ANNUAL REPORT 2011

AVANGARDCO

THE COMPANY AT A GLANCE

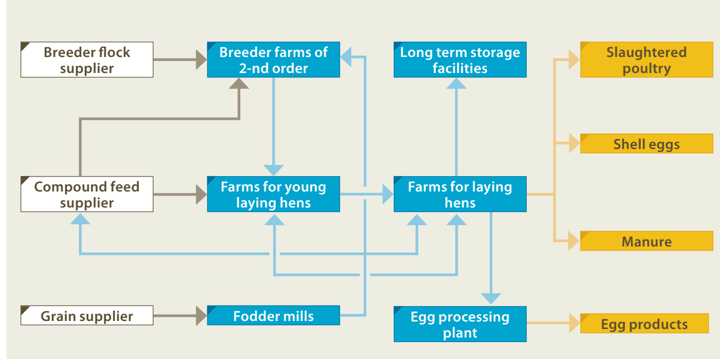
BUSINESS

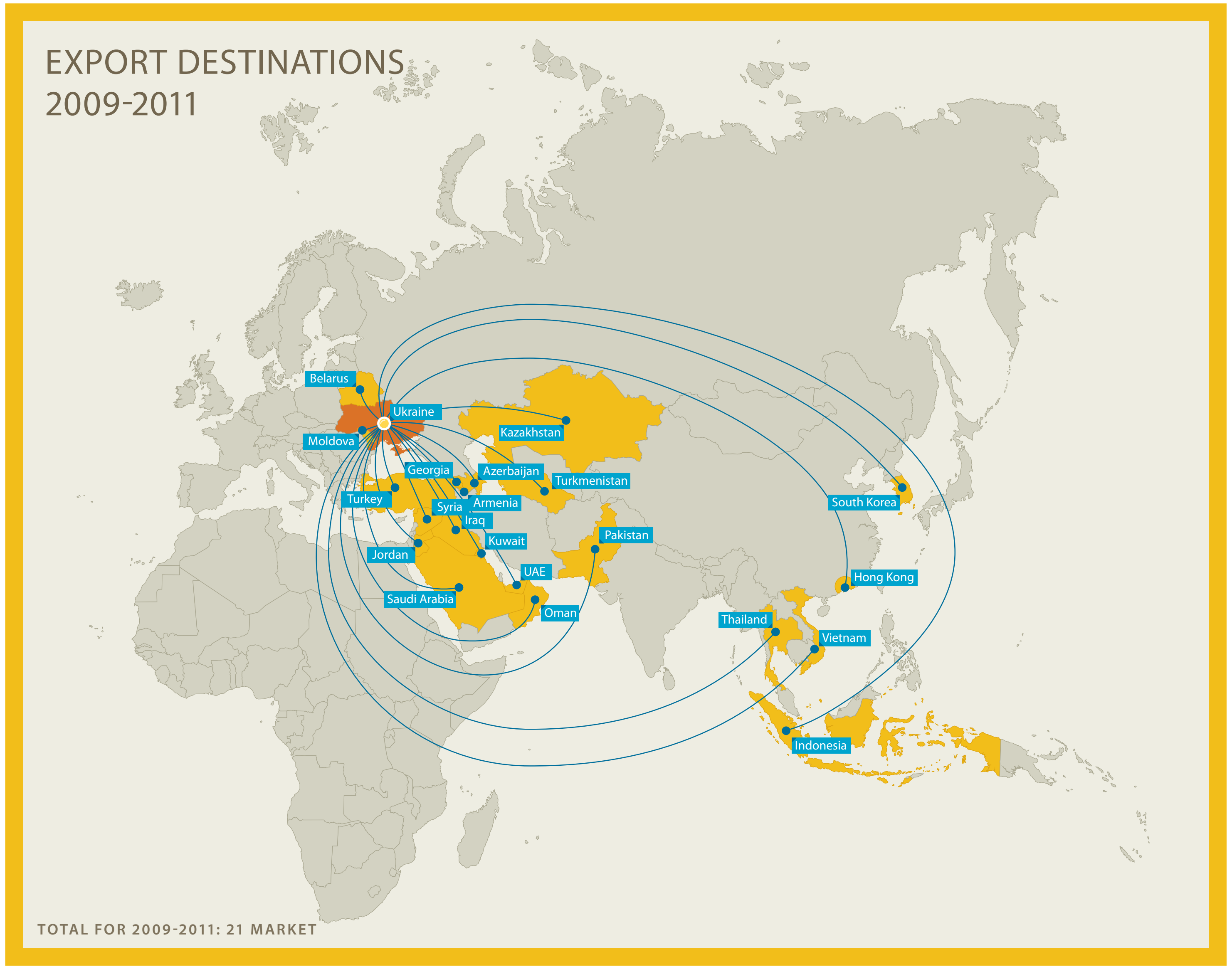
AVANGARDCO IPL owns a group of companies located and registered in Ukraine that form a vertically integrated holding, which produces and sells shell eggs and egg products on the domestic and foreign markets. The Company is a national leader for the production and sale of shell eggs and egg products as well as a leading exporter and #1 producer in Eurasia. In addition, a small share of revenue is earned from the sale of day-old chicks, poultry flock at the end of its production cycle, animal feed and bird manure.

STRATEGY

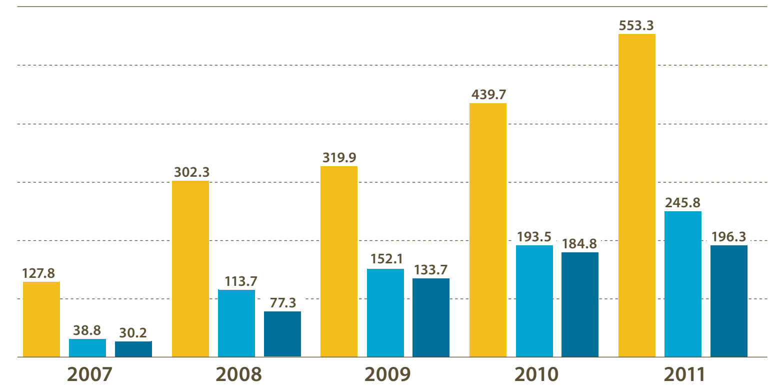
Leading poultry industry publication the World Poultry Magazine reported that in 2011 the Company was recognized as the second largest company in the world in terms of the total number of its poultry fl ock in 2011, following Cal-Maine Foods (USA). The strategic aim of AVANGARDCO IPL is to become # 1 producer of shell eggs and egg products in the world.

OPERATING MODEL





KEY FINANCIALS, MLN DOLLARS



REVENUE
+25.8%
y-o-y

EBITDA
+27.0%
y-o-y

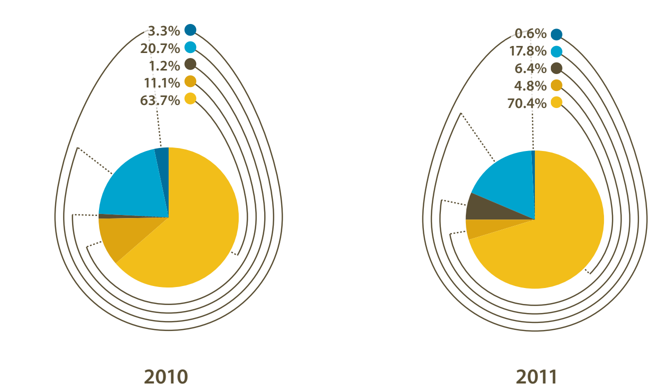
NET INCOME
+6.2%
y-o-y

The strategic aim of AVANGARDCO IPL is to become
 # 1
producer of shell eggs and egg products in the world.

 # 1
The Company is a national leader for the production and sale of shell eggs and egg products.

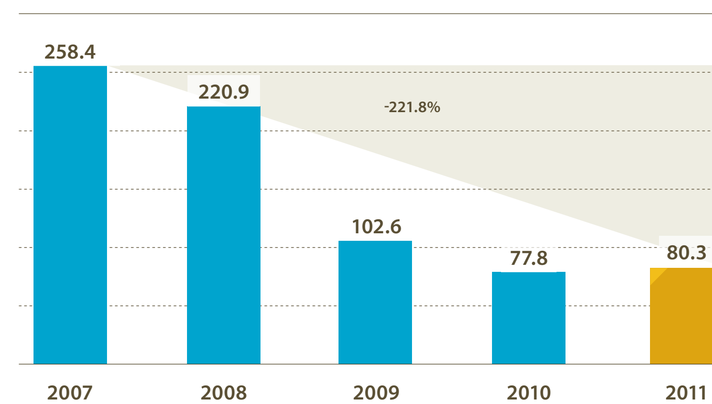
 # 1
producer in Eurasia.

REVENUE STRUCTURE BY TYPE OF PRODUCT

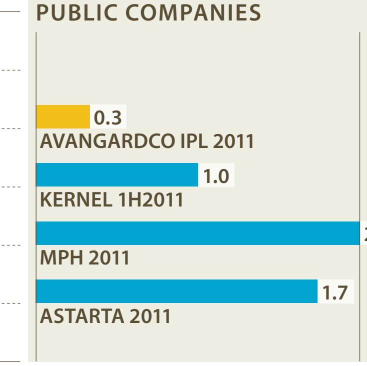


OTHER ACTIVITIES
EGG PRODUCTS
ANIMAL FEED
POULTRY
SHELL EGGS

NET DEBT, MLN DOLLARS



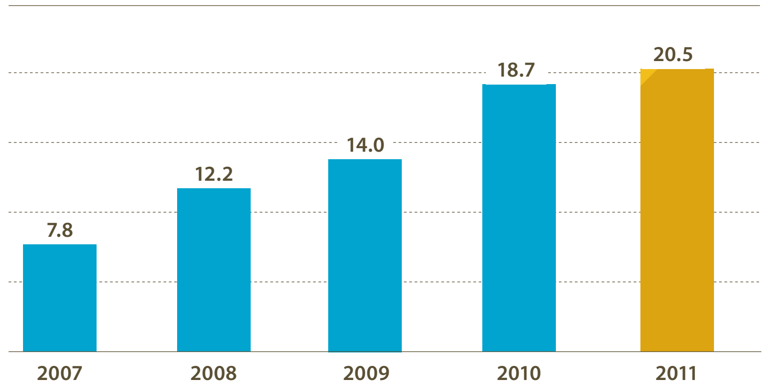
COMPARISON OF NET DEBT/EBITDA RATIO AMONG UKRAINIAN AGRICULTURAL PUBLIC COMPANIES



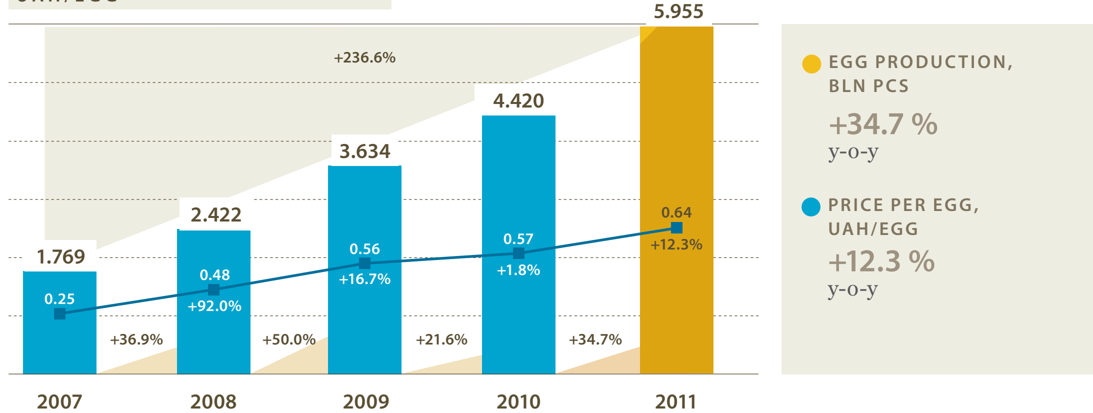
Note: Based on LTM EBITDA
Source: Bloomberg

Chicken livestock

INDUSTRIAL LAYING HENS FLOCK,
MLN HEADS



EGG PRODUCTION,
BLN PCS
AND PRICE,
UAH/EGG



Note: prices are provided excl. VAT

COMPETITIVE ADVANTAGES

The only company that covers supermarkets chains, throughout Ukraine

Being a leading producer of shell eggs and egg products in the Ukrainian market it is easier to negotiate with retail chains

The only company with the capacity to provide year-round deliveries both in peak and low seasons thanks to a network of long-term storage facilities and the largest hi-tech egg processing plant in Europe – LLC Imperovo Foods

Full vertical integration of the Company guarantees high quality of products at each stage of production and allows to provide reasonable prices

CONTENT

STATEMENT OF THE CHAIRMAN OF THE BOARD

Dear Shareholders,

It is a great honour to start this letter by telling you that 2011 will be remembered as the year in which AVANGARDCO IPL emerged as a true global player, becoming the second largest egg producer in the world and the undisputable number one in Eurasia. In the next three years we expect to become the world's number one. But that is not the ultimate goal. The ultimate goal is to also become our industry's most profitable company and to continue to generate superior results for our shareholders.

Oleg Bakhmatyuk

RESULTS

Throughout its history, AVANGARDCO IPL has proved its industry leadership through high levels of innovation and strategic vision of its business, coupled with commitment to its customers both in Ukraine as well as internationally.

2011 saw substantial progress towards the delivery of the promises I made to you in 2010 when the Company listed on the London Stock Exchange. Our financial and operational results for the year are a clear indicator of the ongoing success of our strategy. With 26% revenue growth and 28% operating profit growth, we benefited not just from pricing and demand, but also from improved margins following stronger cost controls.

At the end of the year our production reached 6 billion eggs. This coming year we hope to complete the development of our new production facilities Avis and Chornobaivske, which will increase our egg production capacity to over 8 billion eggs once fully commissioned. AVANGARDCO IPL's results not only demonstrate our strong corporate progress, but also underline the strength of Ukraine's agricultural sector. Sometimes described as "the bread basket of the world," Ukraine is a robust market with a lot of potential which will continue to support the Company's growth story.

