the VAT consumers pay on agricultural products (20%) and the VAT the producers pay on the purchase of products they need for their everyday operations. In addition, Avangard is allowed to keep the balance for its business needs rather than transfer it to the state budget. As a result, any reduction in VAT on the sale of our products will reduce the VAT income that we retain. Any cancellation, or restriction, of tax benefits currently available could negatively affect our operations.

The risk of government subsidies being withdrawn
The Ukrainian government provides several types of financial support to agricultural producers. In particular, the cost of credits taken out from Ukrainian banks is partially refunded to domestic egg producers. Avangard has been receiving this type of state financial support since 2003.

The difference is in preferential loan terms rather than direct subsidies – lower rates of effective servicing of the credit facility as well as a tax-free regime (no VAT). Avangard's management believes that the tax-free regime and preferential loan terms are unlikely to be withdrawn because such legislative changes would seriously affect the income of millions of families which rent out land.

Operating risk	Potential impact	Risk management
The risk of falling prices and reducing demand for eggs and egg products in Ukraine	The demand for, and prices of, eggs and egg products could be affected by increased output by other industrial producers in Ukraine, unfavourable fluctuations in the prices of eggs and egg products, changes in consumer preferences (seasonal and long-term) and increased imports of egg products. Prices of eggs and egg products are not fixed and are hard to predict accurately.	Avangard hedges against these risks by adjusting egg sales during the "low-price" season, by increasing egg processing and the production of egg products, and by storing surplus products at specialised warehouses. These warehouses maintain the required temperature to ensure optimal conditions for extended storage. Our vertically-integrated production increases effective management of these risks.
The risk of fluctuations in feed grain prices	The purchase of feed grain, primarily wheat and maize, for the production of mixed feed makes up a significant proportion of the cost of production of eggs and egg products. We do not grow these products ourselves and have no plans to do so. Even though we hold reserves of feed grain at our feed plants, we can adjust the prices of our products relatively quickly to cover any increased cost in feed grain. If rising feed grain prices were not coupled with a rise in the price of eggs and egg products, our operations and financial results could be negatively affected.	Each year, Avangard hedges against fluctuations in prices by entering into forward contracts for the purchase of feed grain. During a "low-price" period in 2010 we entered into contracts to buy 540,000 tonnes of grain to cover 70-80% of our needs for the 2010-2011 marketing year.
The risk of poultry disease	Avangard faces the risk of an outbreak of infectious disease in its poultry flocks. To reduce and manage this risk, we take measures, including vitamin supplements and vaccination, to decrease the incidence of disease, and monitor for it regularly.	The Company rigidly controls all possible disease carriers by disinfecting employees daily. Our risk management and quality assurance methods are an effective way of preventing outbreaks of disease and the losses associated with it.
Competition in egg production	Although Avangard accounts for 43% of industrially-produced eggs in Ukraine, the Company still faces competition from other producers of eggs and egg products, as well as from households which produce and sell eggs on the domestic market. In the future we might also face competition from new local and foreign companies in the Ukrainian market. We are committed to developing our operations in export markets where competition-related risks might also emerge.	None of our competitors in the Ukrainian market operates a comparable vertically-integrated production system. Our system enables us to achieve a large output, effective business control and management, a competitive balance between the price and quality of products, and growth in sales in all the markets we cover.

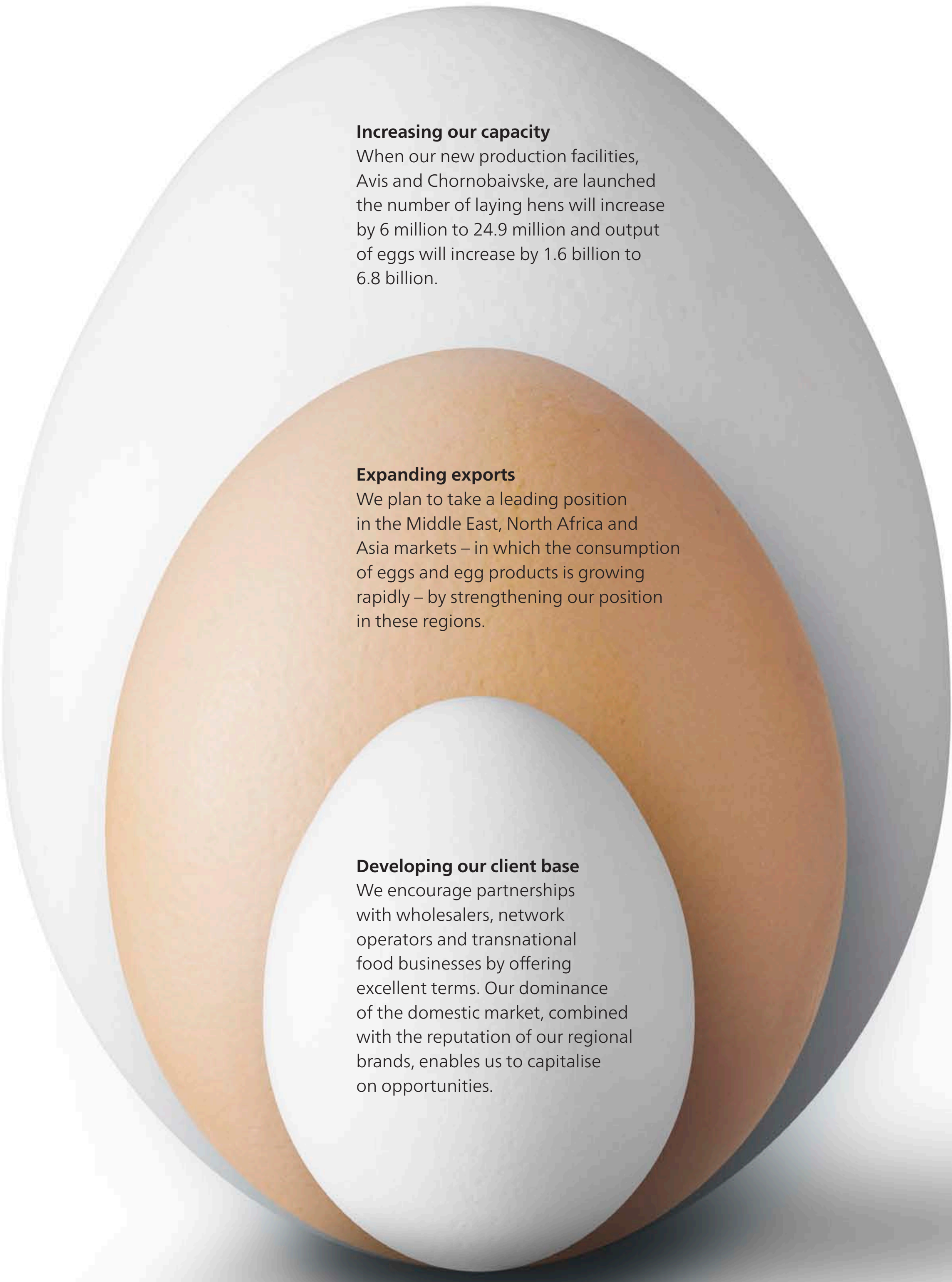
Risk management

Financial risks

When required, Avangard uses financial instruments, not to generate income but to ensure that it has enough funds for its operations. By using financial instruments, including cash and cash equivalents, deposits, financial support, accounts receivable, bonds, bank loans, financial leasing, accounts payable and registered investment certificates, we are exposed to credit risk, liquidity risk and market risk (including currency risk and interest-rate risk, as well as the risk of instability in financial markets).

Financial risks	Potential impact	Risk management
Credit risk	Credit risk is the risk that the Company might suffer financial losses if its client or trading partner fails to perform its contractual obligations. Avangard's main credit risk is related to long-term and short-term deposits	The Company's exposure to credit risk in terms of accounts receivable mainly depends on individual management policies. Avangard's credit-risk management policies provide for systematic work with debtors, including solvency analysis, determination of the maximum risk per client or group of clients and control over timely debt repayment. There were no significant losses caused by clients' non-performance in 2007-2010.
Liquidity risk	Liquidity risk is the risk that the Company cannot meet its financial obligations on the due date.	Our approach to the management of liquid funds is based on ensuring that the Group has sufficient liquidity to perform its financial obligations when due (both in normal and emergency conditions) by avoiding unacceptable losses or the risk of deterioration of its reputation.
Currency risk	Currency risk is the risk of change in the value of financial instruments triggered by fluctuations in the exchange rate of foreign currency against the Ukrainian currency, the hryvnia (UAH).	Most of our transactions are made in hryvnias. Export revenues denominated in US dollars increase each year and we hedge against the risk of fluctuations in the exchange rate. Management does not use derivatives to hedge against currency risks nor does it follow any official policy of distributing risks among assets in a certain currency. When raising new loans and credits, it makes its own calculations and decisions as to what currency is preferable during the expected period before repayment.

A growing business



Increasing our capacity
When our new production facilities, Avis and Chornobaivske, are launched the number of laying hens will increase by 6 million to 24.9 million and output of eggs will increase by 1.6 billion to 6.8 billion.

Expanding exports
We plan to take a leading position in the Middle East, North Africa and Asia markets – in which the consumption of eggs and egg products is growing rapidly – by strengthening our position in these regions.

Developing our client base
We encourage partnerships with wholesalers, network operators and transnational food businesses by offering excellent terms. Our dominance of the domestic market, combined with the reputation of our regional brands, enables us to capitalise on opportunities.

Financial review

Overview of financial results

Avangard, founded in 2003, is Ukraine's largest agro-industrial holding company. It specialises in producing chicken eggs and egg products. In 2010, the Company had a 43% share of Ukraine's industrial egg-production market and a 73% share of its market in dried-egg products. It has production facilities in 14 of Ukraine's 24 regions, as well as in the Autonomous Republic of Crimea.

The Group's production facilities are able to accommodate more than 24.3 million laying hens. In 2010, it produced 4.4 billion eggs, which were sold on the domestic market or were exported to 15 countries abroad.

Operations

The business is structured into several segments. In addition to its principal products of eggs and egg products, the Company produces and sells poultry and mixed feed, and provides other services (see "other activities").

Eggs, produced by Avangard, are sold on the Ukrainian market and exported to other countries. In 2010, income from this activity, at US$280.3 million (2009: US$240.6 million), comprised 64% of total revenue (2009: 47%).

Egg products are primarily exported abroad, but are also sold in Ukraine. In 2010, they accounted for US$91 million of revenue, 21% of the total. Because Imperovo Foods LLC was not acquired until July 2009, 2010's results for this segment cannot be directly compared with those of 2009.

Poultry Avangard also produces and sells chicks, young birds and breeding stock which are at the end of their production cycle. This sector generated income of US$48.7 million –11.1% of total sales income in the year.

Mixed-feed sales amounted to US$ 5.2 million –1.2% of the Company's total revenue.

Other activities covers the sales of other goods and services, including transportation and the sale of poultry manure. This sector earned US$14.4 million – 3.3% of Avangard's total revenue in 2010.

Results in brief

		2010	2009	Change, 2010 v 2009 %
SALES REVENUE	US$m	**439,703**	319,855	37
Gross profit	US$m	157,746	107,143	47
Return on gross profit	%	36	33	
EBITDA	US$m	**193,538**	152,092	27
Return on EBITDA	%	44	48	
OPERATING PROFIT	US$m	**180,901**	139,807	29
Return on operating profit	%	41	44	
NET PROFIT	US$m	**184,758**	133,669	38
Return on net profit	%	42	42	

In 2010, consolidated revenue increased by 37% to US$439.7 million (2009: US$319.9 million), as a result of an increase in production and stronger exports. Gross profit, at US$157.7 million (2009:US$107 million) increased by 47% and the return on gross profit increased by 3% to 36% (2009: 33%). EBITDA, at US$193.5 million (2009:US$152.1 million) increased by 27%, and return on EBITDA was 44% (2009: 48%).

A 38% increase in net profit in 2010, to US$184.7 million (2009:US$133.7 million), resulted from increased production efficiency which, in turn, resulted from the vertical integration of Avangard's business, and from increased exports.

Consolidation of Imperovo Foods

In 2010, the results of the Imperovo Foods egg product processing plant, located in the Ivano-Frankivsk region, were included for the first time in the Group's consolidated accounts. Avangard acquired Imperovo Foods LLC from Cherkassy Poultry Products LLC, in December 2009, for UAH40,000. The Company plans to increase Imperovo's current production of 3 million eggs a day, to 10 million eggs a day.

State subsidies

Since a substantial proportion of Ukraine's population and regions are employed in the agricultural sector, the government has made state support for companies operating in the agro-industrial sector a priority. Companies in the sector enjoyed various types of state support and subsidies in 2010, including special regulations for the payment of value added tax (VAT) and for a fixed agricultural tax, direct subsidies and advantageous credit terms at Ukrainian banks.

State support for the agro-industrial sector had a favourable impact on Avangard's financial results in 2010. As in previous years, the Group was exempted from VAT, which resulted in significant tax savings. In monetary terms, including state compensation for the interest rate on loans (a reduction in the effective rate for servicing credits), state support represented about 3% of the group's total revenue. The value of the government subsidy to Avangard did, however, decrease as a percentage of sales in 2010.

National currency and foreign-currency exchange rates

Avangard's assets are located in Ukraine, and a large part of the company's operations, income and expenses are denominated in the national currency, the hryvnia. Revenue from export transactions is denominated in foreign currencies, predominantly US dollars. In 2010, this amounted to approximately US$81.6 million. Avangard's management expects that future increases in exports will enable the Group to increase its share of foreign-currency earnings to 30-40%, which will enable it to hedge the risks connected with volatility in exchange rates.

Since the IPO on the London Stock Exchange in May 2010, the company has prepared its financial statements in US dollars for the convenience of shareholders and other parties interested in its activities.

Business segment information for the year ended 31 December 2010 was as follows:

	Eggs US$000	Poultry US$000	Animal feed US$000	Egg products US$000	Other activities US$000	Unallocated Group transactions US$000	Adjustments and elimination US$000	Total US$000
Sales revenue	304,057	66,037	40,601	91,253	16,243	–	–	518,191
Intra-Group elimination	(23,766)	(17,278)	(35,344)	(262)	(1,838)	–	–	(78,488)
Revenue from external buyers	280,291	48,759	5,257	90,991	14,405	–	–	439,703
Income from revaluation of biological assets at fair value	13,113	13,074	–	–	–	–	–	26,187
Other operating income/(expenses)	(4,213)	(753)	(270)	(174)	509	–	–	(4,901)
Income from government grants and incentives	17,499	5	–	–	–	–	–	17,504
OPERATING PROFIT/(LOSS)	**196,705**	**4,934**	**(2,855)**	**(14,650)**	**(3,202)**	**–**	**–**	**180,902**
Finance income	27,560	6	3,973	77	2,442	–	–	34,058
Finance cost	(26,073)	(192)	(23)	–	(3,660)	–	–	(29,948)
including:								
Interest payable on loans	(17,645)	(192)	(23)	–	–	–	–	(17,860)
Income tax expense	–	–	287	(541)	–	–	–	(254)

Financial review

Financial results by business segment

Eggs

In 2010, revenue from sales of eggs to foreign customers was up 17% to US$280.3 million (2009:US$240.6 million). Income from sales of eggs accounted for 64% of the Company's total sales revenue. The increase in sales was the result of a significant increase in egg production, to 4,420 million (2009: 3,634 million), which, in turn, was the result of an increase in livestock to 24.3 million birds (2009: 16.1 million).

The average selling price in 2010 increased by 2% to UAH0.57 (excluding VAT) per egg (2009: UAH0.56 (excluding VAT)). The increase in the price was lower than expected as a result of the unusually dry summer and an associated decrease in the demand for eggs in Ukraine. In 2011, the Company expects the average price to increase.

During 2010, the Company continued to implement its declared strategy, focusing on developing relations with its core customers and diversifying its sales channels. As a result, the share of the Company's sales through modern retail chains increased to 16% (2009:2%).

During 2010, the Company exported eggs to Georgia, Iraq, Kazakhstan, Syria, Turkey and the United Arab Emirates and it also expanded its customer base for egg exports, focusing its attention on the market of Moldova. Exports in 2010 amounted to 169.5 million eggs.

Egg products

Because Imperovo Foods LLC was not acquired until July 2009, the segment's 2010 results are not directly comparable with those of 2009.

Revenue from the sale of powdered eggs was US$91 million, more than four times greater than in 2009, and represented 21% of the Company's total sales.

In 2010, the Company processed 777.7 million eggs and produced 10,200 tons of egg products. The average sale price of dried-egg products during the accounting period was US$8.21 per kg (excluding VAT).

Dried-egg products were exported to Jordan, Turkey, Saudi Arabia, Kuwait, the United Arab Emirates, Indonesia, Thailand, South Korea, Oman and Vietnam, and powdered eggs were exported to Pakistan for the first time in 2010. The total revenue from exports was US$67.06 million.

Poultry production

In 2010, revenue from poultry sales increased by 29.1% to US$48.8 million (2009: US$37.7 million). At the same time this segment, which covers the production and sale of chicks, young birds and breeding stock of laying hens, which are at the end of their production cycle, generated total income of US$48.8 million –11.1% of Avangard's total sales income for the year.

Mixed-feed production

Revenue from sales of mixed feed decreased by 66.1% in 2010, to US$5.3 million, or 1.2% of the Company's total revenue (2009: US$15.5 million, 4.9% of revenue). The reduction is primarily the result of reduced sales to third parties and the low level of stocks.

Other activity

"Other activity" covers sales of other goods and services, including transportation, as well as sales of poultry manure. Income in this segment increased by 256.2% to US$14.4 million, 3.3% of total revenue in 2010 (2009: US$4.0 million and 1.3% of revenue). The increase is primarily a result of increases in the numbers of slaughtered poultry and sales of chicken manure.

Liquidity and capital resources

Cash flow is provided by operating activities, credits and changes in the Company's working capital. In 2010, Avangard conducted an IPO on the London Stock Exchange, which brought in US$208 million; it also placed EUR200 million of euro bonds with a maturity date of 29 October 2015.

Structure of debt, cash flow and working capital

	2010 US$000	2009 US$000
COMPANY OPERATING CASH FLOW BEFORE CHANGE IN WORKING CAPITAL	163,418	121,310
Increase/decrease in net working capital	(298,817)	96,179
Amount of interest paid and tax on profit	(23,560	(51,829)
Funds from operating activities	**(158,959)**	**165,660**
Capital expenses	(82,157)	(3,370)
Decrease in funds on deposit	156,421	126,200
Interest received	73,459	1,769
Other	(255)	28
Income from investment activity	**147,468**	**124,627**
Net change in debt	(197,705)	(292,.505)
Income from bond placement	193,471	–
Increase in capital stock	201,356	–
Other	(4,267)	(2,964)
Income from financial transactions	**192,855**	**(295,469)**
Effect of changes in currency exchange rate	**–**	**1,097**
CHANGE IN CASH FLOW	**181,364**	**(4,085)**

The Company's operating cash flow before changes in working capital in 2010 was US$163.418 million. A US$298.8 million increase in working capital in 2010 by was dictated by a US$93 million increase in stocks of raw and other materials, which was made possible by the availability of sufficient financing that enabled the Company to use forward contracts to acquire grain and another raw material at the lowest seasonal prices in sufficient volume to cover its needs for approximately nine months. The change from the practice of uniform purchases to the acquisition of significant quantities of raw material on a periodic basis enabled the Company to reduce costs considerably in 2010. It also led to an increase in VAT indebtedness of US$24.3 million and an increase in advances for raw materials and other materials by US$23.2 million, created by the need to ensure uniform work in the first months of the new year.

Capital investments (CAPEX)

Capital expenditure in 2010 of US$67.6 million, was invested in the construction of the new Avis and Chornobaivske production complexes.

Debt

Net debt at the end of the accounting period, at US$77.8 million, was 24% lower than at 31 December 2009. The ratio of net debt to EBITDA was reduced to 0.4 (based on EBITDA for 12 months) from 0.7 in December 2009 – a very comfortable level for the Company, particularly when compared with other leaders in the Ukraine's agricultural market. At the end of the period, the share of long-term liabilities (including the current portion of long-term liabilities) in the structure of the Company's debt was 97%.

Continuing activities

Consumer demand for chicken eggs and egg products in Ukraine and in global markets continues to be high, and Avangard's production facilities are all operating at full capacity.

The Company expects this high demand, as well as its measures to realise its export plans, to result in a further growth in sales. Sales will be supported by an increase in the production stock of laying hens. The Company will continue to diversify its customer base in Ukraine, and will pay particular attention to retail chains.

As a result of the Russian government cancelling the prohibition on imports of Ukrainian products, a company certification programme has begun. We anticipate an inspection from the Federal Service for Veterinary and Phytosanitary Oversight and plan to begin exporting eggs in shells to Russia during 2011.

Although no Ukrainian company has a permit to export egg products to the EU, we are taking steps to obtain the necessary certification. The first inspection was conducted by the EU Commission in May 2010; the next inspection is scheduled for March, 2011.

A successful business

Successful IPO and placement of Eurobonds on the London Stock Exchange. As a result, we raised the capital required for the expansion of our production capacity.

Strong financial performance through steady income from operating activities, good profit margins and the ability to maintain profitability.

Experienced management team and a centrally-integrated management system ensure effective control of divisional activities and subsidiaries.

Corporate responsibility

To consolidate its leading position in the Ukrainian market, and to gain international recognition, Avangard strives to conform with the EU's business conduct principles, including corporate social responsibility and environmental safety. All our operating units have in place a programme of corporate responsibility, based on high standards of human resource management, health and safety and environmental protection. Our corporate values are based on quality, stability and reliability. In social responsibility terms, we are also committed to improving the Ukrainian people's quality of life by offering high-quality and environmentally safe products at affordable prices.

Human resource management
We value our employees and undertake to ensure that their skills meet the highest standards. We believe in fair labour relationships, encourage our employees to improve their performance, and invest in health and safety programmes. Incentive programmes encourage our workforce to:

- create the best possible working conditions;
- increase performance;
- boost productivity;
- ensure competitive compensation;
- create a talent pool; and
- minimise staff turnover.

Personnel motivation
Motivating our personnel through financial and non-financial means to increase product quality is an integral part of our comprehensive approach to improving performance. The programme is fairly diverse; many employees are offered benefits and there is a bonus programme in place for line personnel as well as for managers.

Health and safety
Our operating units all adhere to the strictest health and safety standards. Our treatment of this issue as an integral element of our development strategy has helped to reduce the number of workplace injuries and accidents to zero.

Social responsibility
Avangard positions itself as a socially responsible company which is actively involved in the lives of the communities in which its production facilities are located, and which supports the rural population.

Biosecurity
Avangard's enterprises use a wide range of biosecurity measures. In compliance with international best practice, to prevent the transmission of disease from one generation of hens to another, we do not mix birds of different generations together. We also use a large number of poultry yards which are some distance apart to ensure that any outbreak of disease can be localised quickly. Production lines are regularly disinfected at all facilities and all production sites include fully-equipped laboratories. The laboratories' activities are regulated by the Ukrainian law on veterinary medicine.

Certification
To improve the monitoring of production, Avangard is introducing an integrated system for inspecting the quality and safety of foodstuffs at its operating facilities. The system is based on standards set by the International Organisation for Standardisation (ISO) practices, described in the US Food and Drug Administration's Current Good Manufacturing Practices, and voluntary standards set by GlobalGAP for the certification of agricultural production processes worldwide.

As part of preparing for ISO certification, some of our production facilities are undertaking certification of hygiene procedures under HACCP, an internationally-recognised method of increasing food safety. Imperovo Foods already implements this system.

Energy-saving biotechnologies
Avangard is currently developing a project for partial transition to energy-saving biotechnologies. We intend to build two biogas plants, at Avis and Chornobaivske, to generate power from by-products of our operations. Since Ukraine is one of the most energy-intensive of the developing nations, our plan for building alternative energy sources is particularly important.

Corporate governance

Avangard is incorporated in Cyprus, but is not required to comply with the corporate governance regulations of Cyprus because its shares are not listed on the Cyprus Stock Exchange. Equally, as a company incorporated in Cyprus, it is not subject to the UK Combined Code on Corporate Governance.

The Group has implemented its own corporate governance system, under which it appoints six directors, two of whom are independent. The company considers this to be a satisfactory balance for the purposes of decision-making and has established Audit, Nomination and Remuneration Committees which report to the Board of Directors. The directors may form other committees if required to ensure efficient management.

Oleg Bakhmatyuk, age 36
Non-executive Chairman
Oleg Bakhmatyuk graduated from the Chernivtsi Economic and Legal Institute (Ivano-Frankivsk region) with a degree in business administration in 1996, and from the Ivano-Frankivsk National University of Oil and Gas with a degree in engineering and physics and business administration in 2005. He founded Avangard Agroholding in 2003. In addition to Avangard, he owns a number of other companies in the food, transport, real estate and financial sectors. During his career he has held a number of executive positions: he was a director of Prykarpatska Finansova Kompaniya LLC in 2004, President of Stanislavska Torgova Kompaniya LLC in 2005, and Deputy Chairman of the Management Board of NAK Naftogaz of Ukraine from 2005 to 2006.

Oleg Pohotsky, age 64
Independent Director
Oleg Pohotsky holds an MBA from Harvard University Graduate School of Business and a JD degree from the University of Miami. He also holds a BSChE degree from Clarkson University. He has been the Managing Partner of Right Bank Partners and serves on the boards of two NYSE-listed closed-end funds. He also serves on the Board of Advisors of Kaufman & Co., a Boston-based boutique investment bank and as Senior Advisor to Governance Metrics International. He was appointed as an independent director in March 2011.

Natalya Vasylyuk, age 28
Chief Executive Officer
Natalya Vasylyuk graduated from the Ivano-Frankivsk National University of Oil and Gas with a degree in finance and accounting in 2005. She began her career as Director of Sales and Marketing in Prykarpatska Finansova Kompaniya LLC in 2004. She was Chief Financial Officer of STC Investments LLC from 2004 to 2007. She joined Agroholding Avangard LLC in 2007 as Chief Executive Officer and moved to Avangard CSJC in 2010. She became Chief Executive Officer of the Group on 29 April 2010.

Iryna Marchenko, age 35
Chief Financial Officer
Iryna Marchenko graduated from the Kyiv Academy of Municipal Management with a degree in accounting and audit in 2004. In 2008 she received an ACCA certificate in IFRS. From 2005 to 2007 she was Chief Accountant of Manufactura LLC. She has been a director of Agroholding Avangard LLC since 2007 and, in 2010, became Head of Finance at Avangard CJSC.

Oksana Prosolenko, age 29
Head of Business Development
Oksana Prosolenko graduated from the V Hetman National Economic University with a degree in economic science in 2008. She was Head of Marketing and Analysis at the Association of the Union of Poultry Breeders of Ukraine between 2005 and 2006 and was then Chief Marketing Officer of Boryspil Agro-Trade LLC, a company active in the poultry sector. She was Chief Marketing Director of Agroholding Avangard LLC from 2007 to 2009 and has been Head of Business Development at Avangard CJSC since 2010.

Mihalis Muaimis, age 30
Administrative Director
Mihalis Muaimis, a resident of Cyprus, was appointed to the Board of Directors on 2 July 2010. He graduated from the Law Department of Athens University and went on to obtain a Master's degree in law at the London Business School, University of London, as well as gaining a Master's degree in international commercial law at the Sorbonne in Paris. He has a law practice in Cyprus and is responsible for administrative and corporate law matters at Agroholding Avangard.

Pursuant to the Articles of Association, the Board of Directors is vested with the authority of managing the business and affairs of the Company in accordance with its corporate objectives, which include the ability to borrow money, pledge or encumber contractual obligations, property and unpaid parts of the share capital or a part thereof, as well as to issue debenture stock and other securities, both directly and as security for any debt, obligation or liability of the company or any third party.

Directors may delegate their powers to the committees. The directors have already formed an Audit Committee, a Remuneration Committee and a Nomination Committee, the composition and functions of which are set out in Article 133 of the Articles of Associations.

A director may, and the Secretary shall at a director's request, call a meeting of the Board of Directors at any time. The quorum for meetings of the Board of Directors may be set by directors; if no quorum has been set it must consist of a simple majority of directors present or represented at a meeting. Each director has the authority to appoint a director's representative, who shall be entitled to receive notices of all directors' meetings and attend, speak and vote at any meeting from which the person appointing him or her is absent. Actions approved by directors are decided by a simple majority of votes of all the directors present, whether entitled to vote or not. In the case of a tie vote, the Chairman has a second or deciding vote.

Corporate governance

Resolutions signed by all, or a majority of, directors authorised to issue notice of a directors' meeting, or by all members of a committee, shall have the same effect as if they were passed by a meeting of the Board or of a committee duly convened and held.

A third of directors, other than the Chairman, a director who holds an executive office or an administrative director, are required to retire at each Annual General Meeting (AGM), but are eligible for re-election. No person other than a director retiring by rotation can be appointed a director at any general meeting unless he or she is recommended by the Board of Directors, or has been proposed by a shareholder by notice given to the company no less than three, and no more than 21, days before the date of the meeting, accompanied by a notice from that person signifying his or her willingness to be appointed.

Pursuant to Article 124 of the Articles of Association, the office of director shall be vacated, *inter alia*, if a director is declared bankrupt, suffers from mental disorder, resigns his or her office, or if he or she was absent for more than six continuous months without permission from the Board of Directors. The number and terms of office of directors are determined by the AGM.

The remuneration and benefits payable to all members of the Board of Directors, regardless of whether they are paid by the company or another corporate entity in the Avangard Group, is fixed by the Remuneration and Nomination Committees. The remuneration of all members of the Board of Directors must be approved by the AGM.

The Board of Directors holds meetings at least four times a year, or more often if required. To enable the Board of Directors to discharge its duties, each director has access to all relevant information.

Committees

- The Audit Committee consists of at least three directors, at least one of whom is an independent director. The committee oversees the financial statements of Avangard, monitors the internal corporate control system and supervises the Company's relations with its external auditors.
- The Nomination Committee consists of at least three directors including two independent members of the Board of Directors. The duties of the committee include revision of the composition of the Board of Directors. The committee is entitled to present recommendations on the policy of Agroholding Avangard.
- The Remuneration Committee consists of at least three directors, two of whom are independent directors. The committee's duties include determining the Group's policy on employee remuneration. No director or manager is, however, entitled to vote on matters concerning his or her own remuneration.

Decisions by all the committees are taken by majority vote, and in case of a tie, the Chairman of the committee has the deciding vote.

Directors' remuneration

The remuneration and benefits payable to the members of the Board of Directors are defined by the Remuneration Committee and approved by the AGM.

In 2010, the aggregate amount of remuneration paid to members of the Board of Directors and management (including senior managers of subsidiaries) was US$2,590,000 in salary and bonuses. According to the terms of their contracts, no payment of pension or other benefits will be made to members of the Board of Directors or other senior managers on expiry of their employment contracts.

Annual General Meeting

The Annual General Meeting will be held at the Company's office at 7/9 Schorsa Str, Kyiv, 03150 Ukraine.

Disclosure of information to auditors

Each of the directors has approved this report and confirmed that, in his/her opinion, no important information needed by the auditors for preparation of the audit report was not supplied to the company's auditors. In addition, each director took all the necessary actions he/she should have taken as a director to clarify information and to ensure that it was known to the Company's auditors.

In addition to its executive directors, the senior management of Agroholding Avangard includes:

Oleg Stus, Chief Legal Officer of Avangard CJSC from 2010 Oleg Stus graduated from the Kyiv Open International University of Human Development "Ukraine" with a degree in law in 2008. He was Deputy Chief Legal Officer of Stanislavska Torgova Kompaniya LLC in 2005 and Chief Legal Officer of Ukrayinska Gasova Finansovo-Konsaltyngova Grupa LLC from 2005 to 2009. He joined the Group as Chief Legal Officer in 2007.

Andrey Chirkov, Director of Chornobaivske Agricultural Industrial Enterprise CJSC from 2003 Andrey Chirkov graduated from the Kherson Institute of Agriculture in 1991 with a degree in animal husbandry, before gaining more than 15 years' experience in managing an animal breeding enterprise. He joined the Group in 2003. He is Director of Chornobaivske AIE CJSC, a poultry plant at which a modern complex is being built to add to the existing production facilities.

Natalya Goncharenko, Director of Zarya Subsidiary, Cross – P/F Zorya LLC from July 2010 Natalya Goncharenko graduated in 1995 from the Kharkov State Zoology and Veterinary Academy with a degree in animal husbandry. She gained a postgraduate degree and, from 2003, worked at the State Zoology and Veterinary Academy where she taught the course on poultry farming. She joined the Group as Director of Zarya Subsidiary, Cross – P/F Zorya LLC in 2010.

Valerii Kovalchuk, Director of Pershe Travnia Poultry Farm LLC Valerii Kovalchuk graduated from the Donetsk State Institute of Commerce in 1998 with a degree in economics and business management. He has held a number of managerial positions, including Director of Avangard CJSC, a Group company, since 2010.

Vladimir Krasutskii, Director of Ptakhofabryka Chervonyi Prapor Poultry Farm OJSC from 2010 Vladimir Krasutskii graduated from Donetsk Polytechnic Institute in 1986 as a mechanical engineer. Since 1993 he has held a number of executive positions, including that of Director at FSPC Interbusiness, which is a part of the Avangard Group. He has been Director of Ptakhofabryka Chervonyi Prapor Poultry Farm OJSC since 2009.

Irina Melnik, Deputy Director of Finance at Avangard CJSC from 2010 Irina Melnik graduated from the Economics Department of V Stefanyk Precarpathian National University. Before joining Avangard, she was Director of Finance at Ukrmiaso, an agricultural product processing company. She has been Deputy Director of Finance at Avangard CJSC since 2010.

Yuri Timofeev, Director of Agrofirma Avis CJSC since 2009 Yuri Timofeev graduated from Kamyanets-Podilsky Agricultural University with a degree in mechanical engineering in 1995. He has worked in a number of positions at Agrofirma Avis – a poultry plant, which is currently expanding its production facilities by building a new egg-producing complex – since 1994 and has been Director of Agrofirma Avis CJSC since 2009.

Report of the Board of Directors

The Board of Directors presents its report together with the consolidated financial information of AvangardCo Investments Public Limited (the "Company") and its subsidiaries (the "Group") for the years ended 31 December 2010, 31 December 2009 and 31 December 2008.

Principal activities
The principal activities of the Group are the:
- keeping of laying hens, and the production and sale of eggs;
- incubation (production and sale of day-old chicks), rearing young poultry for sale, and poultry;
- production and selling of mixed fodder; and
- processing of eggs and selling of egg products.

Review of developments, position and performance of the Company's business
The Group's financial performance for the year as presented in the consolidated statement of comprehensive income of the consolidated financial information is considered satisfactory. In 2010, the Group recorded a profit of US$184,758,000 compared with a profit of US$133,669,000 in the previous year. The Company's gross assets also increased in 2010 to US$1,079,029,000 from US$844,146,000, mainly as a result of increases in profitability and injections of new capital following the issue of new shares.

On 6 May 2010 the Company was listed on the London Stock Exchange. It issued 1,387,185 Ordinary Shares of €0.10 each at a premium and received €184,166,744 or US$201,163,000.

On 29 October 2010 the Company issued US$200 million 20% p.a. five-year Notes, listed on the London Stock Exchange, to meet the financing requirements in line with its development strategy.

Principal risks and uncertainties
The principal risks and uncertainties faced by the Group are disclosed in Notes 4, 41 and 42 to the consolidated financial information.

Results and dividends
The Group's results for the year are set out in the consolidated financial information on page 34. The Board of Directors does not recommend the payment of dividends and the profit for the year is retained.

Share capital
The changes to the share capital of the company are disclosed in Note 15 to the consolidated financial information.

Board of Directors
The members of the Board of Directors at 31 December 2010 and at the date of this report are shown on page 28. The only directors who were members of the Board throughout the year were Ms Natalya Vasylyuk and Mr Philippos Phillipou. The latter resigned on 22 March 2010 and was replaced on the same date by Mr Oleg Bakhmatyuk, Ms Iryna Marchenko and Ms Oksana Prosolenko. Mr Michalis Mouamis was appointed as a director on 3 July 2010. There being no requirement in the Company's Articles of Association for the retirement of directors by rotation, all directors who are 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.