STRATEGY

AVANGARDCO IPL continues to realize its large investment projects, Avis, Chornobaivske and Imperovo Foods being key examples. Once these projects are complete, the Company will become the world's largest egg producer.

In 2011 under the leadership of a new marketing team, 30% of all sales of shell eggs to external customers were supplied to Ukraine's supermarket chaines. The high quality and competitive prices of our eggs mean that we have excellent relationships with those outlets. As the only national player we are uniquely placed to supply all national retail chains. Furthermore, we benefit from longstanding working relationships with multinational companies such as Nestle and are building new relationships with both local and global players i.e. Kraft Foods, McDonalds.

Export remains the cornerstone of our marketing strategy. The emergence of middle class and rapid growth in the Middle East and Asia are providing an ideal backdrop on which we continue to capitalise. Eggs are the cheapest source of protein and consumption in our target markets is below the global average. Furthermore, the regional growth of the FMCG sector drives demand for processed eggs. Eggs are used in 80% of consumer products, from biscuits and pasta to sausages and sauces. The dietary habits of MENA and Asia's emerging middle classes are changing – giving us even more scope for further growth.

CORPORATE GOVERNANCE

AVANGARDCO IPL's Board of Directors is made up of five Board members, including one independent director. In the first half of 2011 we were pleased to welcome Mr. Oleg Pohotsky to our Board. Mr. Pohotsky is a corporate finance professional with over forty years of experience in both industry and the financial markets. He is currently the founding partner of Right Bank Partners and serves on the boards of two NYSE-listed funds. Mr. Pohotsky also serves on the Board of Advisors of Kaufman & Co and is a senior advisor to Governance Metrics International. We believe that Oleg's contribution to the Board will be very tangible as we pursue our expansion plans.

Following feedback from our investors, we have retained the services of KPMG as the Company's auditor.

In the second half of 2011, 77.5% of AVANGARDCO IPL's share capital was transferred to Ukrlandfarming PLC, a company wholly owned by me. This was done both to streamline my agriculture assets and to capitalize on the synergies between the two entities.

OUR PEOPLE

At the Company we employ more than 5,000 individuals and it is thanks to their dedication, skills and experience that we are able to report such strong results. We are pleased to have such a dedicated team of high level professionals who are responsible for the Company's day-to-day operations. I would like to take this opportunity to thank them for their hard work and contribution over the last twelve months. With their continued support and commitment I look forward to guiding AVANGARDCO IPL to even bigger and greater achievements.

Every day we are working diligently for the prosperity of our company and of our country. We do not slow down. As we continue our prosperous relationship, we look forward to moving together and accomplishing great things! Together we will make a difference.

Sincerely yours,
Oleg Bakhmatyuk
Chairman of the Board of Directors

Operating profit grew by
28%
in 2011.

Revenue grew by
26%
in 2011.

30%
of total sales to external customers went ot supermarket chains.

At the Company we employ more than
5,000
people.

CHIEF EXECUTIVE OFFICER'S YEAR REVIEW

At AVANGARDCO IPL we measure our success through our financial results, the effectiveness of our investment projects, and the strength of our operational story. As Chief Executive Officer it is a great pleasure to deliver solid 2011's results to our shareholders and to demonstrate the continued success of our strategy.

Nataliya Vasylyuk

STRATEGY

Our strategy for growth has served us well. In 2011 we became the second largest egg producer in the world, whilst remaining the largest in Eurasia and the largest in Ukraine.

Our strategy is based on three pillars:
- Consolidate our position in domestic market
- Increase our geographic reach into new export markets
- Streamline sales channels and introduce new brands

We have over 50 % of the Ukrainian egg market, and nearly 90 % of the egg processing market. But that is not to say we are nearing saturation, for these markets are also demonstrating high growth. The Ukrainian egg market increased by over 10 % year on year which gives us further scope for domestic growth.

Following the strengthening of our international sales team, we opened new export markets to Armenia, Turkmenistan and Azerbaijan and our fastest growing international markets were Iraq and the CIS. The proven strength of our strategy in these markets gives us confidence that we can expand our geographic reach even further in 2012.

The efforts and commitment of each of our 5,000 employees is shown through the strength of our performance in 2011. With their ongoing commitment, we are well placed to continue to implement our tried and tested strategy and to ensure that 2012 is at least as successful as 2011.

BUSINESS

2011 was a year of strategic development and domestic expansion. As Eurasia's largest vertically integrated egg producer, we have been concentrating on streamlining our sales channels to ensure that we have the best route to market. Part of this implementation was to maximise our supermarket sales – we nearly doubled the share of shell eggs sales through this route to 30% from 16% in 2010 – an excellent achievement.

The building of our new poultry facilities, Avis and Chornobaivske, is underway. Construction is expected to be completed by the end of 2013. The commissioning of the new sites will translate into a total layer flock of 28.9 million and outward growth of 53% if compared to 2010.

Production of shell eggs increased by 35 %, with sales to external clients increasing by 25%. Production of dry egg products increased by 20%, and we exported approximately 1.1 billion shell eggs and dry egg products in egg equivalent.

In November we relaunched the "Kvochka" (Mother Hen) brand, which is packaged eggs aiming to combine high quality with affordability. We taped into new, more profitable market, and managed to reach outstanding results. Every 6th pack of eggs sold in supermarkets is "Kvochka"!

2012 will be a year of strategic development as we complete construction of our two new flagship complexes: Avis and Chornobaivske, expand our reach into new territories and develop new brands to further into the retail channels.

THE MARKET

With over 50% of the Ukraine's market share of egg sales, we are confident of maintaining our position and continuing to generate growth and shareholder value. The Ukrainian market grew 10% year on year in 2011 and, as the market continues to consolidate and become more industrialized, this trend is set to continue. This growing demand and strong market share left has given us flexibility to further increase our prices – indeed, our average price increased around 12% year on year.

As we move further afield and export into new markets around the world, (notably Turkmenistan, Armenia and Azerbaijan in 2011), we experience different drivers, different requirements and different opportunities. The demand from the Middle East continues to be strong, with Iraq representing a large portion of our export of fresh eggs. Whilst this may balance in the coming months against other countries in the region such as Syria, Jordan and the UAE, we expect Iraq to remain strong.

In 2012 we plan to start exporting to new markets in North Africa and the Middle East. South Korea and Japan also remain a very interesting prospect for us.

Overall our markets remain strong and we continue to see potential for good sales growth in all regions. Ukraine continues to be our primary revenue driver, and we are confident of maintaining our excellent share of this growth market.

FINANCIAL RESULTS

2011 saw strong financial results, with 26% revenue growth, 27% EBITDA growth and 28% operating profit growth, all driven by advantageous pricing and strong demand in our markets. This success is testament to both our progress as a company, and also to the Ukraine's agricultural potential. As we widen our geographic reach and increase our flock size, AVANGARDCO IPL is in a very strong position to take advantage of the increasing demand for shell eggs and egg products. Due to record Ukrainian harvests in 2011, we have been able to secure grain at very advantageous pricing levels which will further benefit our financial results for 2012.

With a USD230 mln cash balance at the end of 2011, low leverage at 0.3x EBITDA, and a reaffirmed "B" rating from Fitch, AVANGARDCO IPL is a financially secure and highly profitable company with wide scope for continued growth. As we continue to work hard to maintain our leading positions, I am confident that we can continue to deliver value to our shareholders.

We have over
50%
of the Ukrainian egg market.

EBITDA grew by
27%
in 2011.

We have nearly
90%
of the egg processing market.

Revenue grew by
26%
in 2011.

The Ukrainian egg market increased by over
10%
y-o-y.

Every
6th
pack of eggs sold in supermarkets is "Kvochka".

We nearly doubled the share of shell eggs sales through supermarkets to
30%
in 2011 from
16%
in 2010.

Production of shell eggs increased by
35%,
with sales to external clients increasing by
25%.

The commissioning of the new sites will translate into a total layer flock of
28.9
million and outward growth of
53%
if compared to 2010.

Production of dry egg products increased by
20%,
and exports amounted to approximately
1.1
billion shell eggs and dry egg products in egg equivalent.

STRATEGY AND RISKS

THE STRATEGIC GOAL OF AVANGARDCO IPL IS TO BECOME WORLD'S NUMBER ONE PRODUCER OF EGGS AND EGG PRODUCTS

1 CONTINUE TO EXPLORE MARKET POTENTIAL TO MAXIMIZE PROFITABILITY

- Solidify the company's market share in Ukraine supported by:
  - consolidation in the market and decline of household production
  - competitive cost structure due to the vertical integration

2 EXPAND PRODUCTION FACILITIES AND INCREASE EFFICIENCY

- Complete the ongoing investment projects Avis and Chornobaivske to increase total capacity to 28.9 mln of laying hens and to 8.2 bln shell eggs by 2013
- Expansion of Imperovo production facilities from 3 mln to 10 mln shell eggs per day
- Construction of biogas plants to efficiently utilize chicken manure

3 STREAMLINE DISTRIBUTION AND EXPAND CUSTOMER BASE

- Negotiate direct contracts with local retailers and introduce «private labels»
- Introduce innovative customer loyalty programs
- Develop and expand cooperation with multinational FMCG companies in Ukraine (Nestle, Kraft foods, etc.)

4 DEVELOP AND INTRODUCE VALUE ADDED PRODUCT LINES

- Capitalize on growing «Kvochka» and the introduction of «Organic Eggs» brands
- Further development of portfolio of the value added proposition under «Kvochka» brand umbrella
- Extend packaged egg category beyond Ukraine with tailor made offers / private labels for export markets

5 FOCUS EFFORTS ON INCREASING EXPORT CAPACITY

- Capitalize on the rising demand from the Middle East, Asia and CIS
- Capture additional demand from the EU after obtaining necessary export permits
- Enter the Russian market (regulation permitting)

AVANGARDCO IPL STRATEGY IS AIMED AT MAXIMIZING ITS SHAREHOLDER VALUE

THE MAIN COMPETITIVE ADVANTAGES:

- The only company that reaches retailers throughout the territory of Ukraine
- Being a leading producer of shell eggs and egg products in the Ukrainian market it is easier to negotiate with retail chains
- The only company that has facilities to exercise year-round supply of both peak and low seasons in the network due to long-term storage warehouses and the largest high-tech eggs processing plant in Europe - LLC "Imperovo Foods"
- Full vertical integration of the Company guarantees high quality of products at each stage of production and allows to provide reasonable prices

MANAGEMENT IDENTIFIES THE FOLLOWING RISKS THAT COULD HAVE MATERIAL ADVERSE EFFECT ON THE COMPANY'S BUSINESS:

Risk	Measures to prevent or reduce damage	The possibility
The risk of sudden epizootic	Divisions of the Company on regularly basis provide necessary sanitary and veterinary control measures to prevent dangerous diseases. Production facilities are surrounded by a sanitarian cordon and situated on considerable distances from each other.	Low
The risk of currency devaluation	The cost of sales of the Company is denominated in local currency - hryvnia, export revenue is denominated in dollars and partially hedge the risks from debt in foreign currency.	Below the average
Political and macroeconomic instability	Not available	Below the average
Cancellation of restrictive tariffs on import of eggs and egg products – increase in competition with imported products on the domestic market	Not available	Average
The risk of cancellation or reduction in state support for Ukrainian farmers	Not available	Average
The risk of increase in the price of crops	Every year the Company enters into forward contracts to fix the price for feed.	High

SHELL EGGS AND EGG PRODUCTS MARKET OVERVIEW

Eggs, dry and liquid egg products in monetary terms climbed **12.8%** annually in 2002-2011 (CAGR), to reach **$3.9** billion in 2011.

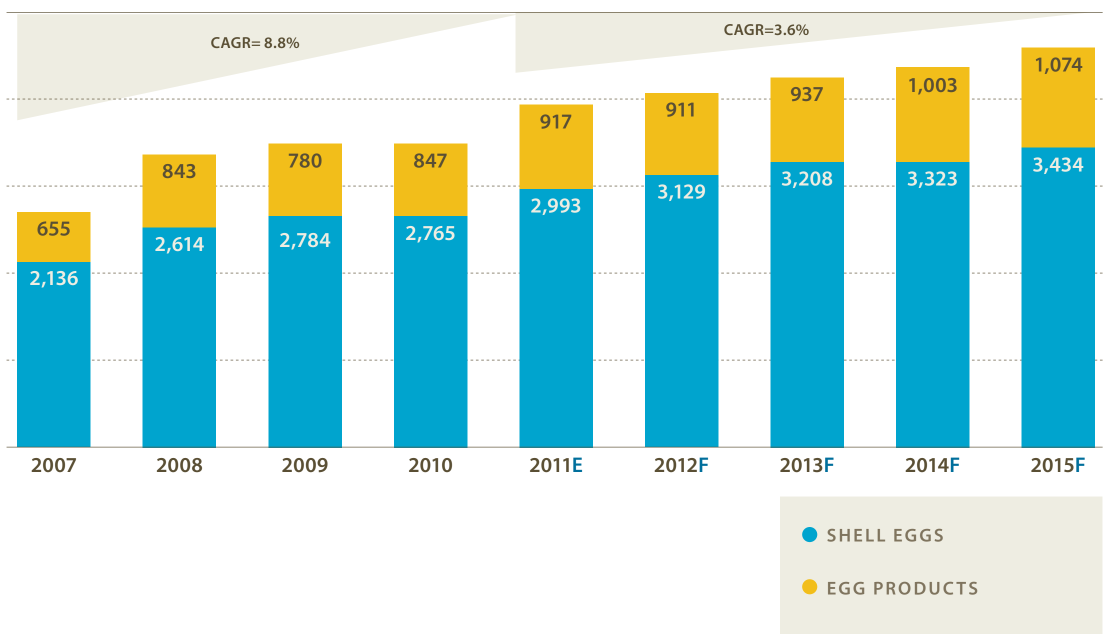
GLOBAL MARKET

Chicken eggs are one of the cheapest and most accessible source of protein in the human diet. Before industrialization of the agricultural sector, egg production was exclusively aimed at local markets. However, trade in eggs and egg products went global in the middle of the last century.