The directors are responsible for formulating, reviewing and approving the Company's and its subsidiaries' strategies, budgets, certain items of capital expenditure 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 company incorporated in Cyprus. Nevertheless, the directors have established audit, nomination and remuneration committees and may form other committees as necessary in order to improve corporate governance.

Post-balance sheet events
There were no material events, which have a bearing on the understanding of the consolidated financial information, after the reporting period.

Branches
The Group did not operate through any registered branches during the years under review.

Independent auditors
The Company's independent auditors, Baker Tilly Klitou, 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

Nataliya Vasylyuk
Director
Nicosia
4 March 2011

Declaration of the members of the Board of Directors and the person responsible for the preparation of the consolidated financial information of the Company

We, the members of the Board of Directors and the person responsible for the preparation of the consolidated financial information of Avangardco Investments Public Limited for the years ended 31 December 2010, 31 December 2009 and 31 December 2008, based on our opinion, which is a result of diligent and scrupulous work, declare that the elements written in the consolidated financial information are true and complete.

Board of Directors members:

Oleg Bakhatyuk

Oksana Prosolenko

Nataliya Vasylyuk

Irena Marchenko

Michalis Mouaimis

Person responsible for the preparation of the consolidated financial information for the year ended 31 December 2010:

Nataliya Vasylyuk

4 March 2011

Consolidated statement of financial position

As at 31 December 2010, 2009 and 2008

	Note	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
ASSETS				
NON-CURRENT ASSETS:				
Property, plant and equipment	5	396,236	375,426	368,264
Held to maturity financial assets	6	295	40	41
Non-current biological assets	7	59,078	21,546	9,185
Long-term bank deposits	14	–	504	49,351
Deferred income tax assets	21	–	–	180
Other non-current assets	8	60,428	16,630	55,368
TOTAL NON-CURRENT ASSETS		**516,037**	**414,146**	**482,389**
CURRENT ASSETS:				
Inventories	10	185,624	92,757	47,076
Current biological assets	7	44,705	44,910	47,935
Trade receivables	12	54,678	47,320	15,593
Prepaid income tax	21	7	35	5
Prepayments and other current assets	11	41,829	58,626	133,111
Taxes recoverable and prepaid	9	53,084	28,708	54,058
Short-term bank deposits	14	-	155,917	233,271
Cash and cash equivalents	13	183,065	1,727	5,878
TOTAL CURRENT ASSETS		**562,992**	**430,000**	**536,927**
TOTAL ASSETS		**1,079,029**	**844,146**	**1,019,316**
EQUITY AND LIABILITIES				
EQUITY:				
Share capital	15	836	644	644
Share premium	15	201,164	–	–
Capital contribution reserve	15	115,858	115,858	–
Retained earnings		482,328	300,107	168,151
Currency translation reserve		(64,587)	(64,137)	(56,698)
TOTAL EQUITY ATTRIBUTABLE TO:				
Equity holders of the parent		**735,559**	**352,472**	**112,097**
Non-controlling interests		10,620	8,083	6,406
TOTAL EQUITY		**746,219**	**360,555**	**118,503**
NON-CURRENT LIABILITIES:				
Long-term loans	16	30,999	85,975	192,518
Long-term bond liabilities	17	193,471	–	–
Deferred income tax liabilities	21	1,110	943	–
Deferred income (non-current portion)	35c	5,676	5,963	6,499
Long-term finance leases	25	6,372	6,142	8,502
TOTAL NON-CURRENT LIABILITIES		**237,628**	**99,023**	**207,519**
CURRENT LIABILITIES:				
Short-term bond liabilities	26	25,120	24,249	25,843
Current portion of non-current financial liabilities	20	4,319	115,975	3,415
Short-term loans	18	1,036	33,001	280,176
Trade payables	22	23,191	68,019	20,529
Current income tax liabilities		6	7	–
Accrued expenses	23	1,308	1,278	1,004
Other current liabilities and accrued expenses	24	40,202	142,039	362,327
TOTAL CURRENT LIABILITIES		**95,182**	**384,568**	**693,294**
TOTAL LIABILITIES		**332,810**	**483,591**	**900,813**
TOTAL LIABILITIES AND EQUITY		**1,079,029**	**844,146**	**1,019,316**

The notes on pages 38 to 91 form an integral part of this consolidated financial information.

Consolidated statement of comprehensive income

For the years ended 31 December 2010, 2009 and 2008

	Note	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
Revenue	27	439,703	319,855	302,292
Net change in fair value of biological assets	7	26,187	7,695	12,690
Cost of sales	28, 29	(308,144)	(220,407)	(232,975)
GROSS PROFIT		**157,746**	**107,143**	**82,007**
General administrative expenses	30	(7,168)	(4,933)	(7,932)
Distribution expenses	31	(5,058)	(3,086)	(4,429)
Income from government grants and incentives	35.1	17,504	9,440	39,068
Income from special VAT treatment	35.2	21,910	12,291	–
Other operating income/expenses	32	(4,901)	(3,573)	(6,820)
Waiver of amounts due to related parties	32	869	22,525	64
OPERATING PROFIT		**180,902**	**139,807**	**101,958**
Finance income	34	34,058	41,180	26,897
Finance cost	33	(29,948)	(46,150)	(52,986)
PROFIT BEFORE TAX		**185,012**	**134,837**	**75,869**
Income tax credit/(expense)	21	(254)	(1,168)	1,414
PROFIT FOR THE YEAR		**184,758**	**133,669**	**77,283**
OTHER COMPREHENSIVE INCOME FOR THE YEAR:				
Effect of translation into presentation currency		(450)	(7,441)	(59,998)
TOTAL COMPREHENSIVE INCOME		**184,308**	**126,228**	**17,285**
PROFIT FOR THE YEAR ATTRIBUTABLE TO:				
Owners of the parent		182,221	131,956	74,748
Non-controlling interests		2,537	1,713	2,535
		184,758	**133,669**	**77,283**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the parent		181,771	124,517	18,050
Non-controlling interests		2,537	1,711	(765)
		184,308	**126,228**	**17,285**
Average weighted number of shares, items		5,710,695	5,000,000	435,000
Earnings for the year per share, US$ (basic and diluted)		32	26.73	177.66
Total comprehensive income per one share, US$		33	25.25	39.74

The notes on pages 38 to 91 form an integral part of this consolidated financial information.

Consolidated statement of changes in equity

For the years ended 31 December 2010, 2009 and 2008

	Attributable to owners of parent						
	Share capital US$000	Capital contribution reserve[1] US$000	Share premium[2] US$000	Retained earnings[3] US$000	Foreign currency translation reserve US$000	Non-controlling interests US$000	**Total US$000**
AS AT 1 JANUARY 2008	**3**	**–**	**–**	**74,109**	**–**	**17,680**	**91,792**
Increase in share capital	641	–	–	–	–	–	641
Businesses under common control	–	–	–	19,294	–	(9,945)	9,349
Effect of acquisitions of non-controlling interest	–	–	–	–	–	(564)	(564)
Effect from translation into presentation currency	–	–	–	–	(56,698)	(3,300)	(59,998)
Profit for the year	–	–	–	74,748	-	2,535	77,283
AS AT 31 DECEMBER 2008/ 1 JANUARY 2009	**644**	**–**	**–**	**168,151**	**(56,698)**	**6,406**	**118,503**
Additional capital contribution	–	115,858	–	–	–	–	115,858
Effect of acquisitions of non-controlling interest	–	–	–	–	–	(34)	(34)
Effect from translation into presentation currency	–	–	–	–	(7,439)	(2)	(7,441)
Profit for the year	–	–	–	131,956	–	1,713	133,669
AS AT 31 DECEMBER 2009/ 1 JANUARY 2010	**644**	**115,858**	**–**	**300,107**	**(64,137)**	**8,083**	**360,555**
Shares issue	192	–	201,164	–	–	–	201,356
Effect from translation into presentation currency	–	–	–	–	(450)	–	(450)
Profit for the year	–	–	–	182,221	-	2,537	184,758
AS AT 31 DECEMBER 2010	**836**	**115,858**	**201,164**	**482,328**	**(64,587)**	**10,620**	**746,219**

1) The details of the capital contribution reserve are included in Note 1 and 15 of this consolidated financial information.

2) In accordance with the Cyprus Companies Law, Cap. 113, Section 55 (2) the share premium, reserve 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.

3) Companies which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defence 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 15% will be payable on such deemed dividend to the extent that the shareholders (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 shareholders.

The notes on pages 38 to 91 form an integral part of this consolidated financial information.

Consolidated statements of cash flows

For the years ended 31 December 2010, 2009 and 2008

	Note	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
CASH FLOWS FROM OPERATING ACTIVITIES:				
Profit before income tax		185,012	134,837	75,869
Adjustments for:				
Depreciation of property, plant and equipment	5	12,637	12,285	11,780
Change in allowance for irrecoverable amounts	32	433	69	829
Other provisions		30	274	282
Loss on disposal of property, plant and equipment		56	90	376
Cost of current assets written-off	32	259	1,571	1,630
Effect of fair value adjustments on biological assets	7	(26,187)	(7,695)	(12,690)
Gains realised from accounts payable written-off	32	(869)	(22,525)	(64)
Partial compensation of complex agricultural equipment cost	35	306	312	469
Effect of transactions under common control		–	–	9,349
Goodwill impairment		–	629	–
Interest income		(34,058)	(41,180)	(26,898)
Interest payable on loans	34	25,799	42,643	48,614
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES		**163,418**	**121,310**	**109,546**
(Increase)/decrease in trade receivables		(7,200)	(14,517)	31,530
(Increase)/decrease in prepayments and other current assets		(23,208)	161,386	(94,317)
(Increase)/decrease in taxes recoverable and prepaid		(24,376)	24,957	(11,073)
(Increase)/decrease in inventories		(93,127)	(2,130)	(36,016)
Increase/(decrease) in deferred income		(593)	(847)	(4,259)
(Increase)/decrease in other non-current assets		(1)	13	(360)
Increase/(decrease) in trade payables		(44,828)	38,058	(24,066)
(Increase)/decrease in biological assets		(11,140)	(1,641)	(28,596)
Increase/(decrease) in advances received and other current liabilities		(94,344)	(109,100)	210,930
CASH GENERATED FROM OPERATIONS		**(135,399)**	**217,489**	**153,319**
Interest paid		(23,526)	(51,781)	(54,653)
Income tax paid		(34)	(48)	(29)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES		**(158,959)**	**165,660**	**98,637**
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property, plant and equipment	5	(82,157)	(3,370)	(256,411)
Proceeds from disposals of property, plant and equipment		–	–	284
Effect from acquisition of subsidiaries net of cash acquired		–	28	–
(Increase)/decrease in bank deposits	14	156,421	126,200	(137,632)
Acquisition of available-for-sale investments	6	(255)	–	–
Disposal of available-for-sale investments		–	–	28,993
Interest received		73,459	1,769	26,848
NET CASH GENERATED FROM INVESTING ACTIVITIES		**147,468**	**124,627**	**(337,918)**
CASH FLOWS FROM FINANCING ACTIVITIES:				
New loans received		166,646	15,511	469,157
Repayment of loans		(364,351)	(308,016)	(256,800)
Interest paid for bonds issued		(4,267)	(2,166)	(89)
Proceeds from short-term bonds issued	17, 26	193,471	–	25,973
Repayment of short-term bonds issued	26	–	(798)	(130)
Increase in share capital – share issue (nominal value)	15	192	–	641
Increase in share capital – share premium	15	201,164	–	–
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		**192,855**	**(295,469)**	**238,752**
EFFECT FROM TRANSLATION INTO PRESENTATION CURRENCY		**–**	**1,097**	**1,856**
NET (DECREASE)/INCREASE IN CASH		**181,364**	**(4,085)**	**1,327**
CASH AT THE BEGINNING OF THE YEAR	13	**1,701**	**5,786**	**4,460**
CASH AT THE END OF THE YEAR	13	**183,065**	**1,701**	**5,787**

The notes on pages 38 to 91 form an integral part of this consolidated financial information.

Notes to the consolidated financial information

For the years ended 31 December 2010, 2009 and 2008

1 General information

This consolidated financial information of AvangardCo Investments Public Limited ("the parent company" hereinafter) and subsidiaries ("the Group" or "Avangard" hereinafter jointly) for the year ended 31 December 2010 was approved by the Board of Directors on 4 March 2011.

The Company's registered office is 16-18 Zinas Kanther Street, 3035 Limassol, Cyprus.

The Company was listed at London Stock Exchange Main Market on 6 May 2010.

AvangardCo Investments Public Limited was incorporated as a private limited 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 Company re-registered as a public company and changed its name to AvangardCo Investments Public Limited.

In 2009 the principal shareholder of AvangardCo Investments Public Limited reorganised the Group, as a result of which AvangardCo Investments Public Limited became the holding company of a group of agricultural enterprises, which in the past were under the common ownership and control of this shareholder. 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 shareholder 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 2010 the production facilities of the Group include 28 poultry facilities (consisting of 17 egg-laying farms, eight hen-rearing farms and three breeding farms), five feed mills and one plant for the manufacture of egg products. This vertically-integrated structure of the Group allows it to provide approximately 70% 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 receive additional profit due to synergistic effect, 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.

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

Company name	Principal activity	Country of registration	Ownership interest 2010	Ownership interest 2009	Ownership interest 2008
CJSC Avangard	Keeping of specialist	Ukraine	99%	99%	99%
APP CJSC Chornobaivske	laying hens,	Ukraine	97%	97%	97%
CJSC Agrofirma Avis	production and	Ukraine	100%	100%	100%
OJSC Kirovskiy	sale of eggs	Ukraine	100%	100%	100%
OJSC Ptakhohospodarstvo Chervonyi Prapor		Ukraine	98%	98%	98%
SC Ptakhofabryka Lozuvatska		Ukraine	100%	100%	100%
LLC Yuzhnaya – Holding		Ukraine	100%	100%	100%
LLC Makarivska Ptakhofabryka		Ukraine	100%	100%	100%
LLC PF Volnovaska		Ukraine	100%	100%	100%
LLC Cross-PF Zorya		Ukraine	89%	89%	89%
OJSC Ptakhofabryka Pershe Travnya		Ukraine	93%	93%	93%
CJSC Chernivetska Ptakhofabryka		Ukraine	98%	98%	98%
ALLC Donetska Ptakhofabryka		Ukraine	100%	100%	100%
LLC Areal-Snigurivka		Ukraine	100%	100%	100%
LLC Torgivenlniy Budynok Bohodukhivska Ptakhofabryka		Ukraine	100%	100%	100%
PPB LLC Ptytsecompleks		Ukraine	100%	100%	100%
PSPC Interbusiness		Ukraine	100%	100%	100%

1 General information continued

Company name	Principal activity	Country of registration	Ownership interest 2010	Ownership interest 2009	Ownership interest 2008
SC Avangard-Agro of CJSC Avangard	Incubation	Ukraine	99%	99%	99%
SC Gorodenkivska Ptakhofabryka of CJSC Avangard	(production and sale	Ukraine	99%	99%	99%
SC Rogatynska Ptakhofabryka of CJSC Avangard	of day-old chicks),	Ukraine	99%	99%	99%
SC Ptakhohospodarstvo Donetske of ALLC Donetska Ptakhofabryka	farming of young poultry for sale,	Ukraine	100%	100%	100%
LLC Slovyany	and poultry	Ukraine	90%	90%	90%
SC Ptakhohospodarstvo Lozuvatske		Ukraine	100%	100%	100%
SC Zorya of LLC Cross-PF Zoraya		Ukraine	89%	89%	89%
SC Ptakhofabryka Chervonyi Prapor Poultry of OJSC Ptakhohospodarstvo Chervonyi Prapor		Ukraine	98%	98%	98%
SC Ptakhohospodarstvo Yuzhnaya Holding of LLC Yuzhnaya Holding		Ukraine	100%	100%	100%
SC Ptakhogopodarstvo Volnovaske of LLC PF Volnovaska		Ukraine	100%	100%	100%
SC Ptakhohospodarstvo Chornobaivske of APP CJSC Chornobaivske		Ukraine	97%	97%	97%
LLC Rohatyn-Korm	Production and sale	Ukraine	99%	99%	99%
OJSC Vuhlehirskyi Eksperementalnyi Kombikormovyi Zavod	of animal feed	Ukraine	80%	80%	80%
OJSC Volnovaskyi Kombinat Khliboproduktiv		Ukraine	72%	72%	72%
LLC Kamyanets-Podilsky Kombikormoviy Zavod		Ukraine	100%	100%	100%
LLC Pershe Travnya Kombikormoviy Zavod		Ukraine	93%	93%	–
LLC Imperovo Foods	Processing of eggs and sale of egg products	Ukraine	100%	100%	–
LLC Kross	Rendering services under guarantee agreements	Ukraine	100%	100%	100%

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 2010 with a nominal value of €0.10 per share (Note 15).

The shares were distributed as follows:

	31 December 2010		31 December 2009		31 December 2008	
Shareholder	Number of shares	Ownership interest %	Number of shares	Ownership interest %	Number of shares	Ownership interest %
Oleg Bakhmatyuk	20,000	0.3%	20,000	0.4%	20,000	0.4%
Quickcom Limited	1,074,684	16.8%	1,074,684	21.5%	1,074,684	21.5%
Omtron Limited	1,848,575	28.9%	1,848,575	37.0%	1,848,575	37.0%
Tanchem Limited	926,280	14.5%	926,280	18.5%	926,280	18.5%
Mobco Limited	1,080,143	17.0%	1,130,458	22.6%	1,130,458	22.6%
BNY (Nominees) Limited	1,437,500	22.5%				
Other	3	–	3	–	3	–
	6,387,185	**100.0%**	**5,000,000**	**100.0%**	**5,000,000**	**100.0%**

Notes to the consolidated financial information

For the years ended 31 December 2010, 2009 and 2008

1 General information continued

As at 31 December 2010, 31 December 2009 and 31 December 2008 the interests in Quickcom Limited, Omtron Limited, Tanchem Limited and Mobco Limited beneficially owned by Oleg Bakhmatyuk ("the beneficial owner" hereinafter) were as follows:

	Ownership interest as at 31 December 2010 %	Ownership interest as at 31 December 2009 %	Ownership interest as at 31 December 2008 %
Quickcom Limited	**100%**	100%	100%
Omtron Limited	**100%**	100%	100%
Tanchem Limited	**100%**	100%	100%
Mobco Limited	**100%**	100%	100%

In the year ended 31 December 2009 the beneficial owner made an "Additional Capital Contribution" in the amount of US$115,858,000 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 (Note 15).

In June 2010 the Company issued 1,387,185 ordinary personal shares with a nominal value of €0.10 per share.

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

2 Basis of presentation of consolidated financial information

2.1 Basis of preparation and accounting

The consolidated financial information has been prepared in accordance with International Financial Reporting Standards as approved by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Standing Interpretations Committee (formerly known as the "IFRIC") as adopted for use in the European Union ("IFRS") and the requirements of the Cyprus Companies Law, Cap. 113 insofar as applicable to this financial information.

Subsidiaries of the Group keep accounting records in compliance with the requirements of accounting and reporting in Ukraine. Ukrainian generally accepted accounting principles (GAAP) differ from IFRS. Accordingly, this consolidated financial information, prepared based on accounting registers of the Group's subsidiaries, contains adjustments that are required to bring the financial information into compliance with IFRS.

The parent company (AvangardCo Investments Public Limited) keeps accounting records and prepares individual financial information accordingly to the requirements of IFRS.

2.2 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 are treated as transactions in foreign currencies. The Group's management used the US dollar as the presentation currency in the consolidated financial information in compliance with IAS 21 "The effects of changes in foreign exchange rates".

2.3 Going concern basis

This consolidated financial information has been prepared under the going concern basis, which assumes the realisation of assets and settlement of liabilities in the course of ordinary economic activity.

2 Basis of presentation of consolidated financial information continued

2.4 Standards and interpretations

a) New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2010.

As of the date of the authorisation of the financial information, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2010 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

Adoption of new and revised IFRSs

During the current year the Company adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2010. This adoption did not have a material effect on the accounting policies of the Group.

At the date of approval of this financial information the following accounting standards were issued by the International Accounting Standards Board but were not yet effective:

i) Adopted by the European Union

New standards

- IAS 24 (Revised) "Related Party Disclosures" (effective for annual periods beginning on or after 1 January 2011).

Amendments

- Amendments to IAS 32 "Financial Instruments: Presentation: Classifications of Rights Issues" (effective for annual periods beginning on or after 1 February 2010).
- Amendment to IFRS 1 "Limited Exemption from Comparative IFRS 7 Disclosures for First Time Adopters" (effective for annual periods beginning on or after 1 July 2010).
- Amendment to IFRIC 14 "Prepayments of a Minimum Funding Requirement" (effective for annual periods beginning on or after 1 January 2011).

New IFRICs

- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010).

ii) Not adopted by the European Union

New standards

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013).

Amendments

- Annual Improvements 2010 (effective for annual periods beginning on or after 1 July 2010 and 1 January 2011).
- Amendments to IFRS 7 "Financial Instruments: Disclosures" (effective for annual periods beginning on or after 1 July 2011).

When the adoption of the standard or interpretation is deemed to have an impact on the financial information or performance of the Group, its impact is described below:

IFRS 2 Share-based Payment (Revised)

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for Group cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Group.

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

Notes to the consolidated financial information

For the years ended 31 December 2010, 2009 and 2008

2 Basis of presentation of consolidated financial information continued

2.4 Standards and interpretations continued

ii) Not adopted by the European Union continued

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such a transaction will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. The change in accounting policy was applied prospectively and had no material impact on earnings per share.

IAS 39 Financial Instruments: Recognition and Measurement — Eligible Hedged Items

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

3 Significant accounting policies

3.1 Basis of consolidation

The consolidated financial information comprises the consolidated financial information of the companies controlled by the Group ("subsidiaries") as at 31 December 2010, 31 December 2009 and 31 December 2008.

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.

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.

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 information incorporates 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 information reflects both entities' full year's results, even though the business combination may have occurred part of the way through the year. In addition, the corresponding amounts for the previous year also reflect the combined results of both entities, even though the transaction did not occur until the current year.

Combinations of businesses not under common control

The purchase method is applied to 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. The excess of the consideration paid over the fair value of assets and liabilities acquired is treated as goodwill. Any negative goodwill arising on a "bargain purchase" (where the consideration is less than the fair value of assets and liabilities acquired) is immediately recognised in profit and loss. Non-controlling interests are reflected proportionally to fair value of cost of recognised assets and liabilities.

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

3 Significant accounting policies continued

3.1 Basis of consolidation continued

Transactions eliminated by consolidation

Under both methods of accounting, all significant transactions and balances and unrealised gains between the Group's companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to achieve consistent application of the accounting policies applied by the Group. Subsidiaries are deconsolidated from the date that control ceases.

Non-controlling interests

Non-controlling interests in subsidiaries as at the balance sheet date is the proportion of fair value of the relevant subsidiaries' identified assets and liabilities attributable to those non-controlling interests as at the date of acquisition, together with their share of changes in its equity after the date of acquisition. Equity attributable to shareholders of non-controlling interest is reported as a separate item in the consolidated statement of financial position.

Business combinations and goodwill

Business combinations from 1 January 2009

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.

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 that unit 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 of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to 31 December 2008

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration affected goodwill.

Notes to the consolidated financial information

For the years ended 31 December 2010, 2009 and 2008

3 Significant accounting policies continued

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 balance sheet dates. 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 profit or loss.

The exchange rates used in preparation of this consolidated financial information are presented as follows:

Currency	31 December 2010	Weighted average for 2010	31 December 2009	Weighted average for 2009	31 December 2008
US dollar	**7.94**	**7.96**	7.99	7.79	7.70

The foreign currencies may be freely convertible in 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.

b) Presentation currency

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

1) At each date of financial information all the assets and liabilities are translated at the exchange rate of the National Bank of Ukraine at that date;

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); and

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; and
- it is intended for use during more than one operating cycle (usually more than 12 months).

After actual commissioning, 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 property, plant and equipment into the following types:

- Current repairs and expenses for maintenance and technical service.
- Capital refurbishment including modernisation.

Subsequent measurement of property, plant and equipment

After initial recognition as an asset, the Group applies the model of accounting for 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 income statement as incurred.

3 Significant accounting policies continued

3.3 Property, plant and equipment continued

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 as follows:

The estimated useful lives for the Group's 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

Residual value and useful lives of assets are reviewed and adjusted at each balance sheet date as appropriate.

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 or disposal. 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.

At each reporting date 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.

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 assets

The Group classifies its investments in equity and debt securities as financial assets at fair value reflecting the revaluation in profit or loss, investments held to maturity, available-for-sale financial assets, loans and accounts receivable. The classification depends on purposes for which these securities were acquired. Management takes decision concerning the classification of securities at initial recognition and reviews such classification for reliability at each reporting date.

a) Loans and accounts receivable

Loans and accounts receivable are non-derivative financial assets with fixed payments or payments that are to be determined, and which are not listed in an active market. Loans and accounts receivable comprise 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. Accounts receivable are recognised net of any costs of realisation.

b) Available-for-sale financial assets

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 of less than 12 months from the reporting date, if the selling of these assets will not result from the need to increase 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.

Notes to the consolidated financial information

For the years ended 31 December 2010, 2009 and 2008

3 Significant accounting policies continued

3.4 Financial assets continued

c) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

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 selling price. Gains or losses at initial recognition are reflected only if the difference between fair value and selling price is confirmed by other actual and regular market transactions carried out with the same instruments or with such estimation, which 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 reflected at cost, or amortised value between the date of incurring the liability and settlement date, is recognised either in the income statement (for trade investments) 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 date 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 date. When using pricing models, the inputs are based on average market data prevailing at the reporting date.

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.

All non-trading financial liabilities, loans and accounts receivable, and assets held to maturity, 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 date 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 in the result of one or more events which occurred after initial recognition of an asset ("experience losses"), which had effect, that was subject to reliable measurement, on future cash flows from the financial asset or group of financial assets. 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.

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. The financial liability is derecognised if the term of contractual obligations expires and the contractual obligations are fulfilled or agreement cancelled.

3 Significant accounting policies continued

3.5 Financial liabilities

a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise financial liabilities held for trading and financial liabilities included into the category of liabilities at fair value through profit or loss at initial recognition.

b) 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 a vested right to defer the liabilities at least by 12 months from the reporting date.

Initial recognition

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

Subsequent measurement

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

Borrowing costs 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 are fulfilled or agreement is cancelled.

3.6 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is determined as the estimated selling price less all estimated costs of completion and preliminary estimated distribution and selling costs. Inventories consumed are accounted for using the FIFO method.

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 the 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 reported in profit or loss.

Impairment of inventories

The cost of inventories may be irrecoverable if the realisable value of such inventories has decreased due to their damage, whole or partial obsolescence or as a result of changes in market prices. The 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 a decrease in price for raw materials indicates that the cost of finished goods will exceed the net realisable value, raw materials are written-off to net realisation value.

Notes to the consolidated financial information

For the years ended 31 December 2010, 2009 and 2008

3 Significant accounting policies continued

3.7 Biological assets

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

- Replacement poultry.
- Commercial poultry.
- Other biological assets.

The Group performs a biological asset measurement at initial recognition and as at each reporting date, at fair value less any estimated expenses for sale, except for the cases when it is not possible to quantify fair value with sufficient reliability.

Determination of the fair value of biological assets

Due to the absence of an active market for laying hens in Ukraine, to determine the fair value of biological assets, the Group used the discounted value of net cash flows expected from assets as at reporting date.

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 and on hand, cash in transit and issued letters of credit.

3.9 Impairment of non-current assets

The Group assesses at each balance sheet date 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 selling value and its value in use. In estimating value in use, the future cash flows are discounted to present value using a discount rate before taxation which reflects current market assessments of the time value of money and the risks specific to the asset.

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, then 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 that case if impairment loss for an asset (or cash-generating unit) was not 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 tax: 20% – on the import and sales of goods and services in the territory of Ukraine; and 0% – on the 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.

The Group's entities apply the special VAT taxation treatment prescribed by the Law of Ukraine "About value added tax" dated 3 April 1997 No. 168-BP regarding agricultural activities, which provides preferential VAT treatment to support agricultural producers.

3 Significant accounting policies continued

3.10 Value added tax (VAT) continued
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 are stated with the amount of value added tax included.

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 statement of financial position.

3.11 Income tax and deferred income tax
Current income tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax
Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

– where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

– in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

– where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

– in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying value of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. 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.

Notes to the consolidated financial information

For the years ended 31 December 2010, 2009 and 2008

3 Significant accounting policies continued

3.12 Revenue recognition

Revenues include 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 recorded net of value added tax, discounts and intragroup transactions.

The Group recognises revenue when its amount can be reliably measured, there is a probability of the Group receiving certain future economic benefits, and also when special criteria for each of the Group activities mentioned below are met. The amount of income cannot be reliably measured unless all contingent liabilities relating to sale are settled. The estimates of the Group are based on historical results, taking into account the type of customer, transaction and the specific terms of each agreement.

Revenue is recorded at fair value of assets receivable.

Interest income

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 in the statement of comprehensive income.

3.13 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 a 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 income statement on a straight-line basis over the lease term.

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.

3.14 Distribution of dividends

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

3.15 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 Significant accounting policies continued

3.16 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 fulfil 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 amortisable 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 grant is receivable.

A contingent government grant, relating is recognised by the Group in income only after the fulfilment of conditions for the government grant.

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.

3.17 Contingent assets and liabilities

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

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

3.18 Accrued expenses and provisions

Accrued expenses

The Group accrues the following expenses:

- Accrued expenses for future employee benefits.
- Accrued expenses for settling legal claims.
- Accrued expenses for payments on tax penalties.
- Accrued expenses for other expenses and payments.

The Group recognises accrued expenses in the following circumstances, when:

- There exists a present obligation as a result of a past event;
- There exists a probability that an outflow of resources, embodying economic benefits, will be necessary to satisfy the obligations; and
- It is possible to reliably estimate the obligations' amounts.

The estimate of expenses required to settle the obligations for the reporting date is represented by an amount calculated after taking into consideration the following factors:

- Consideration risks and uncertainty.
- Consideration accrued expenses at reduced value, using a discounting rate, which reflects market evaluations of the time value of money and risks, peculiar to the obligation, and recognition of an increase in the reserve in the course of time as the interest expense, where material.

In its accounting the Group reflects accrued expenses as an increase in the obligations of the provision on separate balance account with the simultaneous recognition of the related expenses.

Notes to the consolidated financial information

For the years ended 31 December 2010, 2009 and 2008

3 Significant accounting policies continued

3.18 Accrued expenses and provisions continued

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 income statement 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. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

3.19 Share capital

Ordinary shares are classified as equity. The difference between the fair value of the consideration received and the nominal of share capital issued is taken to share premium. Incremental costs directly attributable to the issue of shares is deducted from any premium arising.

4 Significant accounting judgements and estimates

The preparation of the Group's consolidated financial information requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying value of the asset or liability affected in future periods.

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the consolidated financial information:

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 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 statement of comprehensive income.

4.3 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 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.

4.4 Impairments of receivables

The Group provides for doubtful debts to cover potential losses when a customer may be unable to make necessary payments. Assessing the adequacy of provision for doubtful debts, management considers the current economic conditions in general, of 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 information as impairments of receivables.

4 Significant accounting judgements and estimates continued

4.4 Impairments of receivables continued
In calculating the impairment, two approaches are used, depending on the amount of receivables:

1. Individual approach – receivables from customers (consumers) exceeding UAH 50,000 are analysed separately and, if necessary, provision is made individually for each debt. The amount of provision is calculated as a difference between the carrying value of accounts receivable and estimated future cash flows (including the amounts which may be received from guarantees and enforcement of pledge), discounted using interest rate of debtor at the date of receivables incurrence.

2. Group approach – receivables not exceeding UAH 50,000 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.

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

Bad debts which are recovered are written-off from the 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 related parties regardless of the original date of current debt, as these would be eliminated on consolidation.

4.5 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 judgement 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.

4.6 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 four types depending on storage period or turnover index:

Type % of reserve	Storage period, months		Turnover index
1	under 3	above 1	–
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

Notes to the consolidated financial information

For the years ended 31 December 2010, 2009 and 2008

4 Significant accounting judgements and estimates continued

4.7 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 judgement 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 date and reduced to the extent there no longer exists any probability for sufficient taxable profit to be received, which enables selling the whole number of or a part of deferred tax assets. Estimate of probability includes judgements, 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 the statement of comprehensive income.

4.8 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 judgements 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 is open to challenge by the tax authorities.

4.9 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 (often referred to as the "Credit Crunch") 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. The uncertainties in the global financial markets have also led to bank failures of banks and other corporations, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against. The volume of wholesale financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and refinance its existing borrowings at terms and conditions similar to those applied to earlier transactions. Debtors and clients of the Group may be adversely affected by the financial and economic environment's lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating economic conditions for clients may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

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.

5 Property, plant and equipment

As at 31 December 2008 movements in property, plant and equipment were as follows:

Initial value	Land US$000	Buildings and structures US$000	Machinery and equipment US$000	Equipment for biological assets US$000	Vehicles US$000	Other equipment US$000	Assets under construction-in-progress and uninstalled equipment US$000	Total US$000
AS AT 1 JANUARY 2008	**5,481**	**126,847**	**15,017**	**54,818**	**3,969**	**8,516**	**5,957**	**220,605**
Acquisitions	–	24,320	17,315	23,662	1,477	346	247,766	314,886
Replacement of components	–	6,024	208	6,941	33	27	45	13,278
Merger of entities under common control	–	10,331	433	5,884	397	836	6,852	24,733
Disposals	–	(147)	(339)	(139)	(54)	(35)	–	(714)
Effect from translation into presentation currency	(1,886)	(57,129)	(11,051)	(33,473)	(1,982)	(3,246)	(83,239)	(192,006)
Internal transfers	–	(140)	285	7,786	–	(263)	(7,668)	–
AS AT 31 DECEMBER 2008	**3,595**	**110,106**	**21,868**	**65,479**	**3,840**	**6,181**	**169,713**	**380,782**
ACCUMULATED DEPRECIATION AS AT 1 JANUARY 2008	**–**	**1,684**	**678**	**3,476**	**260**	**978**	**–**	**7,076**
Depreciation charge for year	–	3,111	873	5,973	518	1,305	–	11,780
Depreciation eliminated on disposal	–	(2)	(22)	(12)	(8)	(10)	–	(54)
Effect from translation into presentation currency	–	(1,604)	(515)	(3,152)	(257)	(756)	–	(6,284)
AS AT 31 DECEMBER 2008	**–**	**3,189**	**1,014**	**6,285**	**513**	**1,517**	**–**	**12,518**
NET CARRYING VALUE AS AT: 31 DECEMBER 2008	**3,595**	**106,917**	**20,854**	**59,194**	**3,327**	**4,664**	**169,713**	**368,264**

Notes to the consolidated financial information

For the years ended 31 December 2010, 2009 and 2008

5 Property, plant and equipment continued

As at 31 December 2009 movements in property, plant and equipment were as follows:

Initial value	Land US$000	Buildings and structures US$000	Machinery and equipment US$000	Equipment for biological assets US$000	Vehicles US$000	Other equipment US$000	Assets under construction-in-progress and uninstalled equipment US$000	Total US$000
AS AT 1 JANUARY 2009	**3,595**	**110,106**	**21,868**	**65,479**	**3,840**	**6,181**	**169,713**	**380,782**
Acquisitions	–	5,037	2,186	132	60	62	22,063	29,540
Replacement of components	–	1,766	257	102	16	24	–	2,165
Merger of entities under common control	–	–	1,501	–	–	18	–	1,519
Disposals	–	(64)	(3)	–	(27)	(6)	–	(100)
Effect from translation into presentation currency	(129)	(4,274)	(904)	(2,417)	(138)	(229)	(6,339)	(14,430)
Internal transfers	–	8,807	9	3,107	–	79	(12,002)	–
AS AT 31 DECEMBER 2009	**3,466**	**121,378**	**24,914**	**66,403**	**3,751**	**6,129**	**173,435**	**399,476**
ACCUMULATED DEPRECIATION AS AT 1 JANUARY 2009	**–**	**3,189**	**1,014**	**6,285**	**513**	**1,517**	**–**	**12,518**
Depreciation charge for year	–	3,441	1,546	5,898	499	901	–	12,285
Depreciation of entities under common control	–	–	6	–	–	1	–	7
Depreciation eliminated on disposal	–	(3)	–	–	(7)	(3)	–	(13)
Effect from translation into presentation currency	–	(199)	(74)	(368)	(30)	(76)	–	24,050
AS AT 31 DECEMBER 2009	**–**	**6,428**	**2,492**	**11,815**	**975**	**2,340**	**–**	**24,050**
NET CARRYING VALUE AS AT: 31 DECEMBER 2009	**3,466**	**114,950**	**22,422**	**54,588**	**2,776**	**3,789**	**173,435**	**375,426**