The pattern around the world shows that the higher GDP per capita, the higher the consumption of animal proteins. Clearly, increased prosperity leads to growth in demand for the most accessible source of animal protein – eggs.

Research by the Pro-Consulting agency shows that the international egg and egg products market has several features. First of all, there is a high rate of growth in international trade due to the actively developing countries in Asia and the MENA region. Second is the dominating position of the EU countries in international trade of eggs and egg products, formed mainly from domestic export-import operations. Data from the Food and Agriculture Organization of the United Nations and Pro-Consulting shows that the volume of international imports of eggs, dry and liquid egg products in monetary terms climbed 12.8% annually in 2002-2011 (CAGR), to reach $3.9 billion in 2011.

GLOBAL IMPORTS OF SHELL EGGS AND EGG PRODUCTS, MLN DOLLARS



Imports of eggs and egg products are predicted to grow further between 2011 and 2015 at an annual rate of **3.6%.**

Pro-Consulting forecasts that international imports of eggs and egg products will exceed **$4.5** billion in 2015.

MAJOR PRODUCERS

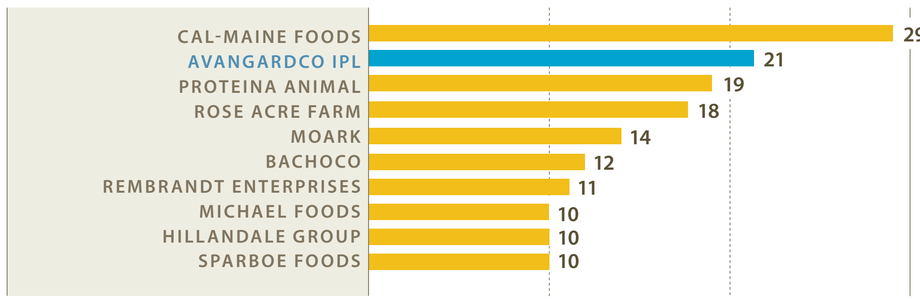
Information from the World Poultry Magazine and Pro-Consulting, published in April 2012, shows that AVANGARDCO IPL is the second largest company in the world in terms of the total number of its laying hens, following only the U.S. giant Cal-Maine Foods.

CONSUMPTION TRENDS

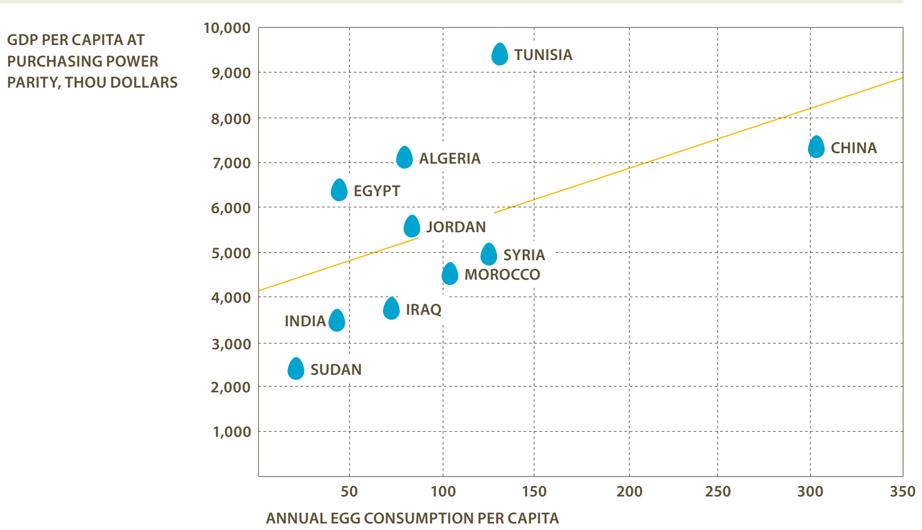
Information from the IMF, FAO and Pro-Consulting shows that in countries with low and below average GDP per capita, an increase in incomes leads to an increase in the consumption of proteins through a rise in the share of the cheapest proteins, including eggs. This is typical for countries in Asia, especially China and India, the Caucasus and the MENA region.

The MENA region is well placed geographically for trade with Ukraine, has a high rate of GDP and income growth and is rapidly becoming more urbanized.

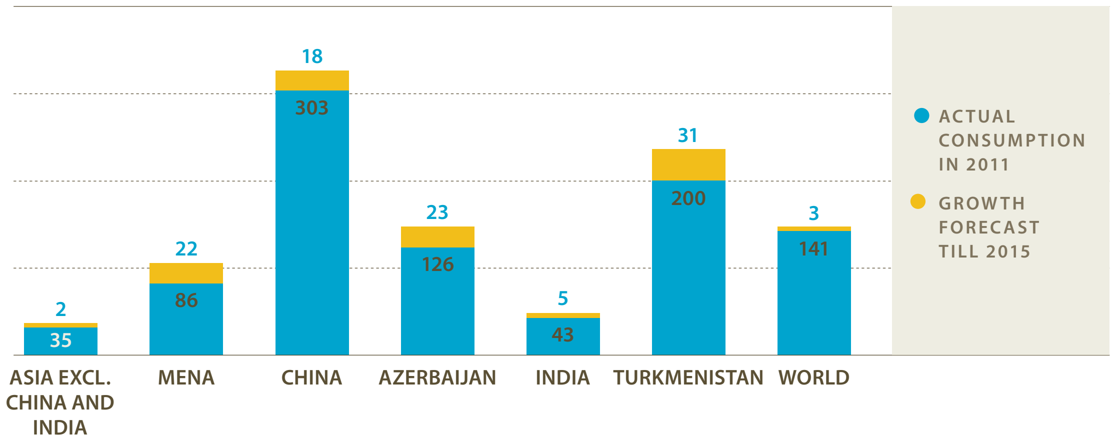
TOP 10 WORLD PRODUCERS OF SHELL EGGS, MLN HEADS



EGG CONSUMPTION VS GDP PER CAPITA, 2010



ANNUAL CHICKEN EGGS CONSUMPTION PER CAPITA



The markets in these countries are the most promising in terms of per capita egg consumption growth and egg and egg products import growth.

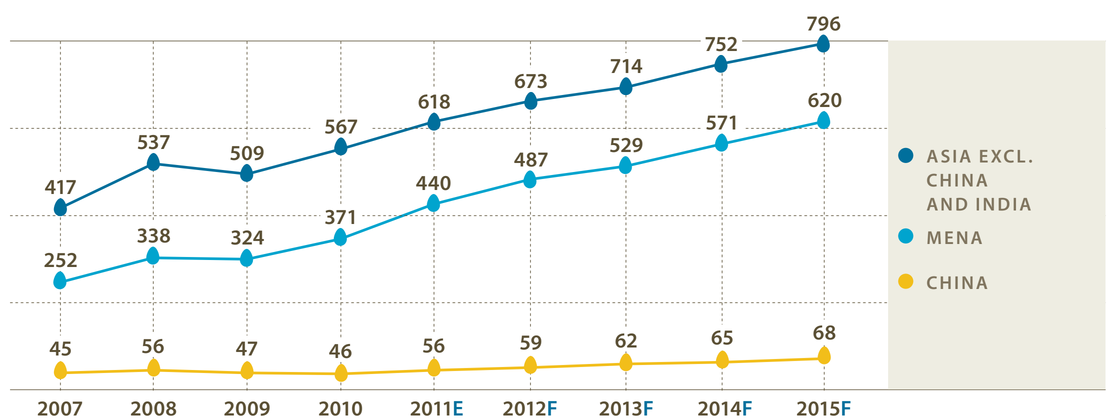
Predicted growth from 2011 to 2015:

Asia excl. China and India
+28.8%

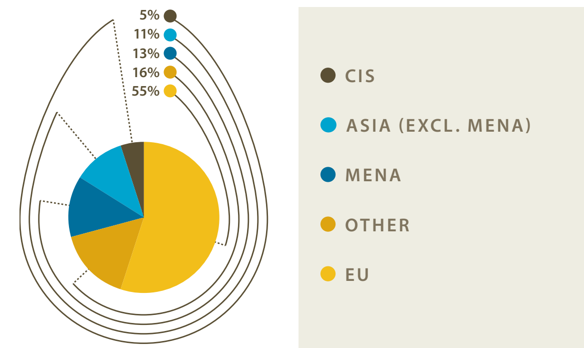
MENA
+40.9%

China
+21.4%

EGG IMPORTS,
MLN DOLLARS



SHARE OF MAJOR WORLD EGG IMPORTERS, 2011



The EU countries play a special role as they are both major importers and exporters.

PROMISING MARKETS

MENA region

Rapid growth in population numbers and wealth in this region creates significant demand for inexpensive protein products, especially eggs, while the difficult climatic conditions and limited feed mean these countries have to increase their food imports.

According to the FAO, caloric intake in the region has grown 54% in the last 50 years and protein consumption has risen 57%, however, consumption of protein is still 30% lower than in developed countries.

Per capita chicken egg consumption over the past 50 years has doubled in the region – from 40 to 86 eggs per capita annually and it is still considerably lower than the world average and so maintains significant potential for further growth.

India, China and the rest of Asia

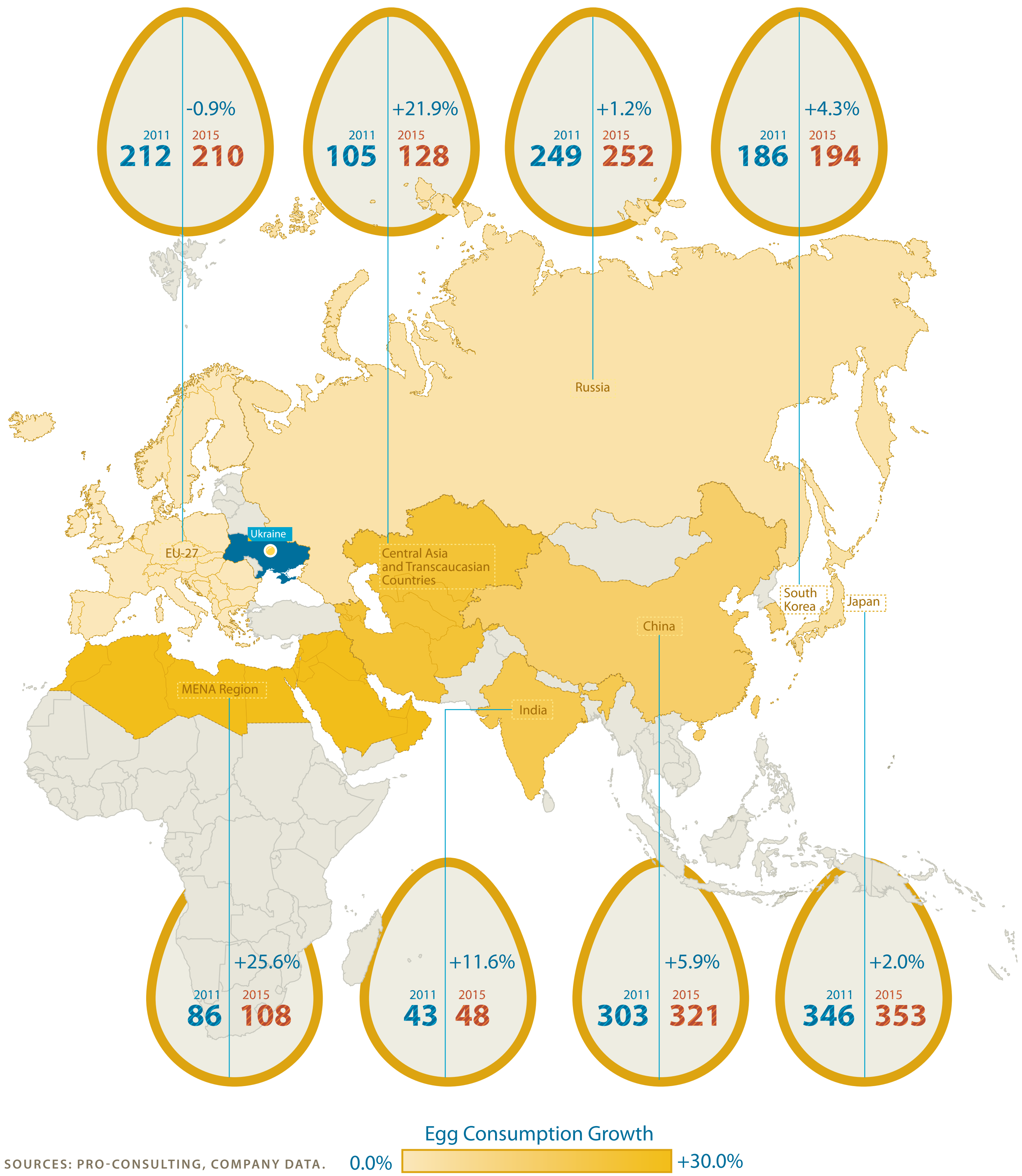
India is the second most populous country in the world with a fast growing middle class and a decline in its level of vegetarianism. Despite the size of its economy, per capita egg consumption remains among the lowest in Asia – 43 eggs per year. The increase in domestic consumption reduces exports of eggs and egg products from India, which could soon make India a net importer of these products.

In contrast to India, China is one of the largest consumers of eggs – consumption has surged more than 10 times in the last 50 years – from 27 to 303 eggs per capita annually. However, the continued increase in the share of the middle class and reduced poverty together with the country's limited opportunities for production of cereal crops means it is importing more food, including eggs and egg products.