5 Property, plant and equipment continued

As at 31 December 2010 movements in property, plant and equipment were as follows:

Initial value	Land US$000	Buildings and structures US$000	Machinery and equipment US$000	Equipment for biological assets US$000	Vehicles US$000	Other equipment US$000	Assets under construction-in-progress and uninstalled equipment US$000	Total US$000
AS AT 1 JANUARY 2010	**3,466**	**121,378**	**24,914**	**66,403**	**3,751**	**6,129**	**173,435**	**399,476**
Additions	–	7,291	3,440	60	107	32	21,543	32,473
Disposals	–	(23)	(23)	(17)	(24)	(10)	–	(97)
Effect from translation into presentation currency	11	235	106	125	9	34	542	1,062
Internal transfers	–	14,664	82	17,157	10	2	(13,915)	–
Reclassification	–	14,319	(13,718)	3,707	502	(4,775)	(35)	–
AS AT 31 DECEMBER 2010	**3,477**	**157,864**	**14,801**	**87,435**	**4,355**	**1,412**	**163,570**	**432,914**
ACCUMULATED DEPRECIATION AS AT 1 JANUARY 2010	**–**	**6,428**	**2,492**	**11,815**	**975**	**2,340**	**–**	**24,050**
Depreciation charge	–	4,627	983	6,253	549	225	–	12,637
Depreciation eliminated on disposal	–	(1)	(10)	(10)	(11)	(6)	–	(38)
Effect from translation into presentation currency	–	–	5	12	–	12	–	29
Reclassification	–	1,127	(234)	863	119	(1,875)	–	–
AS AT 31 DECEMBER 2010	**–**	**12,181**	**3,237**	**18,932**	**1,632**	**696**	**–**	**36,678**
NET CARRYING VALUE AS AT: 31 DECEMBER 2010	**3,477**	**145,683**	**11,564**	**68,503**	**2,723**	**717**	**163,569**	**396,236**

Notes to the consolidated financial information

For the years ended 31 December 2010, 2009 and 2008

5 Property, plant and equipment continued

As at 31 December 2010, 31 December 2009 and 31 December 2008 property, plant and equipment used as security for long-term and short-term loans were as follows:

	Carrying value of security as at 31 December 2010 US$000	Carrying value of security as at 31 December 2009 US$000	Carrying value of security as at 31 December 2008 US$000
Buildings and structures	**49,873**	114,950	106,917
Machinery and equipment	**1**	22,422	20,854
Equipment for biological assets	**933**	54,588	59,194
Vehicles	**213**	2,776	3,327
Assets under construction-in-progress and uninstalled equipment	**–**	173,435	169,713
	51,020	**368,171**	**360,005**

In 2010 the Group received government grants – "Partial compensation of complex agricultural equipment cost" – in the amount of US$306,000 (2009: US$312,000; 2008: US$469,000) (Note 35).

As at 31 December 2010, 2009 and 2008 net book value of property, plant and equipment which were acquired under finance leases amounted to US$11,257,000, US$11,521,000 and US$12,241,000 respectively. The residual amount of contractual commitments is presented in Note 25.

At each balance sheet date, 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 any 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 2010, 31 December 2009 and 31 December 2008 the recoverable amount was the higher 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 discount rates of 22.00% as at 31 December 2010 and 2009, and 16.53% as at 31 December 2008. As a result, no impairment indicators were identified at 31 December 2010, 31 December 2009 and 31 December 2008.

6 Held to maturity financial assets

	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
VAT government bonds	257	–	–
Other long-term financial assets to non-related parties	38	40	41
	295	**40**	**41**

7 Biological assets

Biological assets as at 31 December 2010, 31 December 2009 and 31 December 2008 were as follows:

	Note	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
NON-CURRENT BIOLOGICAL ASSETS				
Replacement poultry	a)	59,078	21,546	9,185
		59,078	**21,546**	**9,185**
CURRENT BIOLOGICAL ASSETS				
Commercial poultry	b)	44,700	44,850	47,386
Other biological assets	c)	5	60	549
		44,705	**44,910**	**47,935**

7 Biological assets continued

a) Commercial poultry and replacement poultry as at 31 December 2010, 31 December 2009 and 31 December 2008 were as follows:

	31 December 2010		31 December 2009		31 December 2008	
	Number per thousand head	Fair value US$000	Number per thousand head	Fair value US$000	Number per thousand head	Fair value US$000
Decalb	–	–	–	–	1,427	2,615
Isa Brown	–	–	–	–	917	3,079
Loman	3,092	16,515	331	1,947	823	2,335
Hy-Line	20,834	86,551	14,795	61,572	7,114	36,183
Hisex	297	570	350	2,115	876	1,536
Other	30	143	645	762	2,828	10,823
	24,253	**103,779**	**16,121**	**66,396**	**13,985**	**56,571**

b) Reconciliation of commercial and replacement poultry fair value for the years ended 31 December 2010, 31 December 2009 and 31 December 2008:

AS AT 1 JANUARY 2008		**38,935**
Merger of entities under common control		5,128
Acquisitions		49,509
Increase in value as a result of increase in weight/number		42,202
Income from revaluation of biological assets at fair value	14,729	
Changes in value of biological assets as a result of agricultural produce harvesting	(2,039)	
Net change in fair value		12,690
Decrease in value resulting from assets disposal		(56,927)
Effect from translation into presentation currency		(28,712)
Other changes		(6,254)
As at 31 December 2008/1 January 2009		56,571
Acquisitions		38,065
Increase in value as a result of increase in weight/number		30,082
Income from revaluation of biological assets at fair value	12,386	
Changes in value of biological assets as a result of agricultural produce harvesting	(4,691)	
Net change in fair value		7,695
Decrease in value resulting from assets disposal		(44,590)
Effect from translation into presentation currency		(4,822)
Other changes[1]		(16,605)
AS AT 31 DECEMBER 2009/1 JANUARY 2010		**66,396**
Acquisitions		55,638
Increase in value as a result of increase in weight/number		38,404
Income from revaluation of biological assets at fair value	28,371	
Changes in value of biological assets as a result of agricultural produce harvesting	(2,184)	
Net change in fair value		26,187
Decrease in value resulting from assets disposal		(54,885)
Effect from translation into presentation currency		70
Other changes[1]		(28,031)
AS AT 31 DECEMBER 2010		**103,779**

Due to the absence of an active market for laying hens in Ukraine, to determine the fair value of biological assets, the Group used the discounted value of net cash flows expected from assets. As a discount rate, the rate of 28% prevailing as at 31 December 2010 was applied (as at 31 December 2009: 28.5%; as at 31 December 2009: 18%-19%).

1) The line item "Other changes" includes hen slaughtering, mortality, discarding and utilisation of poultry.

Notes to the consolidated financial information

For the years ended 31 December 2010, 2009 and 2008

7 Biological assets continued

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

As at 31 December 2010, 31 December 2009 and 31 December 2008 the biological assets with a fair value of US$3,741,000, US$3,227,000 and US$5,169,000 respectively were a security for long-term and short-term loans (Note 19).

8 Other non-current assets

Other non-current assets as at 31 December 2010, 31 December 2009 and 31 December 2008 were as follows:

	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
Prepayments for property, plant and equipment	60,071	16,273	54,998
Other non-current assets	357	357	370
	60,428	**16,630**	**55,368**

As at 31 December 2010, 2009 and 2008 the item "Prepayments for property, plant and equipment" mainly included prepayments for equipment for biological assets and prepayments for the construction of poultry farms premises.

9 Taxes recoverable and prepaid

Taxes recoverable and prepaid as at 31 December 2010, 31 December 2009 and 31 December 2008 were as follows:

	Note	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
VAT settlements	a)	52,924	28,625	54,010
Other taxes prepaid		160	83	48
		53,084	**28,708**	**54,058**

a) As at 31 December 2010, 31 December 2009 and 31 December 2008 the item "VAT settlements" includes the amount of VAT, which is subject to:

- Release of budgetary funds by the Government.
- By settlement of future tax liabilities of the entity under this tax within non-agricultural transactions.

10 Inventories

Inventories as at 31 December 2010, 31 December 2009 and 31 December 2008 were as follows:

	Note	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
Raw and basic materials	a)	165,826	72,877	39,468
Work-in-progress		1,192	1,935	206
Agricultural produce		5,915	884	4,639
Finished goods		5,681	9,958	67
Package and packing materials		4,329	3,262	1,450
Goods for resale		1,012	2,640	167
Other inventories		1,669	1,201	1,079
		185,624	**92,757**	**47,076**

For the years ended 31 December 2010, 2009 and 2008 the Group produced shell eggs in the quantity of 4,419,968,480, 3,634,124,230 and 2,421,604,110 items respectively. The fair value produced shell eggs for the years ended 31 December 2010 and 2009 amounted to US$245,080,000, US$125,148,000 and US$144,208,000 respectively.

10 Inventories continued

As at 31 December 2010, a finished goods inventory with a carrying value of US$136,000 (2009: US$135,000; 2008: US$140,000) and also raw and basic materials with a carrying value of US$197,000 (2009: US$196,000; 2008: US$203,000) were pledged as security for the Group's loans.

As at 31 December 2010 grains in the amount of US$75,621,000 (489,673 tons) and fodder in the amount of US$24,085,000 (96,848 tons) were in the safe storage of third parties.

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

11 Prepayments and other current assets

Prepayments and other current assets as at 31 December 2010, 31 December 2009 and 31 December 2008 were as follows:

	Note	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
Prepayments		26,357	12,006	91,311
Provision for doubtful debts	b)	(726)	(422)	(608)
Loans to related parties	a)	180	4,320	702
Commission receivable for acquisition of corporate rights	c)	–	–	12,987
Interest receivable on deposits		10	39,411	79
Accounts receivable for bonds	d)	–	–	25,496
Other non-trade accounts receivable		16,008	3,311	3,144
		41,829	**58,626**	**133,111**

a) "Loans to related parties" include interest-free loans to related parties. The settlement term of the loans will be effected in accordance with the terms of respective loan agreements.

b) Provision for doubtful debts has increased by US$304,000.

c) As at 31 December 2008 accounts receivable under a commission agreement amounting to US$12,987,000 (equivalent to UAH 100 million) respectively represented accounts receivable for acquisition of corporate rights of LLC "Slovyany" (90% of share capital) to "Invest Ptahoprodukt", LLC) in accordance with the agreement.

d) As at 31 December 2008 accounts receivable for bonds in the amount of US$25,496,000 (equivalent to UAH 196,319,000) represents accounts receivable from LLC "Stanislavskaya Torgovaya kompaniya", under securities contracts representing 193,544 items.

12 Trade receivable

Trade receivable, net as at 31 December 2010, 31 December 2009 and 31 December 2008 were as follows:

	Note	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
Trade receivable – gross		54,801	47,600	15,866
Provision for doubtful debts	a)	(123)	(280)	(273)
TRADE RECEIVABLE – NET		**54,678**	**47,320**	**15,593**

As at 31 December 2010, US$24,148,000 or 44.2% of the total carrying value of trade accounts receivable is due from the single most significant debtor (as at 31 December 2009 and 2008: see Note 41a)).

a) Provision for doubtful debts has decreased by US$157,000.

Notes to the consolidated financial information

For the years ended 31 December 2010, 2009 and 2008

13 Cash and cash equivalents

Cash and cash equivalents as at 31 December 2010, 31 December 2009 and 31 December 2008 were as follows:

	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
Cash in banks	182,949	1,493	5,701
Cash on hand	77	103	44
Cash in transit	39	105	42
Letter of credit in national currency	–	26	91
	183,065	1,727	5,878
Less restricted cash:			
Letter of credit in national currency	–	(26)	(91)
CASH TO BE REPRESENTED IN STATEMENT OF CASH FLOWS	**183,065**	**1,701**	**5,787**

14 Long-term and short-term bank deposits

Long-term and short-term bank deposits as at 31 December 2010, 31 December 2009 and 31 December 2008 were as follows:

	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
Bank deposits (with maturity under three months)	–	–	510
Bank deposits (with maturity from three to 12 months)	–	155,917	232,761
Bank deposits (with maturity above 12 months)	–	504	49,351
	–	**156,421**	**282,622**

As at 31 December 2010, 31 December 2009 and 31 December 2008, all the bank deposits were made in national currency of Ukraine.

Deposit interest rates as at 31 December 2010, 31 December 2009 and 31 December 2008 were as follows:

	31 December 2010 %	31 December 2009 %	31 December 2008 %
Bank deposits (with maturity under three months)	–	–	12.5%
Bank deposits (with maturity from three to 12 months)	–	16.0%	8.0%–16.0%
Bank deposits (with maturity above 12 months)	–	12.0%	12.0%–16.0%

As at 31 December 2009, bank deposits with carrying value of US$156,421,000 respectively were a security for long-term and short-term loans of the Group’s companies (Note 19).

15 Share capital, share premium, capital contribution reserve

	2010 Number of shares	2010 Share capital US$000	2010 Share premium US$000	2010 Capital contribution reserve US$000
Authorised ordinary shares[1]	6,500,000	–	–	–
Issued and fully paid on 1 January 2010	5,000,000	644	–	115,858
Issue of shares[2]	1,387,185	192	201,164	–
BALANCE AT 31 DECEMBER 2010	**6,387,185**	**836**	**201,164**	**115,858**

[1] On 22 April 2010 the Company increased its authorised share capital by 1,500,000 ordinary shares of €0.10 per share
[2] In May and June 2010 the Company issued 1,387,185 ordinary shares with nominal value €0.10 per share.

In respect of this share issue, the Company generated net share premium amounting to US$201,164,000 (net of share issue costs of US$6,914,000) (10 GDR are equal to one 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.

	2009 Number of shares	2009 Share capital US$000	2009 Share premium US$000	2009 Capital contribution reserve US$000
Authorised ordinary shares	5,000,000	–	–	–
Issued and fully paid on 1 January 2009	5,000,000	644	–	–
Capital contribution[1]	–	–	–	115,858
BALANCE AT 31 DECEMBER 2009	**5,000,000**	**644**	**–**	**115,858**

[1] In the year ended 31 December 2009 the beneficial owner made an "Additional Capital Contribution" in the amount of US$115,858,000, 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.

	2008 Number of shares	2008 Share capital US$000	2008 Share premium US$000	2008 Capital contribution reserve US$000
Authorised ordinary shares	5,000,000	–	–	–
Issued and fully paid on 1 January 2008	5,000,000	644	–	–
Issue of shares	–	–	–	–
BALANCE AT 31 DECEMBER 2008	**5,000,000**	**644**	**–**	**–**

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For the years ended 31 December 2010, 2009 and 2008

16 Long-term loans

Long-term loans as at 31 December 2010, 31 December 2009 and 31 December 2008 were as follows:

	Note	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
Long-term bank loans in national currency	a), b), c)	33,086	196,634	190,142
Long-term bank loans in foreign currency	a), b), c)	–	1,845	2,146
Total loans		33,086	198,479	192,288
Commodity credit	d)	1,113	1,110	1,151
		34,199	**199,589**	**193,439**
Current portion of bank loans in national currency (Note 20)		(3,200)	(112,652)	(116)
Current portion of bank loans in foreign currency (Note 20)		–	(962)	(805)
TOTAL LONG-TERM LOANS		**30,999**	**85,975**	**192,518**

a) As at 31 December 2010, 31 December 2009 and 31 December 2008 long-term bank loans by maturities were as follows:

	Note	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
Under a year (current portion)	20	3,200	113,614	921
From one to two years		1,550	51,278	85,775
From two to three years		28,336	–	70,762
From three to four years			33,587	
From four to five years			–	34,830
Above five years			–	–
		33,086	**198,479**	**192,288**

b) As at 31 December 2010, 31 December 2009 and 31 December 2008 long-term bank loans by currencies were as follows:

	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
Long-term bank loans in UAH	33,086	196,634	190,142
Long-term bank loans in CHF	–	1,845	2,146
	33,086	**198,479**	**192,288**

c) As at 31 December 2010, 31 December 2009 and 31 December 2008 interest rates for long-term bank loans were as follows:

	31 December 2010 %	31 December 2009 %	31 December 2008 %
Long-term bank loans denominated in UAH	17%–23%	16.0%–23.0%	14.0%–23.0%
Long-term bank loans denominated in CHF		9.0%	9.0%

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

d) Commodity credit is represented by a liability of the Group's companies, such as OJSC "Volnovahskyi Kombinat Khilboprodiktiv" and OJSC "Ptakhohospodarstvo Chervonyi Prapor" for an interest-free budget loan received in the years 1995-1998 for the acquisition of agricultural products under a Government contract. This loan is subject to repayment 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.

17 Long-term bond liabilities

Long-term bond liabilities as at 31 December 2010, 31 December 2009 and 31 December 2008 were as follows:

	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
Par value	200,000	–	–
Discount on issued bonds	(6,529)	–	–
	193,471	**–**	**–**

	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
COUPON PAYABLE	**3,461**	**–**	**–**

On 29 October 2010, the Company launched 2,000 five-year non-convertible bonds with par value equal to US$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 US$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 loan were as follows: (1) LLC Areal Snigurivka, (2) CJSC Agrofirma Avis, (3) LLC Torgivelniy 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.

18 Short-term loans

Short-term loans as at 31 December 2010, 31 December 2009 and 31 December 2008 were as follows:

	Note	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
Short-term loans in national currency	a), b), c)	292	23,741	175,181
Short-term loans in foreign currency	a), b), c)	725	725	771
Interest free loans	d)	19	8,535	104,151
Overdrafts	c)		–	73
		1,036	**33,001**	**280,176**

As at 31 December 2008 interest-free loans received in the amount of US$198,369,000 were reclassified into advances received.

a) As at 31 December 2010, 31 December 2009 and 31 December 2008 short-term bank loans by maturity were as follows:

	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
Under three months	1,017	975	20,995
From three to six months	–	11,151	5,743
From six to 12 months	–	12,340	149,214
	1,017	**24,466**	**175,952**

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For the years ended 31 December 2010, 2009 and 2008

18 Short-term loans continued

b) As at 31 December 2010, 31 December 2009 and 31 December 2008 short-term bank loans by currencies were as follows:

	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
Short-term bank loans in UAH	292	23,741	175,181
Short-term bank loans in US$	725	725	725
Short-term bank loans in Euro		–	46
	1,017	**24,466**	**17,952**

c) Short-term bank loans and overdrafts by currencies as at 31 December 2010, 31 December 2009 and 31 December 2008 were as follows:

	31 December 2010 %	31 December 2009 %	31 December 2008 %
Short-term bank loans denominated in UAH	25%–29%	10.25%–28.0%	14.5%–30.0%
Short-term bank loans denominated in US$	17.0%	17.0%	13.0%
Short-term bank loans denominated in Euro		–	10.5%
OVERDRAFTS DENOMINATED IN UAH		**–**	**22.0%**

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

d) As at 31 December 2010, 31 December 2009 interest-free loans received under financial assistance contracts amounted to US$19,000 and US$8,535,000 respectively, with contracts not exceeding a year from the reporting date.

19 Security

Long-term (Note 16) and short-term loans (Note 18) as at 31 December 2010, 31 December 2009 and 31 December 2008 were secured on assets as follows:

	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
Buildings and structures	49,873	114,950	106,917
Machinery and equipment	1	22,422	20,854
Equipment for biological assets	933	54,588	59,194
Vehicles	213	2,776	3,327
Assets under construction-in-progress and uninstalled equipment	–	173,435	169,713
PROPERTY, PLANT AND EQUIPMENT, TOTAL	**51,020**	**368,171**	**360,007**
Inventories	333	331	343
Biological assets	3,741	3,227	5,169
Personal investment certificates	–	–	–
Bank deposits	–	156,421	282,622
	55,094	**528,150**	**648,139**

As at 31 December 2010 shares of APP CJSC Chornobaivske were pledged under long-term bank loans.

As at 31 December 2008, shares of OJSC "Kirovskyi" in the amount of 1.10% of share capital with collateral value of US$20,677,000, shares of OJSC "Ptakhohospodarstvo Chervonyi Prapor" in the amount of 13.98% of share capital with collateral value of US$19,562,000, shares of CJSC "Chernivetska Ptakhofabryka" in the amount of 2.70% of share capital with collateral value of US$4,952,000, shares of CJSC "Avangard" in the amount of 1.13% of share capital with collateral value of US$32,264,000, CJSC "Chernobaevskoe" in the amount of 93.21% of share capital, corporate rights ALLC "Donetska Ptakhofabryka" in the amount of 99.9% of share capital with collateral value of US$20,694,000, shares of LLC "Cross-PF Zorya" in the amount of 89.43% of share capital with collateral value of US$13,582,000, and also corporate rights of SC "Ptakhofabryka Losuvatska" in the amount of 100% of share capital with collateral value of US$10,260,000 were used as security for loans to the Group.

20 Current portion of non-current financial liabilities

The current portion of non-current financial liabilities as at 31 December 2010, 31 December 2009 and 31 December 2008 was as follows:

	Note	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
TRADE AND OTHER PAYABLES				
Deferred income (current portion)	35c)	305	304	315
FINANCIAL LIABILITIES				
Current portion of finance lease liabilities	25	678	1,714	1,816
VAT included in current portion of finance lease liabilities	25	136	343	363
Current portion of bank loans in national currency	16a)	3,200	112,652	116
Current portion of bank loans in foreign currency	16a)	–	962	805
		4,319	**115,975**	**3,415**

21 Deferred tax assets and liabilities

The principal components of deferred tax assets and liabilities as at 31 December 2010, 31 December 2009 and 31 December 2008 were as follows:

Influence of temporary differences on deferred tax assets

	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
Advances received	44	321	2 ,132
Intangible assets	1	1	1
Provisions	30	37	22
Total deferred tax assets	75	359	2,155
INFLUENCE OF TEMPORARY DIFFERENCES ON DEFERRED TAX LIABILITIES			
Advances issued to suppliers	(22)	(527)	(1,296)
Property, plant and equipment, non-current assets	(1,109)	(775)	(679)
Deferred expenses	–	–	–
TOTAL DEFERRED TAX LIABILITIES	**(1,185)**	**(1,302)**	**(1,975)**
NET DEFERRED TAX (LIABILITIES)/ASSETS	**(1,110)**	**(943)**	**180**

Principal components of income tax expense

As at 31 December 2010, 31 December 2009 and 31 December 2008 the rate of income tax in Ukraine was equal to 25%.

	2010 US$000	2009 US$000	2008 US$000
Current income tax	(54)	(19)	(26)
Deferred tax	(200)	(1,149)	1,440
	(254)	**(1,168)**	**1,414**

Reconciliation of deferred tax liabilities

	2010 US$000	2009 US$000	2008 US$000
BALANCE AS AT 1 JANUARY	**(943)**	**180**	**(1,201)**
Deferred income/(expenses) for income tax for the reporting period	(254)	(1,168)	1,414
Effect from translation into presentation currency	87	45	(33)
BALANCE AS AT 31 DECEMBER	**(1,110)**	**(943)**	**180**

Notes to the consolidated financial information

For the years ended 31 December 2010, 2009 and 2008

21 Deferred tax assets and liabilities continued

Reconciliation between income tax expenses and accounting profit multiplied by the rate of income tax:

	2010	2009	2008
Profit/(loss) before tax	185,012	134,837	75,869
Less profit/(loss) of the companies being fixed agricultural tax payers	(181,814)	(126,247)	(79,475)
	3,198	**8,590**	**3,606**
Profit/(loss) of the companies being income tax payers at the rate of 10%	(2,049)	93	(57)
Profit/(loss) of the companies being income tax payers at the rate of 25%	5,247	8,497	(3,549)
	3,198	**8,590**	**(3,606)**
Income (loss) tax, taxable at the rate of 10%	205	(9)	6
Income (loss) tax, taxable at the rate of 25%	(1,312)	(2,124)	887
Expenses not included in gross expenses for income tax	853	965	521
PROFIT/(LOSS) FOR INCOME TAX	**(254)**	**(1,168)**	**1,414**

As at 1 January 2008	(6)
Income tax accrued for the period	(26)
Income tax paid for the period	29
Effect from translation into presentation currency	8
As at 31 December 2008/1 January 2009	5
Income tax accrued for the period	(19)
Income tax paid for the period	49
Effect from translation into presentation currency	(0)
As at 31 December 2009/1 January 2010	35
Income tax accrued for the period	(54)
Income tax paid for the period	34
Effect from translation into presentation currency	(8)
AS AT 31 DECEMBER 2010	**7**

The income tax payers in 2010 and 2009 were the following companies: LLC "Rohatyn-Korm", OJSC "Vuhlelhirskyi Eksperrementalnyi Kombikrmovyi Zavod", OJSC "Volhovatskiy Kombinat Khliboproduktiv", LLC "Kamyanets-Podilsky Kombikormovyi Zavod", LLC "Pershe Travnya Kombikormovyi Zavod", and LLC "Imperovo Foods". All other companies of the Group were payers of the fixed agricultural tax.

The income tax payers in 2008 were the following companies: LLC "Rohatyn-Korm", OJSC "Vuhlelhirskyi Eksperrementalnyi Kombikrmovyi Zavod", OJSC "Volhovatskiy Kombinat Khliboproduktiv", LLC "Kamyanets-Podilsky Kombikormovyi Zavod". All other companies of the Group were payers of the fixed agricultural tax.

According to the Law of Ukraine "About fixed agricultural tax", the taxation for the fixed agricultural tax payers is based on the agricultural area, which is submitted to a manufacturer of agricultural products in his/her property or for use.

22 Trade payables

Trade payables as at 31 December 2010, 31 December 2009 and 31 December 2008 were as follows:

	Note	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
Trade payables		20,980	65,893	18,679
Short-term notes issued	a)	2,211	2,126	1,850
		23,191	**68,019**	**20,529**

a) As at 31 December 2010, 31 December 2009 and 31 December 2008 short-term notes issued were represented by promissory, non-interest-bearing notes.

23 Accrued expenses

Accrued expenses as at 31 December 2010, 31 December 2009 and 31 December 2008 were as follows:

	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
Accrued expenses for future employee benefits	1,182	1,139	909
Other accrued expenses	126	139	95
	1,308	**1,278**	**1,004**

24 Other current liabilities and accrued expenses

Other current liabilities and accrued expenses as at 31 December 2010, 31 December 2009 and 31 December 2008 were as follows:

	Note	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
Wages and salaries and related taxes liabilities		2,815	2,858	1,483
Other taxes and compulsory payments liabilities	a)	3,958	132	75
Accounts payable for property, plant and equipment		6,728	12,847	9,112
Advances received from customers	b)	11,972	108,395	225,380
Interest payable		2,665	8,331	291
Accrued coupon on bonds		5,727	2,055	2,039
Other payables	c)	6,337	7,421	123,947
		40,202	**142,039**	**362,327**

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. The decrease in advances from customers is related to the investors' requirements to minimise transactions with related parties (Note 37).

c) As at 31 December 2008 the item "Other payables" in the amount of US$120,642,000 comprised liabilities for settlement of consideration payable for subsidiaries.

Notes to the consolidated financial information

For the years ended 31 December 2010, 2009 and 2008

25 Finance lease liabilities

Finance lease liabilities for the years ended 31 December 2010, 31 December 2009 and 31 December 2008 were as follows:

	Minimum lease payments	VAT included in minimum lease payments	Current value of minimum lease payments	VAT included in current value of minimum lease payments
Amounts payable under finance lease as at 31 December 2008:				
Within a year	3,047	363	1,816	363
From one to five years	9,447	1,417	7,085	1,417
Above five years	–	–	–	–
	12,494	**1,780**	**8,901**	**1,780**
Less: financial expenses of future periods	(3,593)	–	–	–
Current value of lease liabilities	8,901	1,780	8,901	1,780
Less: amount to be paid within a year	–	–	(1,816)	(363)
Amount to be paid after a year	–	–	7,085	1,417

	Minimum lease payments	VAT included in minimum lease payments	Current value of minimum lease payments	VAT included in current value of minimum lease payments
Amounts payable for finance lease as at 31 December 2009:				
Within a year	2,652	343	1,714	343
From one to five years	6,458	1,023	5,119	1,023
Above five years	–	–	–	–
	9,110	**1,366**	**6,833**	**1,366**
Less: financial expenses of future periods	(2,277)	–	–	–
Current value of lease liabilities	6,833	1,366	6,833	1,366
Less: amount to be paid within a year	–	–	(1,714)	(343)
Amount to be paid after a year	–	–	5,119	1,023

	Minimum lease payments	VAT included in minimum lease payments	Current value of minimum lease payments	VAT included in current value of minimum lease payments
AMOUNTS PAYABLE FOR FINANCE LEASE AS AT 31 DECEMBER 2010:				
Within a year	1,332	136	678	136
From one to five years	6,253	1,062	5,310	1,062
ABOVE FIVE YEARS	**7,585**	**1,198**	**5,988**	**1,198**
Less: financial expenses of future periods	(1,597)	–	–	–
Current value of lease liabilities	5,988	1,198	5,988	1,198
Less: amount to be paid within a year	–	–	(678)	(136)
Amount to be paid after a year	–	–	5,310	1,062

25 Finance lease liabilities continued

Net carrying value of property, plant and equipment acquired (Note 5) via finance lease as at 31 December 2010, 31 December 2009 and 31 December 2008 was as follows:

	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
Equipment for biological assets	11,143	9,677	10 ,307
Vehicles	62	71	68
Assets under construction-in-progress and uninstalled equipment	–	1,696	1,759
Other equipment	52	78	107
	11,257	**11,522**	**12,241**

Non-current assets under finance lease include equipment for biological assets, construction-in-progress and uninstalled equipment, and vehicles with a finance lease term of three to four years. Interest rate under finance lease agreements is LIBOR + 8% per annum for the years ended 31 December 2009 and 31 December 2010. Finance lease agreements do not provide the possibility of changing the initial terms of agreements.

26 Short-term bond liabilities

Short-term bond liabilities as at 31 December 2010, 31 December 2009 and 31 December 2008 were as follows:

	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
Nominal value	25,120	24,249	25,844
Discount on bonds issued	–	–	(1)
	25,120	**24,249**	**25,843**

	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
BONDS COUPON PAYABLE	**2,266**	**2,055**	**2,039**

As at 31 December 2010, 31 December 2009 and 31 December 2008 current liabilities for bonds were presented as liabilities for A-type bonds with nominal value of US$25,120,000, US$24,249,000 and US$25,844,000 respectively, which was equivalent to UAH 200,000,000, 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 was 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 Chervoniy Prapor", OJSC "Volnovaskyi Kombinat Khliboprodiktiv", OJSC "Vuhlehirskyi Eksperementalnyi Kombikormovyi 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 Travnya", 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 less than the National Bank of Ukraine bank rate on the date of the decision on setting interest rate. The bonds' owner has a right to present the bonds to the issuer for payment on the following dates: 25 May 2009, 24 May 2010, 23 May 2011, 21 May 2012, under the notification conditions. The bonds circulation period is from 2 July 2008 to 19 May 2013.

Notes to the consolidated financial information

For the years ended 31 December 2010, 2009 and 2008

27 Sales revenue

Sales revenue for the years ended 31 December 2010, 31 December 2009 and 31 December 2008 was as follows:

	2010 US$000	2009 US$000	2008 US$000
Revenue from finished goods	427,292	318,526	299,026
Revenue from goods and services sold/rendered	12,411	1,329	3,266
	439,703	**319,855**	**302,292**

For the year ended 31 December 2010 US$99,088,000 or 22.5% from the Group's revenue is referred to the sales transactions carried out with one of the Group's clients (for 2009 and 2008: Note 41a)).

28 Cost of sales

Cost of sales for the years ended 31 December 2010, 31 December 2009 and 31 December 2008 was as follows:

	Note	2010 US$000	2009 US$000	2008 US$000
Cost of finished goods sold	29	(293,318)	(215,883)	(229,609)
Cost of goods and services sold/rendered		(14,826)	(4,524)	(3,366)
		(308,144)	**(220,407)**	**(232,975)**

29 Cost of sales by elements

The cost of finished goods sold (Note 28) for the years ended 31 December 2010, 31 December 2009 and 31 December 2008 was as follows:

	Note	2010 US$000	2009 US$000	2008 US$000
Raw materials		(249,235)	(174,827)	(182,548)
Payroll of production personnel and related taxes	36	(16,394)	(14,953)	(21,447)
Depreciation	5	(12,165)	(11,641)	(11,095)
Services provided by third parties[1]		(14,949)	(14,365)	(14,331)
Other expenses		(575)	(97)	(188)
		(293,318)	**(215,883)**	**(229,609)**

[1] This item consists of expenses for electricity, gas, water, current repairs of production premises, sanitary cleaning services, veterinary services and other.

30 General administrative expenses

General administrative expenses for the years ended 31 December 2010, 31 December 2009 and 31 December 2008, were as follows:

	Note	2010 US$000	2009 US$000	2008 US$000
Salaries and wages of administrative personnel	36	(3,254)	(2,889)	(4,520)
Services provided by third parties	5	(3,122)	(1,216)	(1,534)
Depreciation		(98)	(144)	(167)
Repairs and maintenance costs		(43)	(44)	(145)
Tax expenses, except for income tax		(293)	(252)	(270)
Material usage		(267)	(271)	(498)
Other expenses		(91)	(117)	(798)
		(7,168)	**(4,933)**	**(7,932)**

31 Distribution expenses

Distribution expenses for the years ended 31 December 2010, 31 December 2009 and 31 December 2008 were as follows:

	Note	2010 US$000	2009 US$000	2008 US$000
Salaries and wages of distribution personnel	36	(1,478)	(1,015)	(1,766)
Transport expenses	5	(2,531)	(864)	(1,032)
Depreciation		(373)	(499)	(518)
Services provided by third parties		(126)	(319)	(215)
Packing materials		(305)	(128)	(465)
Repairs and maintenance costs		(27)	(27)	(19)
Other expenses		(218)	(234)	(414)
		(5,058)	**(3,086)**	**(4,429)**

32 Other operating expenses

Other operating expenses net for the years ended 31 December 2010, 31 December 2009 and 31 December 2008 were as follows:

	2010 US$000	2009 US$000	2008 US$000
Loss from disposal of current assets	(126)	(890)	–
Income/(loss) from disposal of non-current assets	(56)	(90)	(376)
Impairment of current assets	(259)	(1,571)	(1,630)
Losses on exchange	(163)	(672)	(1,744)
Other expenses	(433)	(69)	(3,190)
Fines, penalties recognised	(1,188)	(1,049)	–
Other income/(expenses)	(2,676)	768	120
	(4,901)	**(3,573)**	**(6,820)**

For the year ended 31 December 2009 the item ''Income received from waiver of amounts due to related parties'' in the amount of US$22,525,000 resulted from the waiver of debt due to related parties (Note 37).

Notes to the consolidated financial information

For the years ended 31 December 2010, 2009 and 2008

33 Finance costs

Finance costs for the years ended 31 December 2010, 31 December 2009 and 31 December 2008 were as follows:

	2010 US$000	2009 US$000	2008 US$000
Interest payable on loans	(34,587)	(60,025)	(56,063)
Capitalised interest	16,727	17,382	7,449
TOTAL FINANCIAL EXPENSES ON LOANS	**(17,860)**	**(42,643)**	**(48,614)**
Financial expenses on finance lease	(4,014)	(1,216)	(1,153)
Financial expenses on bonds (interest)	(7,939)	(2,259)	(3,194)
Other financial expenses	(135)	(32)	(25)
	(29,948)	**(46,150)**	**(52,986)**

34 Finance income

Finance income for the year ended 31 December 2010 mainly comprises of the amount of interest income from placement of deposits, referred to in Note 14, in the amount of US$31,615,000 (31 December 2009: US$41,180,000; 31 December 2008: US$26,897,000), and US$2,266,000 in respect of gain on sale of short-term bonds.