The other Asian countries (with the exception of the economic tigers of Southeast Asia and the Asian countries of the CIS) are characterized by poverty among the majority of the population and low consumption of animal proteins, including eggs. However, even among this group of countries there has been an increase in wealth among the population and the replacement of vegetable proteins for animal proteins, mostly the most inexpensive kind – eggs.

China is one of the largest consumers of eggs – consumption has surged
10 TIMES
for the last 50 years.

EGG CONSUMPTION,
PER CAPITA PCS A YEAR



SOURCES: PRO-CONSULTING, COMPANY DATA.

SHELL EGGS AND EGG PRODUCTS IMPORT

EU-27
2011 **2,488** USD mln
2015 **2,817**
2011-2015 Forecast Import Growth **13.3%**

China
2011 **64** USD mln
2015 **78**
2011-2015 Forecast Import Growth **22.2%**

MENA Region
2011 **484** USD mln
2015 **680**
2011-2015 Forecast Import Growth **40.6%**

Central Asia
2011 **42** USD mln
2015 **63**
2011-2015 Forecast Import Growth **49.7%**

Russia
2011 **111** USD mln
2015 **145**
2011-2015 Forecast Import Growth **30.6%**

South Korea
2011 **11** USD mln
2015 **15**
2011-2015 Forecast Import Growth **42.3%**

Japan
2011 **89** USD mln
2015 **109**
2011-2015 Forecast Import Growth **22.0%**

India
2011 **0.6** USD mln
2015 **0.9**
2011-2015 Forecast Import Growth **58.2%**

Azerbaijan, Armenia and Turkmenistan

There has been a steady increase in per capita animal protein consumption in these countries over the last 10 years, with a 50% rise of that period. Per capita egg consumption increased even more than 60%.

Despite this, the level of egg consumption in these countries is still not very high at around three times less than the average for fellow CIS countries. The universal problem for the Asian countries is a lack of feed and their own food products, which means the region will continue to increase its food imports.

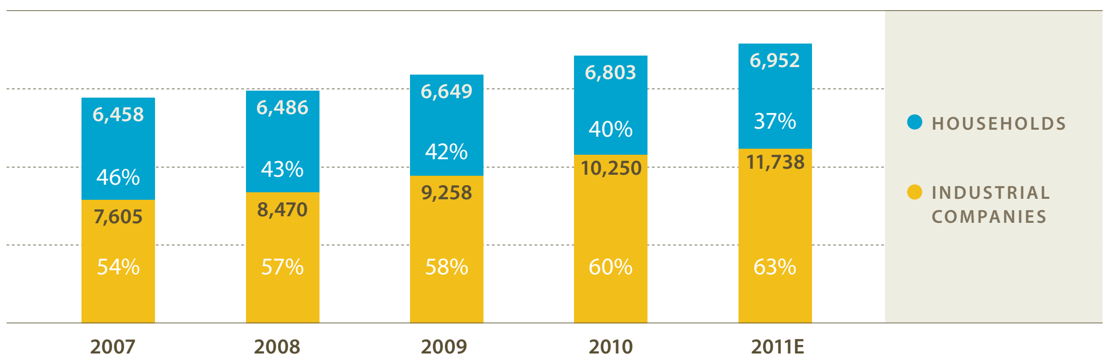
The European Union

The prohibition of conventional battery cages in the EU countries (Directive N1999/74/CE) will lead to a sharp decline in the production of chicken eggs and as a result a rise in egg and egg products prices, reducing the competitiveness of local production and making space for products from third countries.

DOMESTIC MARKET

The egg market is the most dynamically developing sector of Ukraine's livestock sector, growing almost by a third over the past five years. The biggest growth was observed in industrial production of eggs. Industrial companies boosted egg production by 54.3% in this period.

EGG PRODUCTION IN UKRAINE,
MLN EGGS



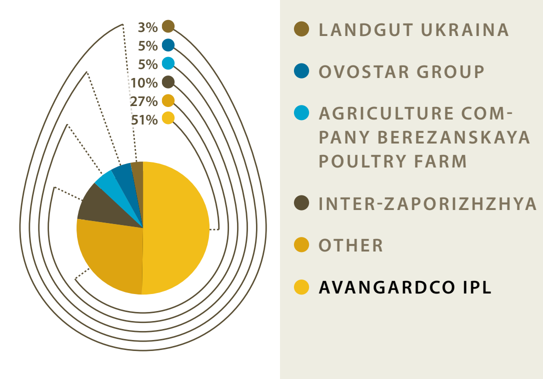
Development of large-scale commercial production has led to significant changes in both the production and commodity structure of the egg market. At the beginning of the twenty-first century, households produced over 65% of eggs. In 2011 households saw their share drop to 37.2%. The further increase of industrial production of eggs will lead to a reduction in the volume of eggs produced in households, which will relieve the market share by a volume of at least 1 billion to 1.2 billion eggs.

Another consequence of the development of large-scale commercial production is increased market consolidation. The Ukrainian Association of Poultry Companies Ptitseprom of Ukraine reported that the overall number of major egg producers (companies with over 50,000 laying hens) in Ukraine dropped from 156 in 2003 to 92 in 2011. The consolidated share of the top five producers, according to Pro-Consulting, was 73.1% in 2011. AVANGARDCO IPL obtains maximum benefit from consolidation due to its leading position.

In 2011 households saw their share drop to
37.2%.

At the beginning of the twenty-first century, households produced over
65%
of eggs.

SHARE OF THE LARGEST UKRAINIAN INDUSTRIAL EGG PRODUCERS, 2011

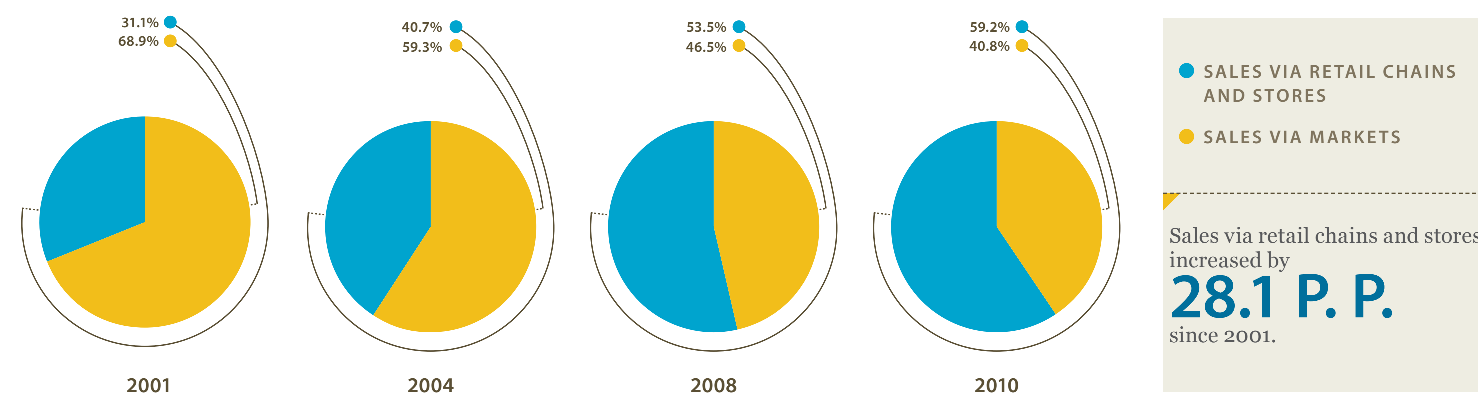


AVANGARDCO IPL holds a dominating position on the Ukrainian egg and egg products market with a 51% share of the industrial production market and 86% of the dry egg product market.

The significant increase in commercial supply of eggs from industrial companies has also served as a trigger to encourage the development and expansion of egg sales channels, both on the domestic market and on foreign (export) markets. The Ukrainian State Statistics Committee reports that the commercial capacity of the egg market increased 89% from 2001 to 2010, with the increased trade turnover being primarily due to higher sales via retail chains and stores. The share held by retail chains and stores climbed from 31.2% to 59.2% in this period.

The Ukrainian State Statistics Committee reports that the commercial capacity of the egg market increased
89%
from 2001 to 2010.

EGG SALES IN 2001-2010 SELECTIVELY,
IN %

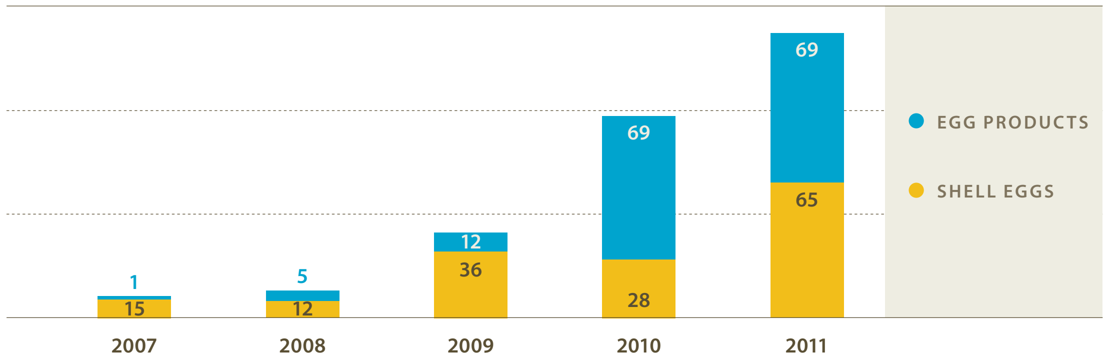


A rise in sales via "civilized" retail channels can be expected in the near future, which will require suppliers to provide guaranteed uniform year-round supplies.

With regard to foreign trade, the first commercial consignment of eggs was exported in 2005-2006 – launching the start of a new phase of development for the Ukrainian egg market. Exports from Ukraine reached a record $65 million in 2011.

Sales via retail chains and stores increased by
28.1 P. P.
since 2001.

EGGS AND EGG PRODUCTS EXPORTS FROM UKRAINE,
MLN DOLLARS



The development of industrial production of eggs provided a boost for a new area of industrial processing for Ukraine – the production of egg products. Active production of egg products began around five years ago, but despite this short time, producers have not only been able to advance production in 8,2 times compared to 2005 but they have also entered export markets. Considering the growing demand for egg products from foreign markets, development of this promising area of industrial production is expected to intensify. Pro-Consulting forecasts that by 2015 the capacity of the Ukrainian egg products market will grow to 34,000 tonnes, generating additional demand on the domestic market for shell eggs.

In Ukraine, virtually the only rival to AVANGARDCO IPL dry egg product manufacturer Imperovo Foods is the Ovostar Group, which specializes in the production of liquid egg products.

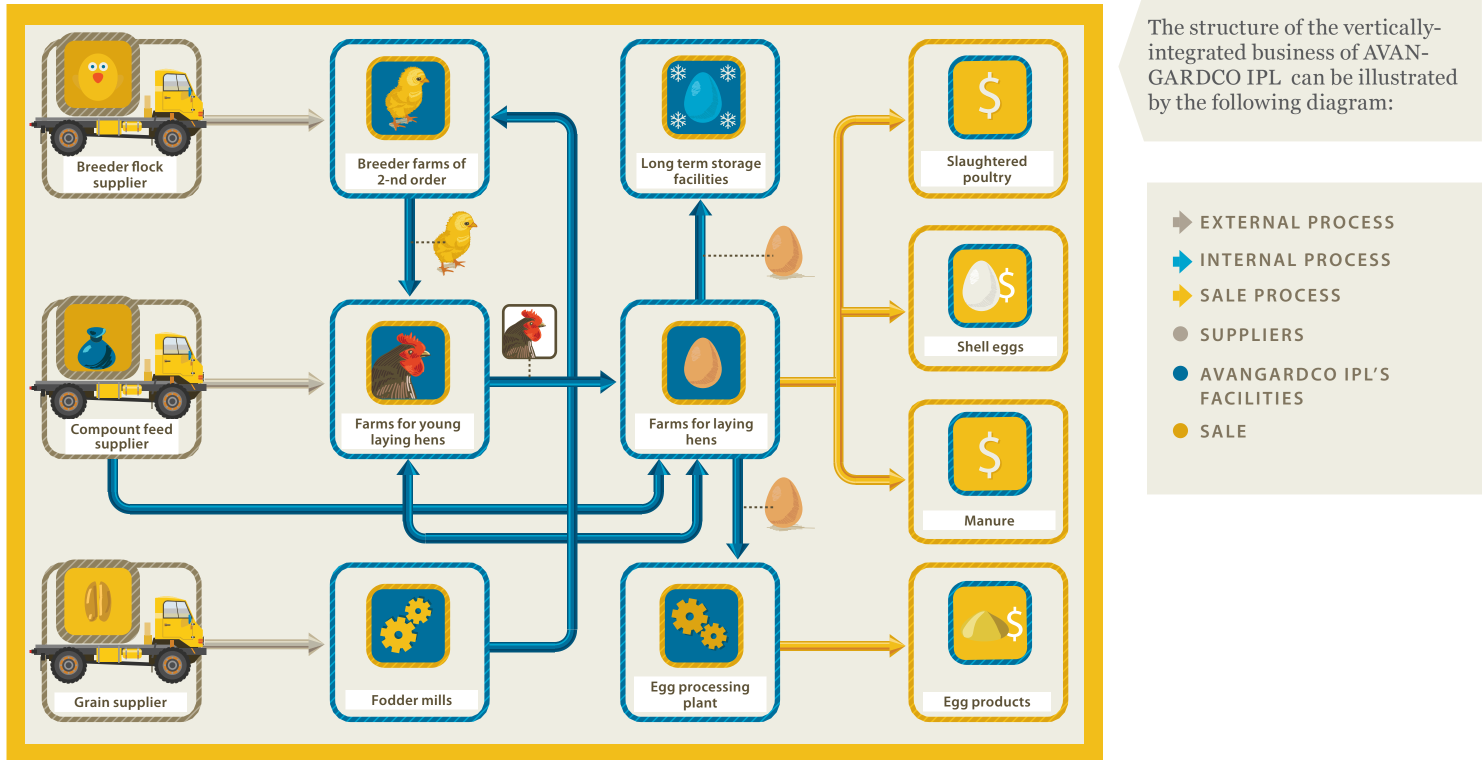
Thus, we can conclude that the outlook for the Ukrainian egg and egg products market will be associated with increased production volumes, further redistribution of production structures and more market consolidation, more sales via supermarkets and retail chains and an increase in sales on export markets thanks to competitive prices compared to other exporter countries.