35 Income from government grants and incentives and from special VAT treatment

35.1 Income from government grants and incentives received for the years ended 31 December 2010, 31 December 2009 and 31 December 2008 were as follows:

	Note	2010 US$000	2009 US$000	2008 US$000
Partial compensation of interest for loans received by agro-industrial enterprises from financial institutions	a)	16,951	6,261	30,598
VAT for development of poultry keeping	b)	233	2,855	7,795
Amortisation of deferred income on government grants	c)	306	312	469
Other grants	d)	14	12	206
		17,504	**9,440**	**39,068**

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.

For the years ended 31 December 2010, 31 December 2009 and 31 December 2008 the Group received partial compensation of interest for loans received by agro-industrial enterprises from financial institutions in the amount of US$16,951,000, US$6,261,000 and US$30,598,000 respectively which is presented on a cash received basis.

b) VAT for development of poultry keeping
The following regime for VAT compensation for poultry keeping was effective until 1 January 2009.

c) 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 compensation received for the above-mentioned period is UAH 60,608,000. Those grants were recognised as deferred income and reflected within the "Deferred income" item in the statement of financial position. The deferred income is amortised over the estimated useful life of the relevant asset (generally 25 years) and the amortisation is reflected in the above table.

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

35.2 Income from special VAT treatment received for the years ended 31 December 2010 and 31 December 2009 were as follows:

	2010 US$000	2009 US$000
Income from special VAT treatment	21,910	12,291
TOTAL	**21,910**	**12,291**

According to the Law of Ukraine on "Value Added Tax" agricultural enterprises (those with not less than 50% of income from agricultural product sales or those selling milk/meat products) have a tax benefit for VAT on agriculture transactions. The amount of VAT is not paid to the government authorities but enterprises transfer it to a special account in order to use it for agriculture development. Enterprises of the Group recognise income from government grants on receipt and use of funds from the special account. VAT credited but not used for the specified purpose is disclosed in the line item "Target financing".

Use of these benefits was changed with effect from 1 January 2009 by the laws of Ukraine. Only enterprises with a 75% share of agricultural operations in total deliveries for the last 12 months are now permitted to use them. A positive VAT balance will be used for agriculture support as before (but without special account transactions) and negative VAT balance shall be recognised as other operating expenses. These income and expenses are recorded in the consolidated financial information on an ongoing basis.

All members of the Group met the criteria for the use of these VAT benefits except: LLC Rohatyn-Korm, LLC Kamyanets-Podilsky Kombikormoviy Zavod, OJSC Vuhlehirskyi Eksperementalnyi Kombikormovyi Zavod, OJSC Volnovaskyi Kombinat Khliboprodiktiv, LLC Pershe Travnya Kombikormoviy Zavod and LLC Imperovo Foods.

Notes to the consolidated financial information

For the years ended 31 December 2010, 2009 and 2008

36 Payroll and related taxes

Payroll and related taxes for the years ended 31 December 2010, 31 December 2009 and 31 December 2008 were as follows:

	2010 US$000	2009 US$000	2008 US$000
Salary	(15,423)	(14,461)	(22,404)
Contributions to pension fund	(5,197)	(3,912)	(4,645)
Other contributions	(506)	(484)	(684)
	(21,126)	**(18,857)**	**(27,733)**

	Note	2010 US$000	2009 US$000	2008 US$000
Payroll of production personnel and related taxes	29	(16,394)	(14,953)	(21,447)
Salaries and wages of administrative personnel	30	(3,254)	(2,889)	(4,520)
Salaries and wages of distribution personnel	31	(1,478)	(1,015)	(1,766)
		(21,126)	**(18,857)**	**(27,733)**

Average number of employees for the years ended 31 December 2010, 31 December 2009 and 31 December 2008 was presented as follows:

	2010	2009	2008
AVERAGE NUMBER OF EMPLOYEES	**4,855**	**4,978**	**5,366**

37 Related party balances and transactions

The Company is controlled by Mr Oleg Bakhmatyuk, who directly or indirectly owns 77.5% of the Company's share capital as at 31 December 2010. The remaining 22.5% of the shares are widely held.

For the purposes of this consolidated financial information, 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.
B. Companies having the same top management.
C. Companies in which the Group's owners have an equity interest.
D. Companies which activities are significantly influenced by the Group's owners.

37 Related party balances and transactions continued

Salary costs of key management for the years ended 31 December 2010, 31 December 2009 and 31 December 2008 were as follows:

	2010 US$000	2009 US$000	2008 US$000
Salary	1,952	932	1,346
Contributions to pension funds	576	244	278
Other contributions	62	31	43
	2,590	**1,207**	**1,667**

The number of top management personnel for the years ended 31 December 2010, 31 December 2009 and 31 December 2008 was as follows:

	2010 US$000	2009 US$000	2008 US$000
NUMBER OF TOP MANAGEMENT PERSONNEL	**182**	**122**	**129**

The outstanding amounts of the Group for transactions with related parties as at 31 December 2010, 31 December 2009 and 31 December 2008 were as follows:

	Outstanding balances with related parties		
	2010 US$000	2009 US$000	2008 US$000
Other non-current assets:			
B. Companies having the same top management	–	–	–
D. Companies whose activities are significantly influenced by the Group's owners	–	1,286	30,834
		1,286	**30,834**
Other current asset:			
B. Companies having the same top management	–	2	12,990
C. Companies in which the Group's owners have an equity interest	279	1,957	370
D. Companies whose activities are significantly influenced by the Group's owners	341	46,475	110,184
	620	**48,434**	**123,544**
Trade accounts receivable:			
C. Companies in which the Group's owners have an equity interest	200	8,181	7,581
D. Companies whose activities are significantly influenced by the Group's owners	23	33,319	6,362
	223	**41,500**	**13,943**
Cash and cash equivalents:			
D. Companies whose activities are significantly influenced by the Group's owners	4,312	1,413	5,472
	4,312	**1,413**	**5,472**
Deposits:			
D. Companies whose activities are significantly influenced by the Group's owners	–	155,917	272,991
		155,917	272,991
Long-term loans:			
D. Companies whose activities are significantly influenced by the Group's owners	–	162,884	155,042
		162,884	**155,042**
Short-term loans:			
B. Companies having the same top management	–	–	–
C. Companies in which the Group's owners have an equity interest	–	346	43,851
D. Companies whose activities are significantly influenced by the Group's owners	–	26,437	205,432
	–	**26,783**	**249,283**

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37 Related party balances and transactions continued

	Outstanding balances with related parties		
	2010 US$000	2009 US$000	2008 US$000
Trade accounts payable:			
B. Companies having the same top management	–	7	–
C. Companies in which the Group's owners have an equity interest	1,162	3,725	1,161
D. Companies whose activities are significantly influenced by the Group's owners	985	16,548	4,446
	2,147	**20,280**	**5,607**
Other current liabilities			
B. Companies having the same top management	–	23	29
C. Companies in which the Group's owners have an equity interest	1,290	10,404	1,424
D. Companies whose activities are significantly influenced by the Group's owners[1]	105	98,785	226,643
	1,395	**109,212**	**228,096**

1) The decrease in other current liabilities (with common ownership companies) is related to the investors' requirements to minimise transactions with related parties. Advances from customers were partly repaid by goods sold with the remaining material amount being reimbursed back to the contractor in the form of cash, in view of the management decision to engage unrelated parties in such business transactions (Note 24).

The Group's transactions with related parties as at 31 December 2010, 31 December 2009 and 31 December 2008 were as follows:

	Transactions with related parties for the year ended		
	2010 US$000	2009 US$000	2008 US$000
Sales revenue:			
B. Companies having the same top management		–	2
C. Companies in which the Group's owners have an equity interest	30,420	14,413	84,454
D. Companies whose activities are significantly influenced by the Group's owners	66,895	83,507	81,974
	97,315	**97,920**	**166,430**
General administrative expenses:			
B. Companies having the same top management	–	(66)	(217)
C. Companies in which the Group's owners have an equity interest	(4)	–	(54)
D. Companies whose activities are significantly influenced by the Group's owners	(64)	–	
	(68)	**(66)**	**(271)**
Distribution expenses:			
C. Companies in which the Group's owners have an equity interest	(12)		
D. Companies whose activities are significantly influenced by the Group's owners	(872)		
	(884)		
Other operating income/(expenses), net:			
B. Companies having the same top management	–	(18)	–
C. Companies in which the Group's owners have an equity interest	39	80	1,239
D. Companies whose activities are significantly influenced by the Group's owners	72	(30)	(594)
	111	**32**	**645**
Waiver of amounts due to related parties:			
D. Companies whose activities are significantly influenced by the Group's owners	869	22,525	–
	869	**22,525**	**–**
Finance income:			
D. Companies whose activities are significantly influenced by the Group's owners	31,356	40,472	24,625
	31,356	**40,472**	**24,625**
Finance cost:			
D. Companies whose activities are significantly influenced by the Group's owners	27,095	41,510	(41,036)
	27,095	**41,510**	**(41,036)**

37 Related party balances and transactions continued

37.1 Acquisitions of subsidiaries

On 1 July 2009 the Group acquired from a third party a 100% interest in LLC Imperovo Foods egg-processing company. The transaction was accounted for under the purchase method of accounting. The Group's effective ownership interest in LLC Imperovo Foods upon the acquisition and as of 31 December 2009 was equal to 100%.

The fair value of the net assets acquired was as follows:

	Fair value US$000	Book value US$000
Property, plant and equipment, net	1,512	1,451
Inventories	45,121	45,121
Deferred tax assets	22	22
Prepayments and other current assets	47,490	47,490
Trade accounts receivable	17,279	17,279
Cash and cash equivalents	32	32
TOTAL ASSETS	**111,456**	**111,395**
Short-term loans	(88,668)	(88,668)
Trade accounts payable	(9,431)	(9,431)
Other current liabilities	(13,986)	(13,986)
TOTAL LIABILITIES	**(112,085)**	**(112,085)**
Net liabilities acquired	(629)	(690)
Non-controlling interest	–	
The value of acquired net assets	(629)	
Goodwill	634	
Total amount paid for investments	(5)	
Cash and cash equivalents acquired	32	
NET CASH INFLOW ARISING ON THE ACQUISITION	**27**	

As at 1 July 2009 the item "Short-term loans" amounting to US$88,668,000 represented interest-free loans received from related parties.

The amount of revenue and profit of LLC Imperovo included in the results of the Group since acquisition are US$26,307,000 and US$195,000 respectively. If the Group had acquired LLC Imperovo Foods on 1 January 2009 the revenue of the Group would have amounted to US$377,669,000, the Group's profit would have been US$134,097,000 and earnings for the year per share would have been equal to US$26.73m.

Control over the following entities was achieved in 2008:

Name	Ownership interest, %
LLC Areal-Snigurivka	100%
LLC Torgivenlniy budynok ohodukhivska Ptakhofabryka	100%
PPB LLC Ptytsecompleks	100%
PSPC Interbusiness	100%

The above-mentioned companies were included in the consolidated financial information of the Group for the year ended 31 December 2008 from the date common control was achieved. The effect of acquiring control over these entities was equal to US$9,349,000 and was recognised in the consolidated statement of changes in equity for the year ended 31 December 2008.

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38 Business segments

A business 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 business segments.

For the purpose of management the Group is divided into the following business segments on the basis of produced goods and rendered services, and consists of the following five operating 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 each segment's activities are measured on the basis of operating profit or loss and is carried out according to the measurement of operating profit or loss in the consolidated financial information.

The Group carries out its core financial and economic activities in the territory of Ukraine. Accordingly, the Group operates in one geographical segment.

Business segment information for the year ended 31 December 2008 was as follows:

	Shell egg US$000	Poultry US$000	Animal feed US$000	Egg products US$000	Other activities US$000	Unallocated Group transactions US$000	Adjustments and elimination US$000	Total US$000
Sales revenue	236,964	60,664	75,351	2,200	11,881	–	–	387,060
Intra-Group elimination	(11,266)	(300)	(73,202)			–	–	(84,768)
Revenue from external buyers	225,698	60,364	2,149	2,200	11,881	–	–	302,292
Income from revaluation of biological assets at fair value	8,730	3,960	–	–	–	–	–	12,690
Other operating income/expenses, net	(2,770)	(3,788)	(89)	–	(167)	–	(6)	(6,820)
Income from government grants and incentives	36,543	1,477	1,048	–	–	–	–	39,068
OPERATING PROFIT/(LOSS)	**95,459**	**3,348**	**364**	**(2,684)**	**5,477**	**–**	**(6)**	**101,958**
Finance income	26,831	43	23	–	–	–	–	26,897
Finance cost	(45,971)	(1,868)	(5,147)	–	–	–	–	(52,986)
Including:								
Interest payable on loans	(41,618)	(1,854)	(5,142)	–	–	–	–	(48,614)
Financial expenses for bonds (interest)	(3,194)	–	–	–	–	–	–	(3,194)
Income tax income/(expenses)	–	–	1,414	–	–	–	–	1,414
NET PROFIT/(LOSS) FOR THE PERIOD	**76,319**	**1,523**	**(3,346)**	**(2,684)**	**5,477**	**–**	**(6)**	**77,283**
TOTAL ASSETS	**855,964**	**67,729**	**111,219**	**–**	**3,319**	**41**	**(18,306)**	**1,019,966**
Capitalised expenses	300,367	13,971	548	–	–	–	–	314,886
Depreciation	11,216	370	194	–	–	–	–	11,780
TOTAL LIABILITIES	**644,941**	**44,715**	**108,342**	**–**	**923**	**120,642**	**(18,100)**	**901,463**

38 Business segments continued

Business segment information for the year ended 31 December 2009 was as follows:

	Shell egg US$000	Poultry US$000	Animal feed US$000	Egg products US$000	Other activities US$000	Unallocated Group transactions US$000	Adjustments and elimination US$000	Total US$000
Sales revenue	255,819	42,891	68,658	26,758	4,044	–	–	398,170
Intra-Group elimination	(15,233)	(5,145)	(53,143)	(4,794)	–	–	–	(78,315)
Revenue from external buyers	240,586	37,746	15,515	21,964	4,044	–	–	319,855
Income from revaluation of biological assets at fair value	678	7,017	–	–	–	–	–	7,695
Other operating income/(expenses)	(2,695)	(667)	(343)	–	132	–	–	(3,573)
Income from government grants and incentives	7,346	721	1,373	–	–	–	–	9,440
OPERATING PROFIT/(LOSS)	**98,900**	**17,515**	**3,378**	**17,351**	**3,250**	**–**	**(587)**	**139,807**
Finance income	35,661	2,010	3,503	6	–	–	–	41,180
Finance cost	(32,368)	(3,050)	(10,732)	–	–	–	–	(46,150)
Including:								
Interest payable on loans	(28,863)	(3,048)	(10,731)	–	–	–	–	(42,642)
Income tax expense	–	–	(1,225)	57	–	–	–	(1,168)
NET PROFIT/(LOSS) FOR THE PERIOD	**102,193**	**16,475**	**(5,076)**	**17,414**	**3,250**	**–**	**(587)**	**133,669**
TOTAL ASSETS	**739,771**	**59,970**	**52,052**	**18,493**	**2,451**	**40**	**(28,631)**	**844,146**
Capitalised expenses	29,498	25	17	–	–	–	–	29,540
Depreciation	11,011	1,095	175	4	–	–	–	12,285
TOTAL LIABILITIES	**417,346**	**29,906**	**58,337**	**5,610**	**709**	**–**	**(28,317)**	**483,591**

Business segment information for the year ended 31 December 2010 was as follows:

	Shell egg US$000	Poultry US$000	Animal feed US$000	Egg products US$000	Other activities US$000	Unallocated Group transactions US$000	Adjustments and elimination US$000	Total US$000
Sales revenue	304,057	66,037	40,601	91,253	16,243	–	–	518,191
Intra-Group elimination	(23,766)	(17,278)	(35,344)	(262)	(1,838)	–	–	(78,488)
Revenue from external buyers	280,291	48,759	5,257	90,991	14,405	–	–	439,703
Income from revaluation of biological assets at fair value	13,113	13,074	–	–	–	–	–	26,187
Other operating income/(expenses)	(4,213)	(753)	(270)	(174)	509	–	–	(4,901)
Income from government grants and incentives	17,499	5	–	–	–	–	–	17,504
OPERATING PROFIT/(LOSS)	**196,705**	**4,934**	**(2,855)**	**(14,680)**	**(3,202)**	**–**	**–**	**180,902**
Finance income	27,560	6	3,973	77	2,442	–	–	34,058
Finance cost	(26,073)	(192)	(23)	–	(3,660)	–	–	(29,948)
Including:								
Interest payable on loans	(17,645)	(192)	(23)	–	–	–	–	(17,860)
Income tax expense	–	–	287	(541)	–	–	–	(254)
NET PROFIT/(LOSS) FOR THE PERIOD	**198,192**	**4,748**	**1,382**	**(15,144)**	**(4,420)**	**–**	**–**	**184,758**
TOTAL ASSETS	**881,078**	**54,369**	**166,181**	**87,602**	**398,487**	**–**	**(508,688)**	**1,079,029**
Capitalised expenses	23,373	128	9	8,963	–	–	–	32,473
Depreciation	11,379	1,024	174	60	–	–	–	12,637
TOTAL LIABILITIES	**384,135**	**5,011**	**169,503**	**73,051**	**204,075**	**–**	**(502,965)**	**332,810**

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39 Earnings per share

Earnings per share is the profit for the year after taxation divided by the weighted average number of shares in issue for each year. The number of shares for the year ended 31 December 2007 has been restated to reflect the ten for one share split on 19 December 2008. There are no options or instruments convertible into new shares and so basic and diluted earnings per share are the same.

40 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 the risk in case of any unfavourable changes in political and economical environment.

Taxation
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.

The Group's uncertain tax positions are reassessed by management at every balance sheet date. 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 balance sheet date 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 balance sheet date.

In management's opinion the Group is in substantial compliance with the tax laws governing its operations. A risk remains that the relevant authorities could take differing positions with regard to interpretative issues, however the effect is not expected to be significant.

The Group met its tax filing obligations in Cyprus and in Ukraine. To the best of management's knowledge, no breaches of tax law have occurred. Thus, the Group has not recorded any provision for potential impact of any such breaches as at 31 December 2010, 2009 and 2008.

Pension and other liabilities
Most of the Group's employees receive pension benefits from the Pension Fund, Ukrainian state organisation, 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 2010, 31 December 2009 and 31 December 2008 the Group had no liabilities for any supplementary pension payments, healthcare, 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 proceedings with the purpose of prevention or mitigating of economic losses.