OPERATIONS OVERVIEW

BUSINESS STRUCTURE

COST EFFICIENT INTEGRATED BUSINESS MODEL

The structure of the vertically-integrated business of AVANGARDCO IPL can be illustrated by the following diagram:



Production process:

- The Company has 3 second order breeder farms, which fully meet the Company's daily chicken requirements
- All laying hens are contained in 19 poultry farms, young laying hens are kept in 9 grow-out farms located throughout Ukraine
- Most of the required fodder is produced at the Company's own 6 fodder mills
- Imperovo Foods egg processing plant provides the necessary volume of processed products
- 3 long-term storage warehouses minimize risks associated with seasonal fluctuations in demand and reduce price fluctuation risks
- A high degree of production process automation, the use of the most up-to-date equipment and modern technology enables the production of high quality products at low cost.

GEOGRAPHICAL COVERAGE IN UKRAINE

19 Farms for laying hens

9 Farms for young laying hens

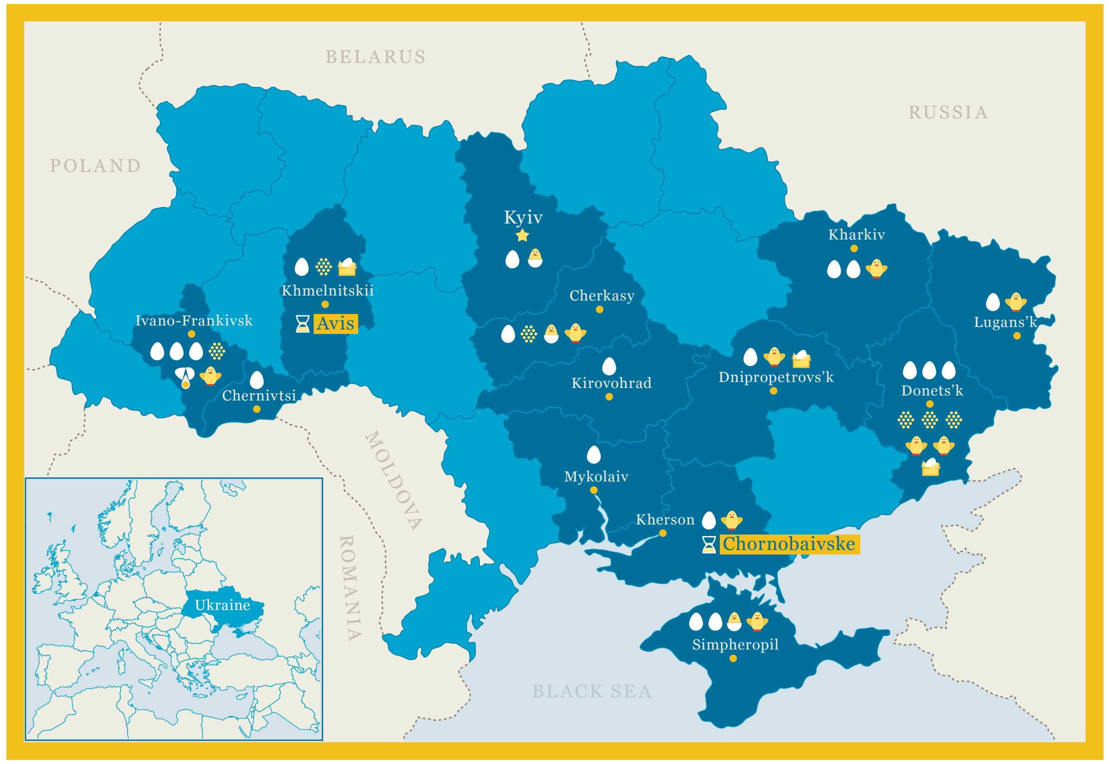
3 Breeder farms

6 Fodder mills

3 Long-term storage facilities

1 Egg processing plant

2 Investment projects (Avis and Chornobaivske)

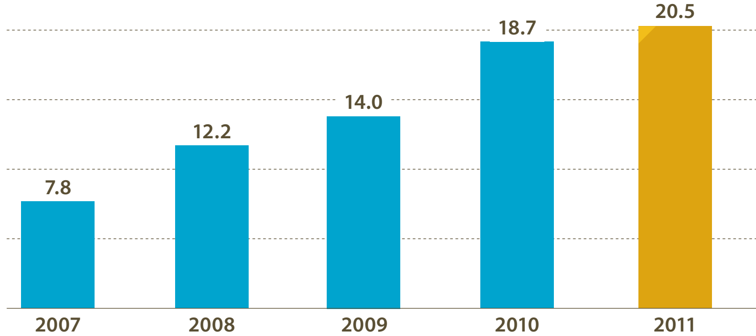


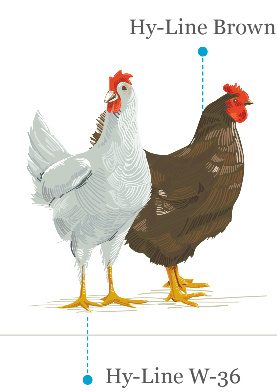
Total flock amounted to
25.1
million heads,
+3.3%
y-o-y.

The industrial laying hens flock totalled
20.5
million in 2011,
+9.6%
y-o-y.

Chicken livestock

INDUSTRIAL LAYING HENS FLOCK, MLN HEADS

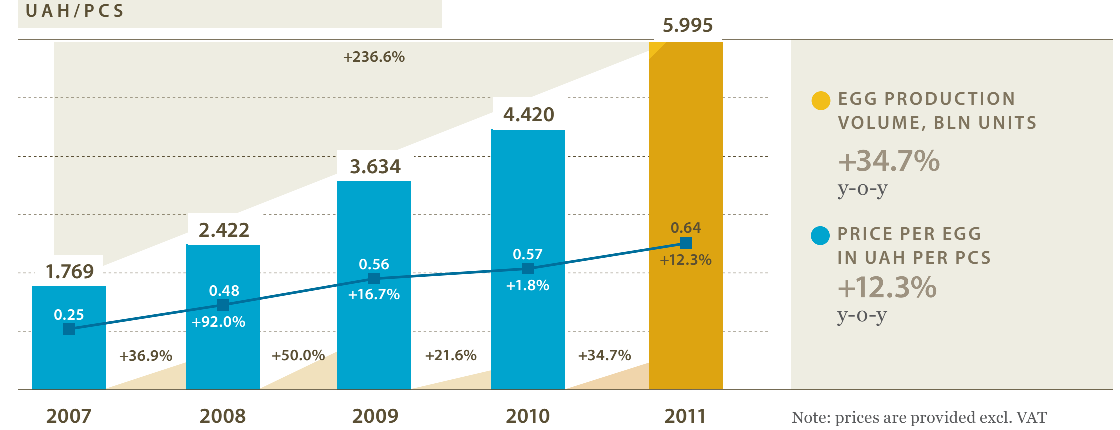




The overall poultry flock is composed of industrial laying hens, which provide eggs for sale and processing, young laying hens and breeder flock. The Company's entire breeder flock consists of Hy-Line W-36 and Hy-Line Brown breeds, produced by Hy-Line International, an independent producer of breeder flock based in United Kingdom.

EGG PRODUCTION

EGG PRODUCTION, BLN UNITS AND PRICE PER EGG, UAH/PCS



Note: prices are provided excl. VAT

The Company produced
6.0
billion shell eggs in 2011,
+34.7%
y-o-y.

Sales price increase by
12.3%
y-o-y.

Shell eggs sales dominate in the revenue structure of the Company. The sale of shell eggs accounted for 70.4% of overall revenue in 2011.

In accordance with Ukrainian standards, shell eggs are classified as dietary, extra, class A, table, class B, cooled and those that are classified for industrial processing, depending on the term of sale and quality. The Company produces brown and white table eggs.

Approximately half of the Company's breeder flock consists of Hy-Line W-36 breed and approximately half consists of Hy-Line Brown breed. This is primarily influenced by varying consumer preferences in eastern and western Ukraine. The population in eastern Ukraine consumes primarily white eggs, whereas the population in western Ukraine consumes primarily brown eggs.

EGG CLASSIFICATION

Category	Shelf life (excl. the day of production), days	Storage temperature, degrees Celsius	Comments
Dietary	7	from 0 to 20	-
Extra	9	from 5 to 15	Can be exported
Class A	28	from 5 to 15	Can be exported
Table	25	from 0 to 20	Can be exported
Class B	25	from 0 to 20	-
Cooled	90	from -2 to 0	Stored in refrigerators
For industrial processing	Designated as such not later than 1 day after being laid		

Depending on their weight shell eggs are devided into 5 categories: premium, supreme, first, second and small.

EGG CATEGORIES

Category	Weight of one egg, grams	Weight of 10 eggs, no less than, grams	Weight of 360 eggs, no less than, grams
Premium (XL)	73 and over	735	26.5
Supreme (L)	63 – 72.9	640	23.0
First (M)	53 – 62.9	540	19.4
Second (S)	45 – 52.9	460	16.6
Small	35 – 44.9	360	13.0

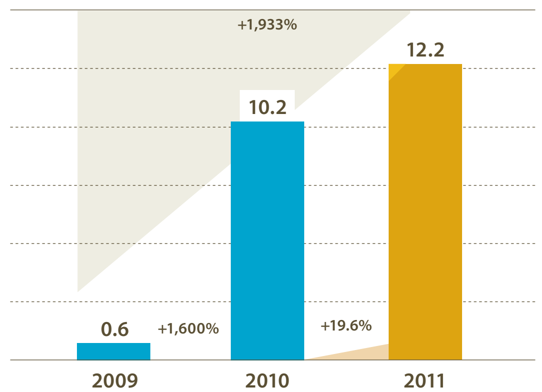
The Company produced
12,2
thou tonnes of dry egg products in 2011

+19.6%
y-o-y.

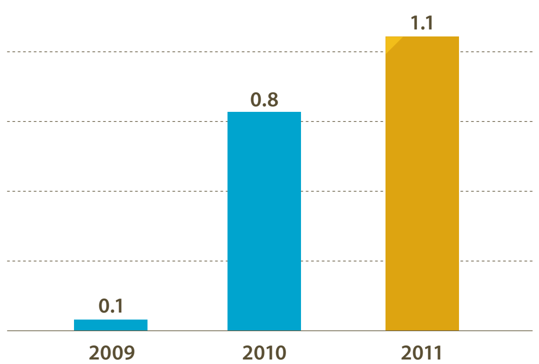
The average selling price was
$8.05
per kilogram in 2011.

EGG PRODUCTS PRODUCTION

DRY EGG PRODUCTS PRODUCTION, THOU TONNES



DRY EGG PRODUCTS PRODUCTION IN EGG EQUIVALENT, BLN PCS



КВОЧКА

CONSUMER CENTRICITY

UNCOMPROMISED QUALITY

PROMISING MARKET

AVANGARDCO IPL is a national leader in the production of shell eggs and egg products. Company strategy is built on efficient models of distribution and the achievement of a presence in all key retail chains in Ukraine. The Company views the packaged eggs market as a promising area, considering its high profit margin and lower seasonal factor in prices.

Together with leading research company GfK Ukraine, AVANGARDCO IPL held the first category analysis on the market to learn basic consumer values and preferences for packaged eggs. On the basis of that study, our Company began to establish a balanced portfolio of brands and provide the necessary marketing support.

AVANGARDCO IPL aims to attain a leading position in this higher margin segment of the market and bring consumers the key values of our company – natural quality products.

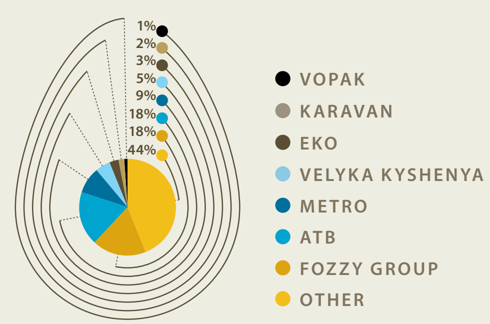
1 UNIQUE MARKET RESEARCH

2 QUALITY, FRESHNESS, PRICE - CREATION OF BRANDS BASED ON CONSUMER VALUES

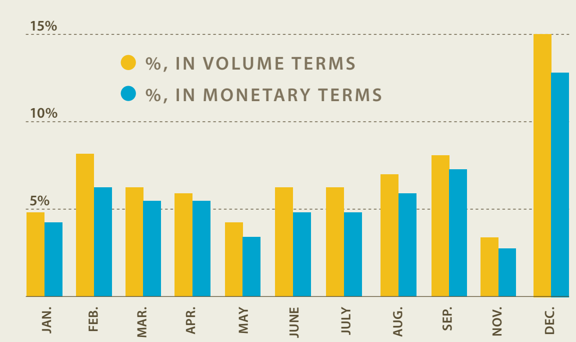
3 EFFECTIVE MARKETING SUPPORT

4 CREATION OF A BALANCED BRAND PORTFOLIO

THE SHARE OF AVANGARDCO IPL KEY ACCOUNTS IN RETAIL TURNOVER



"KVOCHKA" BRAND SHARE IN KEY RETAIL OUTLETS, 2011



PRIORITIES FOR 2012

- Develop the portfolio under the umbrella brand "Kvochka";
- Expand national presence to 2,500 retail outlets by the end of 2012;
- Achieve national leadership in the packaged egg segment.

100%
increase in "Kvochka" sales to our key accounts in December 2011.

Our aim -
Leadership
on packaged eggs market by the end of 2012.

Presence in
2,500
retail outlets by the end of 2012.