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

40 Contingent and contractual liabilities continued

Operating lease

Avangard's Imperovo egg-processing plant currently leases the property, plant and equipment from a related party on arm's-length terms under a 10-year lease agreement expiring on 6 April 2020. Avangard is dependent upon the leasing of such assets for the continued operation of the Imperovo egg processing plant (which is the only facility for the production of processed egg products operated by Avangard). Failure to renew the lease on its existing terms, if required, could have a material adverse effect on Avangard's business, results of operations and financial condition.

As of 31 December 2009, LLC Imperovo Foods leased property, plant and equipment for production purposes from a related party according to lease agreement #14/2 dated 1 December 2007. The term of the lease is until 1 December 2008, in the agreement is to be continued on the same period of validity and on the same conditions subject to one month's notice from either party before the end of the next period.

For the year ended 31 December 2010 lease payments were equal to US$570,000 (UAH 4,527,000).

For the year ended 31 December 2009 lease payments were equal to US$740,000 (UAH 5,905,000).

Commitments under exclusive distribution agreement (poultry)

On 28 November 2009 the Group signed a new and exclusive distribution agreement according to which the Group has exclusive rights to purchase Hy-Line W-36 and Hy-Line Brown Parent Stock at a fixed price. The minimum quantity of purchases is not stated in the agreement. The term is three years to November 2012.

The financial effect of changes in contingent and contractual liabilities is not possible to calculate as at the balance sheet date.

41 Financial risk management

The Group is not a financial 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, deposits, loans to and from related parties, accounts receivable, bonds, bank loans, finance leases, accounts payable, nominal investment certificates.

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, the Group's objectives, its policy and its procedures for this risk measurement and management.

Additional disclosures of quantitative information are presented in many other sections of this financial information, including:

- information on finance income and expenses is disclosed in Notes 33, 34 (all finance income and expenses are recognised as a part of profit or loss for the period, other than interest capitalised which is allocated to the cost of the relevant asset);
- information on cash is disclosed in Note 13;
- information on trade and other accounts receivable is disclosed in Notes 11, 12;
- information on investments held-to-maturity is disclosed in Note 6;
- information on trade and other accounts payable is disclosed in Notes 22, 23, 24;
- information on significant terms of borrowings and loans granting is disclosed in Notes 16, 17, 18, 19;
- information on timing and terms of effective contracts for finance lease is disclosed in Note 25;
- information on significant conditions of issued bonds is disclosed in Note 17, 26.

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41 Financial risk management continued

a) Credit risk

Credit risk is the risk of financial loss for the Group in case of non-fulfilment of liabilities 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.

Exposure to credit risk

The carrying value of financial assets is a maximum value exposed to credit risk. Maximum level of credit risk as at 31 December 2010, 2009 and 2008 was presented as follows:

	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
FINANCIAL ASSETS			
Loans and accounts receivable			
Cash and cash equivalents	183,065	1,727	5,878
Long-term deposits	–	504	49,351
Short-term deposits	–	155,917	233,271
Trade accounts receivable, net	54,678	47,320	15,593
Loans to related parties	180	4,320	702
Accounts receivable under commission contract	–	–	12,987
Interest receivable for deposits	10	39,411	79
Accounts receivable for bonds	–	–	25,496
	237,933	249,199	343,357
Held-to-maturity investments			
VAT government bonds	257	–	–
Other long-term financial assets to non-related parties	38	40	41
	295	40	41
TOTAL	**238,226**	**249,239**	**343,398**

The Group's credit risk is mainly related to long-term and short-term deposits. Credit risk is heightened in Ukraine due to the impact of the economic crisis although management are of the view that some degree of stability returned following the involvement of the International Monetary Fund.

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 the Group's clients are longstanding clients and there were no significant losses during 2010 and 2009 resulting from non-fulfilment of obligations by clients. Concentration of credit risk on trade accounts receivable is characterised by the following indicators:

For the year ended 31 December 2010, US$99,088,000 or 22.5% of Group's sales revenue is related to sales transactions, realised with one client of the Group. As at 31 December 2010, US$24,184,000 or 44.2% of trade accounts receivable relates to one customer.

For the year ended 31 December 2009, US$77,788,000 or 24.4% of Group's sales revenue is related to sales transactions, realised with one client of the Group. As at 31 December 2009, US$33,293,000 or 69.9% of trade accounts receivable relates to one customer.

For the year ended 31 December 2008, US$54,272,000 or 18% of Group's sales revenue is related to sales transactions, realised with one client of the Group. As at 31 December 2008, US$6,354,000 or 39% of trade accounts receivable relates to one customer.

41 Financial risk management continued

a) Credit risk continued

Trade accounts receivable as at 31 December 2010, 31 December 2009 and 31 December 2008 by dates of origin were presented as follows:

	0-30 days	31-60 days	61-90 days	91-120 days	121-180 days	181-365 days	Over one year	Total
31 DECEMBER 2010:								
Carrying value of trade accounts receivable	**29,190**	**45**	**670**	**300**	**5,286**	**18,969**	**218**	**54,678**

	0-30 days	31-60 days	61-90 days	91-120 days	121-180 days	181-365 days	Over one year	Total
31 DECEMBER 2009:								
Carrying value of trade accounts receivable	10,080	11,471	1,268	1,289	5,678	16,620	914	47,320

	0-30 days	31-60 days	61-90 days	91-120 days	121-180 days	181-365 days	Over one year	Total
31 DECEMBER 2008:								
Carrying value of trade accounts receivable	7,118	1,099	946	1,667	692	3,834	237	15,593

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.

b) Liquidity risk

Liquidity risk is the risk of the Group's failure to fulfil 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 fulfil 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:

	Carrying value	Less than three months	From three months to one year	From one to five years	Over five years
31 DECEMBER 2010:					
Bank deposits	–	–	–	–	–
Trade accounts receivable	54,678	54,678	–	–	–
Loans to related parties	180	180	–	–	–
Cash and cash equivalents	183,065	183,065	–	–	–
Other non-trading accounts receivable	16,008	16,008	–	–	–
Interest receivable for deposits	10	10	–	–	–
Accounts receivable under commission contract	–	–	–	–	–
Bank loans	(34,103)	(1,017)	(3,200)	(29,886)	
Trade accounts payable	(23,191)	(23,191)	–	–	–
Loans from related parties	(20)	–	(20)	–	–
Finance lease (including VAT)	(7,185)	–	(814)	(6,372)	–
Current liabilities for bonds	(25,120)	–	(25,120)	–	–
Long-term bond liabilities	(193,471)	–	–	(193,471)	–
Accounts payable for property, plant and equipment	(6,728)	–	(6,728)	–	–
Interest payable	(2,665)	(2,665)	–	–	–
Bonds coupon profit payable	(5,727)	(5,727)	–	–	–
Other accounts payable	(6,336)	(6,339)	–	–	–
	(50,605)	**215,002**	**(35,882)**	**(229,729)**	**–**

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41 Financial risk management continued

b) Liquidity risk continued

	Carrying value	Less than three months	From three months to one year	From one to five years	Over five years
31 DECEMBER 2009:					
Bank deposits	156,421	–	155,917	504	–
Trade accounts receivable	47,320	47,320	–	–	–
Loans to related parties	4,320	4,320	–	–	–
Cash and cash equivalents	1,727	1,727	–	–	–
Other non-trading accounts receivable	3,311	3,311	–	–	–
Interest receivable for deposits	39,411	39,411	–	–	–
Accounts receivable under commission contract	–	–	–	–	–
Bank loans (including overdrafts)	(222,945)	(974)	(137,106)	(84,864)	–
Trade accounts payable	(68,019)	(68,019)	–	–	–
Loans from related parties	(8,535)	–	(8,535)	–	–
Finance lease (including VAT)	(8,199)	–	(2,057)	(6,142)	–
Current liabilities for bonds	(24,249)	–	(24,249)	–	–
Accounts payable for property, plant and equipment	(12,847)	–	(12,847)	–	–
Interest payable	(8,331)	(8,331)	–	–	–
Bonds coupon profit payable	(2,055)	(2,055)	–	–	–
Other accounts payable	(7,421)	(7,421)	–	–	–
	(110,091)	**9,289**	**(28,877)**	**(90,502)**	**–**

	Carrying value	Less than three months	From three months to one year	From one to five years	Over five years
31 DECEMBER 2008:					
Bank deposits	282,622	510	232,761	49,351	–
Trade accounts receivable	15,593	15,593	–	–	–
Loans to related parties	702	176	526	–	–
Accounts receivable for bonds	25,496	25,496	–	–	–
Cash and cash equivalents	5,877	5,877	–	–	–
Other non-trading accounts receivable	3,144	3,144	–	–	–
Interest receivable for deposits	79	79	–	–	–
Accounts receivable under commission contract	12,987	–	12,987	–	–
Bank loans (including overdrafts)	(368,313)	(21,068)	(155,878)	(191,367)	–
Trade accounts payable	(20,529)	(20,529)	–	–	–
Loans from related parties	(302,520)	(75,630)	(226,890)	–	–
Finance lease (including VAT)	(10,681)	(545)	(1,634)	(8,502)	–
Current liabilities for bonds	(25,843)	–	(25,843)	–	–
Accounts payable for property, plant and equipment	(9,112)	(9,112)	–	–	–
Interest payable	(291)	(291)	–	–	–
Bonds coupon profit payable	(2,039)	(2,039)	–	–	–
Other accounts payable	(123,947)	(123,947)	–	–	–
	(516,775)	**(202,286)**	**(163,971)**	**(150,518)**	**–**

c) Market risk
Market risk is the risk of the negative influence of changes in market prices, such as foreign exchange rates and interest rates, on the 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 risk, is given below.

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 the 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 the liability 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 (UAH) as at 31 December 2010 based on carrying amounts was as follows:

(in conversion to US$'000)	US$	Euro	CHF	UAH	Total
Long-term bond liabilities	193,471	–	–	–	193,471
Short-term bank loans (including overdrafts)	725	–	–	292	1,017
Trade accounts payable	1,200	282	–	19,498	20,980
Accounts payable for property, plant and equipment	–	1,257	–	5,471	6,728
Advances received	–	11,036	–	936	11,972
Prepayments made	(19)	(190)	–	(26,147)	(26,356)
NET EXPOSURE TO FOREIGN CURRENCY RISK	**195,377**	**12,385**	**–**	**50**	**207,812**

The Group's exposure to foreign currency risk and the amount in local currency (UAH) as at 31 December 2009 based on carrying amounts was as follows:

(in conversion to US$'000)	US$	Euro	CHF	UAH	Total
Long-term bank loans	–	–	1,845	196,634	198,479
Short-term bank loans (including overdrafts)	725	–	–	23,741	24,466
Trade accounts payable	1,346	268	–	66,405	68,019
Accounts payable for property, plant and equipment	–	1,365	–	11,482	12,847
NET EXPOSURE TO FOREIGN CURRENCY RISK	**2,071**	**1,633**	**1,845**	**298,262**	**303,811**

The Group's exposure to foreign currency risk and the amount in local currency (UAH) as at 31 December 2008 based on carrying amounts was as follows:

(in conversion to US$'000)	US$	Euro	CHF	UAH	Total
Long-term bank loans	–	–	2,146	190,142	192,288
Short-term bank loans (including overdrafts)	725	46	–	175,181	175,952
Trade accounts payable	721	237	–	19,571	20,529
Accounts payable for property, plant and equipment	866	221	–	8,025	9,112
NET EXPOSURE TO FOREIGN CURRENCY RISK	**2,312**	**504**	**2,146**	**392,919**	**397,881**

Notes to the consolidated financial information

For the years ended 31 December 2010, 2009 and 2008

41 Financial risk management continued

c) Market risk continued

ii) 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.

Effect in US$'000: 31 December 2010	Increase in currency rate against UAH	Effect on profit before tax
US$	15%	(29,307)
Euro	10%	(1,239)
CHF	10%	–

Effect in US$'000: 31 December 2009	Increase in currency rate against UAH	Effect on profit before tax
US$	15%	(311)
Euro	10%	(163)
CHF	10%	(185)

Effect in US$'000: 31 December 2008	Increase in currency rate against UAH	Effect on profit before tax
US$	15%	(347)
Euro	10%	(50)
CHF	10%	(215)

d) 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 2010, 31 December 2009 and 31 December 2008 the structure of interest financial instruments of the Group, grouped according to the types of interest rates, was presented as follows:

	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
INSTRUMENTS WITH FIXED INTEREST RATE			
Financial assets	–	156,421	233,271
Financial liabilities	(252,694)	(247,194)	(394,156)
INSTRUMENTS WITH VARIABLE INTEREST RATE			
Financial assets		–	–
Financial liabilities	(7,185)	(8,199)	(10,681)

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

41 Financial risk management continued

d) Interest-rate risk continued

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

Fair value of financial instruments is defined as the amount at which an instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's-length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgement 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 realise in a market exchange from the sale of its full holding of a particular instrument.

As at 31 December 2010, 31 December 2009 and 31 December 2008, the following methods and assumptions 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:

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 the 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.

Short-term and long-term deposits – the fair value is estimated to be the same as the carrying value for short-term and long-term deposits, as its nominal interest rate is estimated to approximate the market rate tied to deposits with similar terms and conditions at the balance sheet date.

Application of the effective interest rate method for calculating the 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 balance sheet date.

e) Financial markets volatility

The global financial crisis started in 2007 in the market for mortgage loans in the USA and affected not only the USA, because a great number of global investors had to review their risk exposure, which led to increased volatility on financial markets. Reduced liquidity, as a result of among other factors, increased volatility in financial markets may have a negative impact on the Group's debtors, which, in turn, will influence their solvency. Deteriorating market conditions may affect the forecasts of cash flows made by management, as well as possible impairment of financial and other assets of the Group. In terms of all currently available information, management has used the most reliable assumptions to assess the financial risks. It is quite difficult to estimate with sufficient reliability the influence on the financial position of the Group resulting from further possible deterioration in liquidity and stability of financial markets.

Capital management

The Group's management follows the policy of providing the firm capital base which allows supporting the trust of investors, creditors and the 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 shareholders 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 calculations of financial leverage coefficient (ratio of leverage ratio) and 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 borrowing costs 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.

Notes to the consolidated financial information

For the years ended 31 December 2010, 2009 and 2008

41 Financial risk management continued

e) Financial markets volatility continued

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 2010, 31 December 2009 and 31 December 2008 the Group's financial leverage coefficient made up 9.4%, 29.5% and 65.1% respectively.

		Carrying value	
	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
Short-term loans	1,036	33,001	280,176
Long-term loans	30,999	85,975	192,518
Current portion of long-term loans	3,200	113,615	921
Long-term finance lease (including VAT)	7,185	8,199	10,681
Long-term bond liabilities	193,471	–	–
Short-term bond liabilities	25,120	24,249	25,843
TOTAL AMOUNT OF BORROWING COSTS	**261,011**	**265,039**	**510,139**
Cash and cash equivalents	183,065	1,727	5,878
Deposits	–	156,421	282,622
Financial assistance issued	180	4,320	702
NET DEBT	**77,766**	**102,571**	**220,937**
Share capital	836	644	644
Share premium	317,022	–	–
Retained earnings	482,328	300,107	168,151
Effect from translation into presentation currency	(64,586)	(64,137)	(56,698)
Minority interest	10,620	8,083	6,406
Total equity	746,220	244,697	118,503
Total amount of equity and net debt	823,986	347,268	339,440
FINANCIAL LEVERAGE COEFFICIENT	**9.4%**	**29.5%**	**65.1%**

For the years ended 31 December 2010, 31 December 2009 and 31 December 2008 ratio of net debt to EBITDA amounted to:

	31 December 2010 US$000	31 December 2009 US$000	31 December 2008 US$000
PROFIT/(LOSS) FOR THE PERIOD	184,758	133,669	77,283
Income tax income/expenses	254	1,168	(1,414)
Financial income	(34,058)	(41,180)	(26,897)
Financial expenses	29,948	46,150	52,986
EBIT (earnings before interest and income tax)	180,902	139,807	101,958
Depreciation	12,637	12,285	11,780
EBITDA (EARNINGS BEFORE INTEREST, INCOME TAX, DEPRECIATION AND AMORTISATION)	**193,539**	**152,092**	**113,738**
Net debt at the year end	77,766	102 571	220,937
NET DEBT AT THE YEAR END/EBITDA	**0.4%**	**0.7%**	**1.9%**

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

41 Financial risk management continued

f) 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.

42 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 2010. 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.

43 Events after the consolidated balance sheet date

There were no material events after the reporting period which have a bearing on the understanding of the consolidated financial information.

Board of Directors and other officers

Board of Directors
Oleg Bakhmatyuk (Non-executive Chairman, appointed 22 March 2010)
Oksana Prosolenko (Head of Business Development, appointed 22 March 2010)
Nataliya Vasylyuk (Chief Executive Officer)
Iryna Marchenko (Chief Financial Officer, appointed 22 March 2010)
Philippos Philippou (resigned 22 March 2010)
Michalis Mouamis (appointed 3 July 2010)

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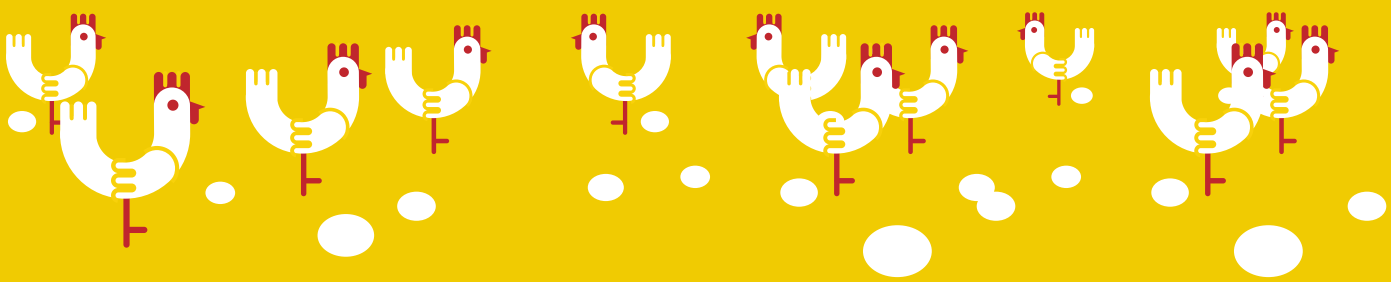

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