SUCCESSFUL LAUNCH

The Company's team has been working on the renewal of the brand for ca. 8 months to successfully relaunch the "Kvochka" brand in November 2011.

The international research company, GfK Ukraine, conducted an extensive survey in the largest cities in Ukraine. The results of this research and the feedback collected from domestic consumers served as a basis for creating a new "Kvochka" brand. The international creative team of The Willard Group has developed new packaging.

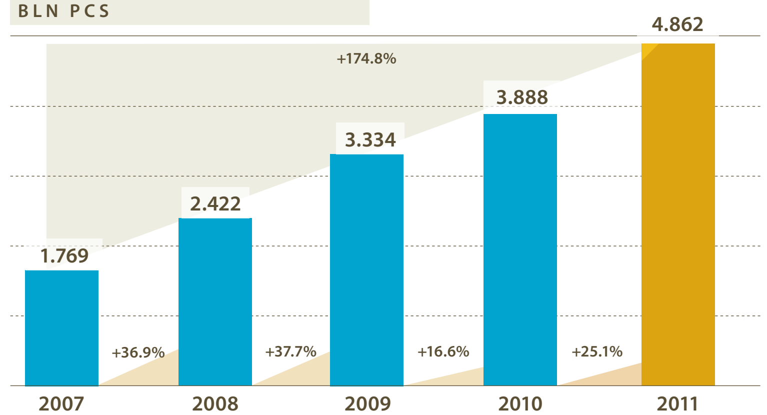
As a result in 2011 sales of "Kvochka" doubled, with market share in major supermarket chains reaching a record high of 15% following the relaunch.

The Company believes that the growing volume of packaged products under the updated brand and its sales directly through the large network of modern retailers, one of the most profitable channels on the local market, are expected to make a positive contribution to financial results of the Company.

DISTRIBUTION

Eggs produced by the Company are sold via wholesalers, supermarkets, for exports as well as for processing to obtain egg products which are either exported or sold on the domestic market.

SALES,
BLN PCS



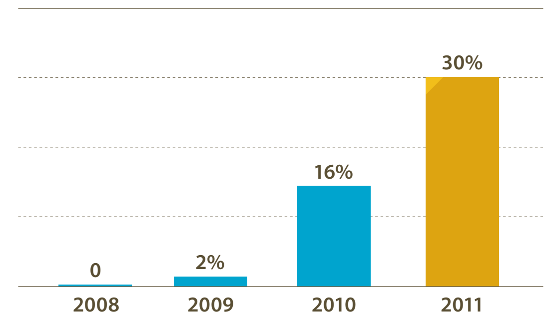
AVANGARDCO IPL sold
4.9
bln shell eggs,
+25.1%
y-o-y.

Key wholesale buyers of the Company's products are the Ukrainian divisions of such well-known corporations as Nestle, Viciunai Group and local confectionary companies Konti, Roshen and AVK. The Company is now carrying negotiations with McDonalds and Kraft Foods.

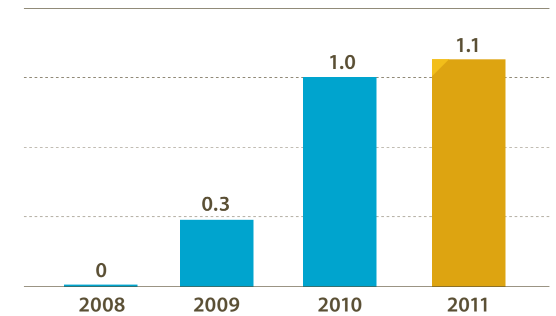
Sales via wholesale companies previously made up a large share of total sales for the Company, but since 2009 the Company started increasing its sales via supermarkets, the share of which reached 30% in 2011 compared to 2% in 2009. The Company plans to further increase sales via organized retail outlets, considering this distribution channel to be the most effective.

Sales via supermarkets increased from
2%
in 2009 to
30%
in 2011.

SHELL EGG SALES TO SUPERMARKETS,
% OF TOTAL SALES TO EXTERNAL CUSTOMERS

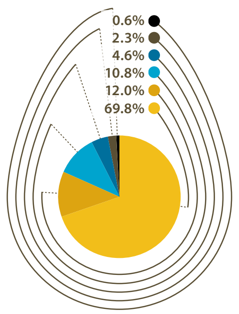


SHELL EGGS AND EGG PRODUCTS EXPORTS IN EDD EQUIVALENT,
BLN PCS



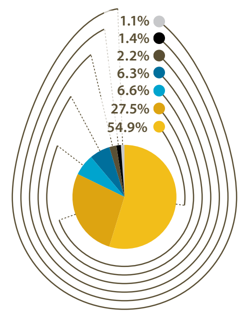
Exports of shell eggs are mostly carried out on EXW terms by means of specialized cargo trucks that belong or are chartered by the buyer; exports to countries in the Middle East and North Africa are sent on trucks to the port of Odessa and transported to the Black and the Mediterranean Sea ports and further to their destination. Thus, the buyer bears all risks associated with loss or damage of cargo.

REVENUE FROM SHELL EXPORTS, 2011



- SYRIA
- TURKMENISTAN
- ARMENIA
- MOLDOVA
- AZERBAIJAN
- IRAQ

REVENUE FROM EGG PRODUCTS EXPORTS, 2011



- THAILAND
- VIETNAM
- SAUDI ARABIA
- INDONESIA
- KOREA
- JORDAN
- UAE

The fastest growing markets for shell egg exports in the reported period were Iraq and the CIS countries, which accounted for around

70% & 29%

respectively, of the total eggs exported.

Dry egg products were mainly exported to the United Arab Emirates, Jordan and Korea with these countries accounting for

89%

of overall exports. Exports of dry egg products in 2011 amounted to

0.8

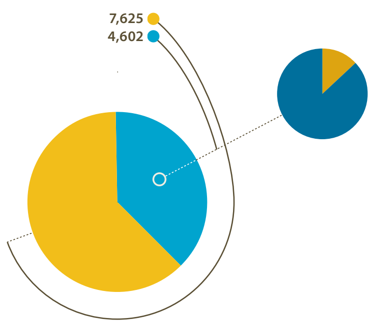
billion eggs in egg equivalent.

Considering the political volatility in these regions, the Company's export policy is built on diversification of countries – the new egg export contracts were signed with Armenia, Turkmenistan and Azerbaijan in 2011. However, with the water scarcity and hot climates in the Middle Eastern and North African countries, they will remain major importers of livestock produce, including eggs and egg products.

The Company significantly enhanced its export division in the reported period. The division is led by Mr. Fahmy Abderrahim that has an extensive track record in the field.

Given the destination of exports, the Company has obtained a special Halal certificate for its dry egg products.

EGG PRODUCTS SALES BY MARKETS, TONNES



87%

of the Ukrainian dry egg products market in 2011.

- DOMESTIC MARKET
- FOREIGN MARKET

INVESTMENT PROJECTS

The Company continues to implement its investment program that presupposes construction of two poultry complexes – Avis in Khmelnitskii region and Chornobaivske in Kherson region, Ukraine. It also plans to increase egg processing capacity at its Imperovo Foods plant.

Avis project

In July 2011, the first stage of laying hens facilities with

3

million heads capacity was officially launched.

As at December 31, 2011 these facilities were operating at over

80%

of their capacity.

The rearing site and the laying hens sites fully comply with the European standards (OFFICINE FACCO & C. Spa equipment is used).

As at December 31, 2011, the final equipment commissioning in the eggs sorting area was underway. The independent 35MW electric substation, required for the provision of electricity to the rearing and laying hens sites, is now operational. The elevator, with capacity of 56,000 tonnes, is nearly 90% completed. Construction of the fodder mill is 50% complete, with delivery and installation of technological equipment now being carried out. A further independent electric substation, with a 110 MW capacity required for the 200,000 tonne elevator, is currently in the design stage.

Chornobaivske project

In December 2011, the Company officially opened the rearing site with the capacity of

1.5

million laying hens.

As at December 31, 2011 the site was operating at over

20%

of its full capacity.

The rearing site fully complies with the European standards (SALMET International GmbH equipment is used).

Increasing capacity of Avis&Chornobaivske

In the summer 2011 the Company's management decided to increase capacity of Avis and Chornobaivske complexes, in particular the capacity of the site for rearing young laying hens and site for laying hens will be increased from

1.5 to 2.5

million heads and from

3 to 5

million heads, respectively.

At the same time capacity for the production of biogas unit will be increased from

9.74 to 20.4

megawatts of electricity and from

11 to 22

megawatts of thermal energy, respectively.

Increasing capacity at Imperovo Foods

Project work aimed at increasing egg processing capacity is being carried out at Imperovo Foods.

1st stage: processing capacity will be increased from

3 to 6

million eggs per day.

Timing: by Dec 2012.

2nd stage: processing capacity will be increased from

6 to 10

million eggs per day.

Timing: by Jul 2013.

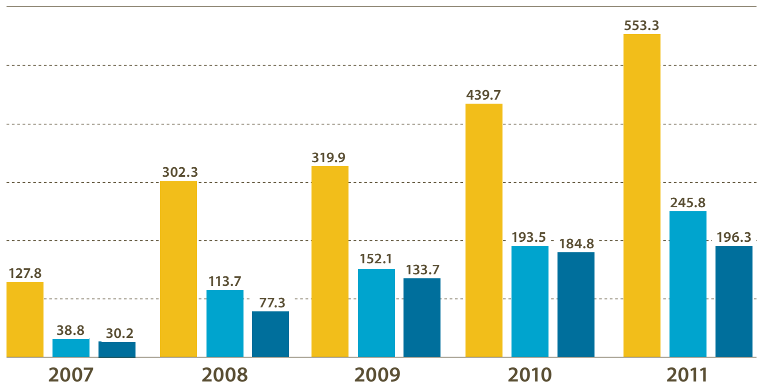
FINANCIAL OVERVIEW

The Company increased its y-o-y revenue by
25.8% to $553.3
million in 2011.

The increase in revenue is due to a
25%
increase in sales volumes of shell eggs, a
10%
rise in sales volumes of egg products and a
12.3%
growth of shell egg prices.

EBITDA climbed
27% to $245.8
million and net profit grew
6.2% to $196.3
million.

KEY FINANCIAL INDICATORS, MLN DOLLARS



REVENUE
+25.8%
y-o-y

EBITDA
+27.0%
y-o-y

NET INCOME
+6.2%
y-o-y

PROFIT MARGINS, %

	2007	2008	2009	2010	2011	2011/2010
Gross profit margin	15.3	27.1	33.5	35.9	40.4	+4.5 p.p.
Operating profit margin	26.0	33.7	43.7	41.1	41.8	+0.7 p.p.
EBITDA profit margin	30.3	37.6	47.6	44.0	44.4	+0.4 p.p.
Net profit margin	23.7	25.6	41.8	42.0	35.5	-6.5 p.p.

The Company saw gross profit rise by 41.9% in 2011 mainly due to a stable increase in sales. The gross profit margin rose to 40.4% (35.9% in 2010), thanks to efficient control over production costs.

Operating profit climbed 28% and and the operating profit margin grew from 41.1% to 41.8%.

Administrative expenditures increased 83.6% to $13.2 million ($7.2 million in 2010) due to a rise in the salaries fund because of staff expansion and salary hikes as well as due to a rise in the volume of services provided to the Company by third party organizations (legal, audit and similar expenses).

Sales expenses jumped 98.4% to $10 million ($5.1 million in 2010) due to an increase in salaries in sales divisions and an increase in transport expenses due to diversification of sales channels, especially because of an increase in the volume of sales via supermarkets.

As the Company's loan portfolio does not contain loans with interest that is subject to compensation, revenue from government grants and incentives fell from $17.5 million in 2010 to $0.3 million in 2011.

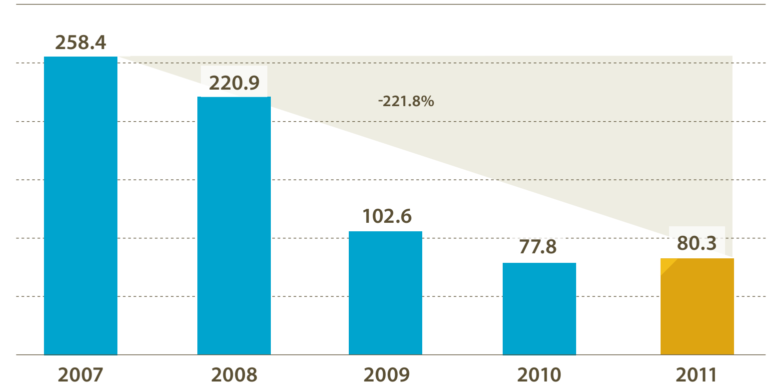
DEBT STRUCTURE, MLN DOLLARS

	2010	2011	2011/2010
Long-term debt	231.6	216.3	-6.6%
Short-term debt	29.4	101.8	246.7%
Total debt	**261.0**	**318.1**	**21.9%**
Cash and cash equivalents	183.1	237.8	29.9%
Net debt	**77.8**	**80.3**	**3.2%**
EBITDA	193.5	245.8	27.0%
Net debt /EBITDA	**0.4**	**0.3**	
Revenue/ (spending) on interest	4.1	(31.6)	-35.7

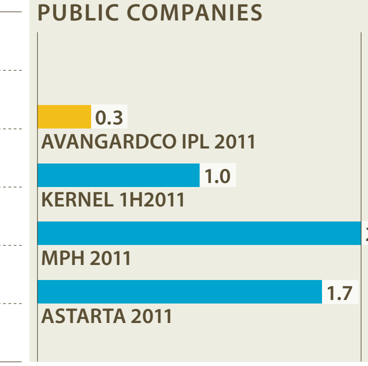
Total debt amounted to
$318.1
million in 2011

+21.9%
y-o-y.

NET DEBT, MLN DOLLARS



COMPARISON OF NET DEBT/EBITDA RATIO AMONG UKRAINIAN AGRICULTURAL PUBLIC COMPANIES



Note: Based on LTM EBITDA
Source: Bloomberg

Net debt grew by
3.2% from $77.8
million in 2010 to
$80.3
million in 2011.

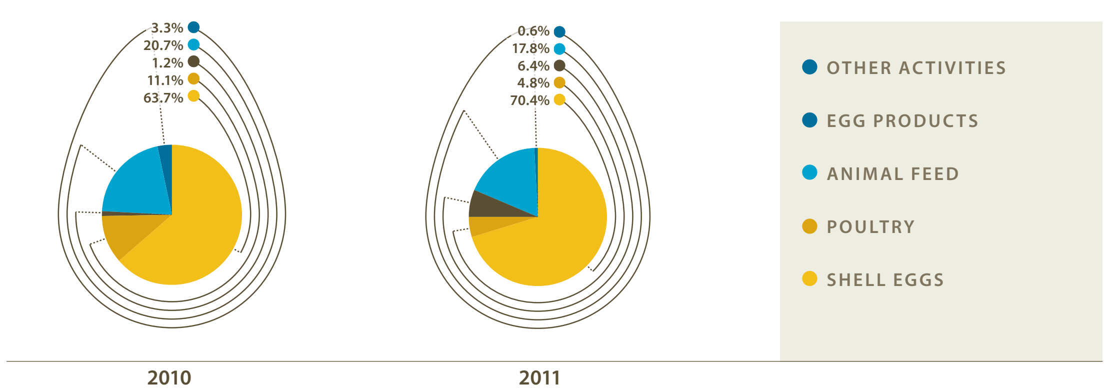
BREAKDOWN OF REVENUE AND OPERATING PROFIT BY PRODUCT, MLN DOLLARS

	Shell egg	Poultry	Animal feed	Egg products	Other activities	Total
Sales revenue	482.3	83.3	162.0	99.0	7.4	834.1
Intra-group elimination	(93.1)	(56.5)	(126.7)	(0.5)	(4.0)	(280.7)
Revenue from external buyers	**389.3**	**26.8**	**35.3**	**98.5**	**3.4**	**553.3**
Income from revaluation of biological assets at fair value	12.4	11.3	-	-	-	23.7
Other operating income/(expenses)	(4.2)	(0.5)	(0.8)	(1.0)	(1.0)	(7.4)
Income from government grants and incentives	0.3	0.0	-	-	-	0.3
OPERATING PROFIT/(LOSS)	**235.6**	**(11.1)**	**20.3**	**(7.2)**	**(6.1)**	**231.5**

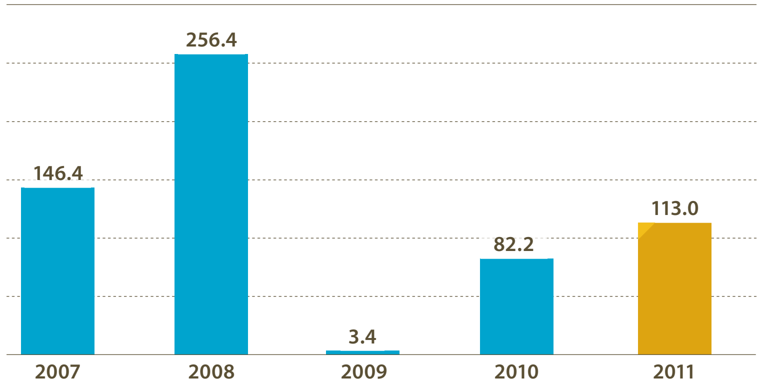
The greatest share of revenue in 2011 came from the sale of shell eggs –
70.4%
or
$389.3
million

The share of egg products amounted to
17.8%
or
$98.5
million or

REVENUE STRUCTURE BY TYPE OF PRODUCT



CAPITAL EXPEDENTURES,
MLN DOLLARS



Note: as indicated in cash flow statements

Most capital investments were directed at the construction of egg production complexes of Avis and Chornobaivske.

The Company acquired LLC Imperovo Ltd., from a related party in September 2011 which has LLC Imperovo Foods shell egg processing plant assets on its balance sheet.

CORPORATE SOCIAL RESPONSIBILITY

HUMAN RESOURCES MANAGEMENT

Management of the Company consider staff to be its most valuable assets and therefore the Company pays great attention to selection of employees, objective and systematic assessment, motivation, training and development.

Human resources management policy is aimed at attracting and retaining highly-qualified personnel at all levels.

One of the main objectives the Company sets is to create a good work-life balance with a flexible working schedule. In addition to salaries and bonuses, the Company provides transport to work, mobile communications and bonuses in kind (company produced products).

The Company has a sound incentive system for employees, which includes bonuses for meeting and exceeding targets and for outstanding contribution to the Company development and other incentives.

A voluntary medical insurance program for different categories of employees was launched in 2012.

The Company does not consider age, colour, ethnic origin, sex, political views, religious beliefs or sexual orientation a barrier to employment or promotion.

Biosecurity

To minimize risk of disease among its flocks and the onset of epidemics, the Company applies a wide range of measures in accordance with the best international practices. These measures include:

- Keeping birds indoors only,
- Monitoring staff access to areas where birds are kept,
- Disinfection of employees that have been in contact with the birds,
- Constant health monitoring of employees and birds.

The Company's poultry farms use a separate breeding method for different ages to prevent transmission of infection from older birds to younger birds. In the intervals between production processes, production areas are thoroughly cleaned and disinfected.

In addition, the Company keeps large numbers of poultry houses within each poultry farm and its poultry farms are geographically diversified to ensure emergency isolation should a contagious disease occur.

Each poultry farm is at least 300 to 1,200 meters (depending on size) from the nearest settlement. All doors, windows and vents are designed in such a way to prevent possible contact of birds with other animals and human beings. All poultry farms are surrounded by protective ditches filled with a solution of formalin to disinfect the tyres of vehicles entering and exiting. Employees entering the farms are also disinfected daily to protect against possible bacteria coming in on shoes. Each poultry house has a restricted access zone. Employees must meet certain hygiene requirements before and after completing their work. Employees are prohibited from owning their own household chickens (the Company compensates for this inconvenience by providing bonuses in kind of its own produce). All employees undergo regular training on biosafety.

In addition to the abovementioned measures, the Company carries out vaccinations against Newcastle disease, Marek's disease, Infectious Bursal Disease (IBD), or Gumboro disease, bronchitis and other dangerous diseases.

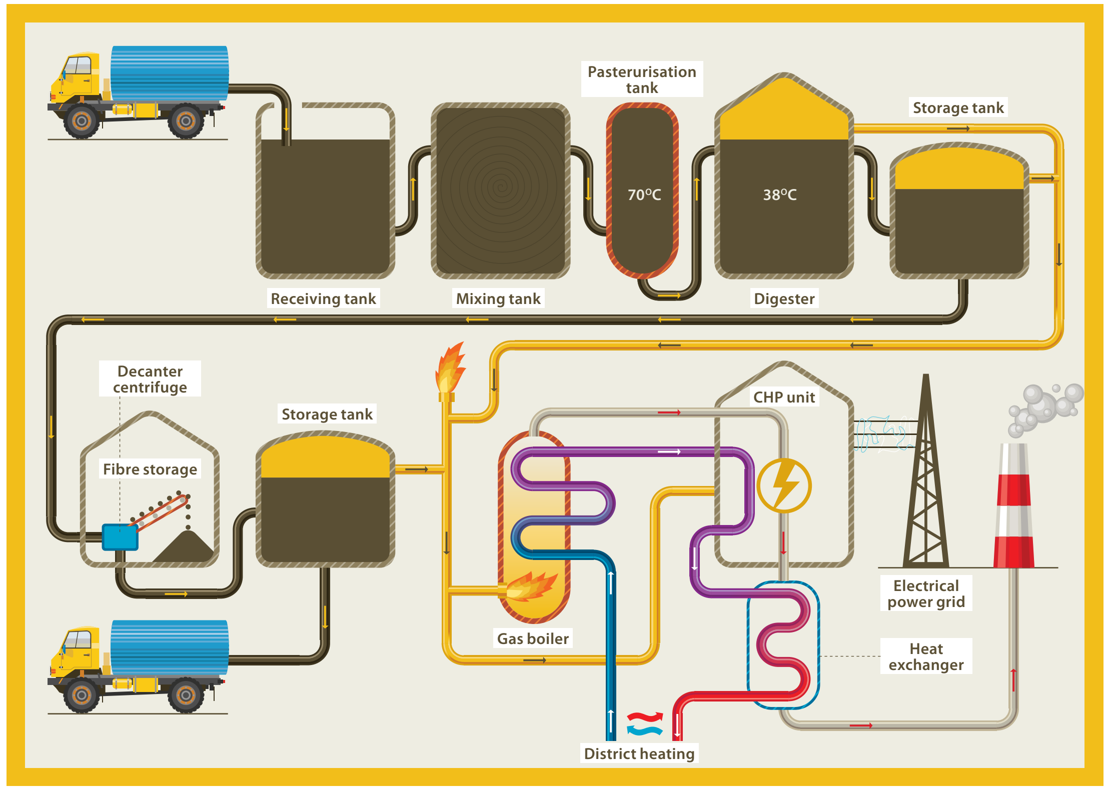
In the reported year there were no cases of Avian influenza, Newcastle or Marek's diseases at the Company's facilities.

The Company has specialized laboratories staffed with highly skilled personnel.

Protecting the environment and using green energy

As part of a large investment project, biogas plant design has begun for the Avis and Chornobaivske production complexes. The plants will use bird manure, water and maize silage to produce heat and electricity and dry organic fertilizers as well as reducing emissions of greenhouse gases into the atmosphere.

TYPICAL OPERATION OF A BIOGAS PLANT



The heart of the biogas plant is the large digester vessel where methane bacteria transform the organic matter into gas. After degassing the biomass it is separated, the fibre fraction is sold to crop farms and the liquid fraction is returned to the farmers. The gas is utilized to generate electricity and for district heat production.

This project is an important element of the development program for the Company and Ukraine as a whole because it enables the implementation of a strategy for developing energy saving and envisages the introduction of innovative technology and the establishment of international business relations.

The Company has already signed contracts with leading Germany producers to implement the project, including - MT, Envitec, Biogas Nord, Verbio AG and Stulz E+H Gruppe, and is starting to work with UTS Biogastechnik.

In accordance with the Ukrainian law on electricity and a resolution from the National Commission in charge of government regulation of the power industry, so-called green tariffs are regularly established for companies generating electricity from non-traditional sources, allowing them to sell at higher green tariffs to the Ukrainian energy system.

There were only two companies in Ukraine producing and selling green electricity from biomasses at the end of 2011 so the Company considers this an important area for its development.

CORPORATE GOVERNANCE

Avangardco Investments Public Limited is registered in Cyprus in accordance with the legislation of the Republic of Cyprus as a public company (Public Company Limited by Shares). The Company is not listed on the Cyprus Stock Exchange (CSE) and therefore is not obliged to comply with the CSE Corporate Governance Code.

AVANGARDCO IPL shares do not have premium listing and are traded on the London Stock Exchange as GDR's and therefore the Company is not obliged to comply with the UK Corporate Governance Code.

Due to the abovementioned circumstances, AVANGARDCO IPL builds its corporate governance system on the basis of international best practice recommendations.

The Company is guided by the following key corporate governance principles:

- Shareholders are given a real chance to exercise their rights associated with participation in the Company,
- Equal relations for shareholders owning an equal number of shares of one type (category), including minority shareholders,
- The Board of Directors carry out strategic management of the Company activities and efficient control over the actions of executive bodies within the Company, and members are accountable to the Company shareholders,
- Management of current Company activities by its executive bodies in the interests of ensuring long-term stable development and achieving benefits for shareholders from these activities; accountability of the executive bodies before the Company Board of Directors and shareholders,
- Timely disclosure of complete and reliable information about the Company in order to enable informed decision making by shareholders and investors in accordance with Listing Rules and Disclosure and Transparency Rules of the UK Financial Services Authority,
- Ensuring efficient control over the Company's financial and economic activity in order to protect the rights and legitimate interests of shareholders and other interested parties.

In accordance with the Company's charter, the highest management body is the shareholders meeting held at least once per year. The shareholders elect the Board of Directors, confirm the annual report and other reports from the Board of Directors and the Company's auditor. The board manages the Company, with the exception of the exclusive authority of the general shareholders meeting and recommends dividends, which are then approved by the shareholders assembly, but cannot be higher than the recommended amount.

THE BOARD OF DIRECTORS

IS REPRESENTED BY:

Oleg Bakhmatyuk
Chairman of the Board

Oleg Bakhmatyuk graduated from the Economy and Law Institute in Chernovtsi, Ivano-Frankivsk region, with a Business Management degree. He obtained a second degree in 2005 at the Ivano-Frankivsk National Technical University of Oil and Gas (engineering, physics and management). He founded the Company in 2003. Oleg Bakhmatyuk owns several other companies involved in the food industry, transport, real estate and finance. In addition, Mr. Bakhmatyuk has held various management positions: he was a director of LLC Prykarpattya Financial Company in 2004, a president of LLC Stanislavska Trade Company in 2005 and a deputy chairman of Naftogaz of Ukraine from 2005 to 2006.

Oleg Pohotsky
Independent Director

Mr. Pohotsky received his MBA from Harvard Business School and a doctorate degree in law from the University of Miami. He also obtained a Bachelor of Sciences in Chemical Engineering from the University of Clarkson. Oleg Pohotsky is the partner-founder of Right Bank Partners and is on the board of directors of two closed investment funds listed on the NYSE. He is also a member of the Consultation Council at Kaufman & Co, a Boston based boutique investment banking firm, and senior advisor at Governance Metrics International. Oleg Pohotsky became an independent director of the Board in March 2011.

Nataliya Vasylyuk
Chief Executive Officer

Mrs. Vasylyuk obtained a Finance and Accounting Diploma at the Ivano-Frankivsk National Technical University of Oil & Gas in 2005. She began her career in 2004 as sales and marketing director at LLC Prykarpattya Financial Company, then from 2004 to 2007 she worked as a financial director in LLC Stanislavska Trade Company. Natalya Vasylyuk joined the Company in 2007.

Iryna Marchenko
Chief Financial Officer

Mrs. Marchenko graduated from the Kyiv Municipal Management Academy in 2004 with an accounting and audit qualification. She obtained an ACCA IFRS Diploma in 2008. She was appointed as a general director of Mriya K in 2003. In 2007 she became a director of the Company's Management Accounting and Reporting department. Iryna Marchenko became a Financial Department Director of the Company in 2010.

Oksana Prosolenko
Head of Business Development

Mrs. Prosolenko graduated from the Getman Kyiv National Economic University in 2008 with an Economic Sciences Diploma. She was a Marketing and Analysis Department director at the Ukrainian Union of Poultry Breeders Association from 2005 to 2006 and a senior marketing specialist at Borispol Agro-Trade bird breeding company. Oksana Prosolenko worked as a marketing director of the Company from 2007 to 2009. She was appointed as a head of business development in 2010.

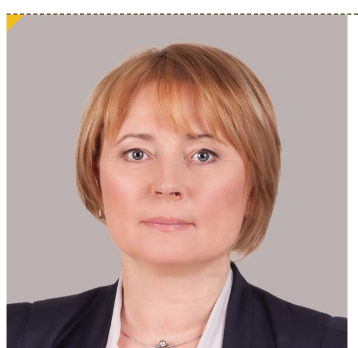
SENIOR MANAGEMENT OF THE COMPANY

George Givishvili
Chief Marketing Officer

Mr. Givishvili graduated from Western Kentucky University in 1995 with bachelor degree in marketing and management. He started his career in 1996 at Philip Morris Georgia as a marketing manager, then, during 1998-2000, he was responsible for regional marketing/sales at Philip Morris International headquarters in Lausanne, Switzerland. Since 2000, he worked for Philip Morris Russia (Moscow) as a group brand manager and, in 2003 he was promoted to a Belarus & Moldova area manager. In 2004, he was a general manager for Philip Morris Southern/Eastern Africa. Since 2007, he worked as a marketing director for Philip Morris Ukraine. Mr. Givishvili joined the Company in 2011.

Iryna Melnik
Deputy Chief Financial Officer

Mrs. Melnik graduated from the Economy Faculty of Stefanik Prykarpattya National University in 2002 with a degree in business and economics. She was appointed as a financial directorof Stanislavska Trading Company in 2005 and was appointed as a director of Ukrmyaso in 2007. Mrs. Melnik joined the Company in 2010.



Galyna Bodnar,
Deputy Chief Financial Officer

Mrs. Bodnar graduated from the Ivano-Frankivsk Institute of Oil and Gas with diplomas in mechanical engineering and accountancy. Mrs. Bodnar has a Master's Degree in Economics. She was appointed as a deputy financial director at Prykarpattya Financial Company in 2004 and became a deputy head of Lvivgas in 2007. Mrs. Bodnar joined the Company in 2011.

Mykola Takzey
Head of Brand & Trade Marketing

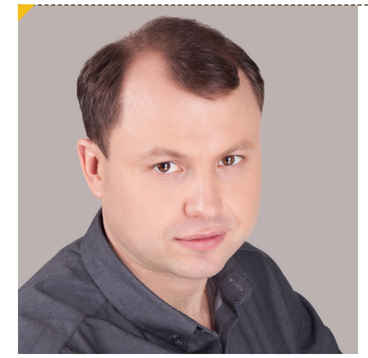
Mr. Takzey graduated from the Taras Shevchenko University and the Kyiv University Of Tourism, Economics and Law. Mr. Takzey has 10 years experience in consumer goods marketing (FMCG). He has worked with international and local brands in different product categories. He gained international experience by working with Philip Morris International in Ukraine, Switzerland and the Benelux countries. Mr. Takzey joined the Company in 2011.

Natalya Martynenko
Chief Operations Officer

Mrs. Martynenko graduated from the Kyiv Polytechnic University in 1992 with a financial engineering diploma. Mrs. Martynenko was appointed as a financial director of Kompaniya Energiya in 2002, as a general director of Nidan Ukraina in 2005 and a general director of Fruit Master Group in 2006. Mrs. Martynenko joined the Company in 2011.

Vasyl Marchuk
Head of Procurement Department

Mr. Marchuk graduated from the Ivano-Frankivsk National Technical University of Oil & Gas in 1994 with degrees in mechanical engineering and accountancy. He held management posts in various companies from 1995 and from 1997 he was a financial director at Prykarpattyaoblenergo. He was appointed as a deputy chairman for financial and economic matters at Ivano-Frankivskgas in 2001. In 2004 he became a chairman of Lvivgas. He became a head of the Ukrainian Association of Regional Gas Distribution Companies in 2010. Mr. Marchuk joined the Company in 2010.



Oleg Solovei
Chief Legal Officer

Mr. Solovei graduated from the Taras Shevchenko National University of Kyiv in 1998 with a diploma in law. He was appointed as a head of the Kyivenergo Property and Material Relations Department in 2001. He became a head of administration at the Social Insurance against Temporary Incapacity Fund in 2005. Mr. Solovei was appointed as a head of the legal department at Ukrprofzdravnitsa in 2006. Mr. Solovei joined the Company in 2011.

Oleg Volychek
Head of Sales

Mr. Volychek graduated from the Uzhgorod State University in 1996 and worked in multinational company (market leader in category) during last 16 years. He occupied different positions in sales and distribution, trade marketing. For the last 7 years he was also responsible for sales on the market of Ukraine and Russia. Mr. Volychek joined the Company in 2011.

Gennadii Kovalevskii
Head of Logistics

Mr. Kovalevsky graduated from the Ukrainian National Technical University in 2005 with a diploma in radio engineering. He was appointed as a logistics development manager at LLC Danone in 2006 and also held a management post in the Danone office in Belarus. Mr. Kovalevsky joined the Company in 2011.

Volodymyr Rudenko
Chief Analysis Officer

Mr. Rudenko graduated from the Kiev National University with a degree in economic cybernetics in 2005. After graduation Mr. Rudenko worked for Ukrainian Gas and Finance Consulting Group as an economics analyst and later for System Technology Company Investments as a head of the payment transactions control division. In 2008, he was promoted to the position of a head of Financial Reporting and Control Department. Mr. Rudenko joined the Company in 2011.

Fahmi Abderrahim
Head of Exports

Mr. Fahmi obtained BAIBA (Bachelor of Arts) in International Business Administration at the University of Lincolnshire and Humberside (UK). Prior to joining the Company he was a head of Export Department at "Myronivsky Hliboproduct". Before that he was working as an export director at Terra Foods, and a commercial director at Bel Ukraine. Mr. Fahmi joined the Company in 2011.

Svitlana Dovbnya
Head of HR

Mrs. Dovbnya graduated from the Zhytomyr State Pedagogical University with an English and German language degree in 1990. She was appointed as a deputy personnel manager at MacDonalds Ukraine Ltd in 1997. She became a personnel manager at Euro Foods Gallina Blanca Ukraine in 2005 and a personnel director at Plemzavod Agro Region in 2008. Mrs. Dovbnya joined the Company in 2011.

SHARE AND DEBT CAPITAL

As at YE 2011 the Company's share capital consisted of **6.387.185** common shares, free float amounted to 22.5%.

CHARTER CAPITAL HISTORY

AVANGARDCO IPL CHARTER CAPITAL STRUCTURE AS AT DECMBER 31, 2009

Shareholder	Number of shares, units	Ownership share, %
Oleg Bakhmatyuk	20,000	0.4%
Quickcom Limited*	1,074,684	21.5%
Omtron Limited*	1,848,575	37.0%
Tanchem Limited*	926,280	18.5%
Mobco Limited*	1,130,458	22.6%
Other	3	0.0%
TOTAL	5,000,000	100.0%

* Mr. Bakhmatyuk was at the indicated time the sole owner of Quickcom, Omtron Limited, Tanchem Limited and Mobco Limited.

The Company made an initial public offering of shares in April 2010 in the form of global depository receipts (GDR) in accordance with Regulation S and London Stock Exchange listing.

Upon completion of the over-allotment option, the Company issued 1,387,185 new shares. The conversion ratio is 10 GDR = 1 share. The GDR are traded on the main LSE market under the ticker AVGR. The offer price was reported at $15 per 1 GDR and the free float amounted to 22.5%. The Company raised $208 million from the placement.

The placement was led by a syndicate consisting of investment bank Troika Dialog (UK) Limited as the global coordinator and bookrunner and Irish investment company NCB Stockbrokers Limited as the lead manager. Bank of New York Mellon acting as a depository.

An American Depository Receipt (ADR) program was launched in September 2010 with ADRs traded on the over-the-counter market and Bank of New York Mellon acting as a depository bank. The exchange ratio is 1 GDR=1 ADR.

AVANGARDCO IPL CHARTER CAPITAL STRUCTURE AS AT DECMBER 31, 2010

Shareholder	Number of shares, units	Ownership share, %
Oleg Bakhmatyuk	20,000	0.3%
Quickcom Limited*	1,074,684	16.8%
Omtron Limited*	1,848,575	28.9%
Tanchem Limited*	926,280	14.5%
Mobco Limited*	1,080,143	17.0%
Free-float	1,437,500	22.5%
Other	3	0.0%
TOTAL	6,387,185	100.0%

*Mr. Bakhmatyuk was at the indicated time the sole owner of Quickcom Limited, Omtron Limited, Tanchem Limited and Mobco Limited.

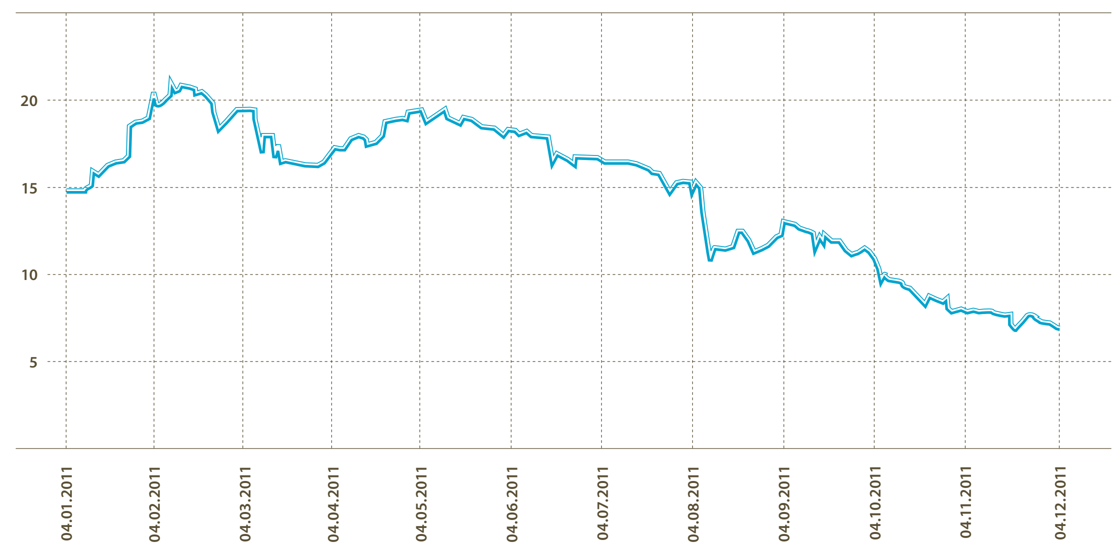
In September 2011 it was decided that the beneficiary owner of 77.5 % of AVANGARDCO IPL's shares, Oleg Bakhmatyuk, would transfer part of his package to Cypriot company Ukrlandfarming PLC, which is wholly owned by him.

AVANGARDCO IPL CHARTER CAPITAL STRUCTURE AS AT DECMBER 31, 2011

Shareholder	Number of shares, units	Ownership share, %
Ukrlandfarming PLC*	2,174,825	34.1%
Omtron Limited*	1,848,575	28.9%
Tanchem Limited*	926,280	14.5%
Free-float	1,437,500	22.5%
Other	5	0.0%
TOTAL	6,387,185	100.0%

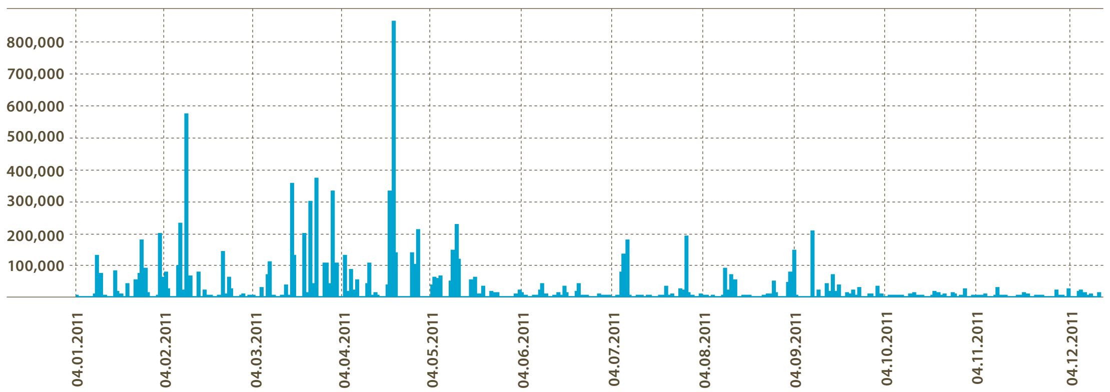
* Mr. Bakhmatyuk was at the indicated time the sole owner of Ukrlandfarming PLC, Omtron Limited and Tanchem Limited.

GDR QUOTES ON LSE IN 2011, USD



Source: Russtocks.com

GDR TRADES ON LSE IN 2011, USD



Source: Russtocks.com

The Company issued **$200** million Eurobonds due 29 October 2015.

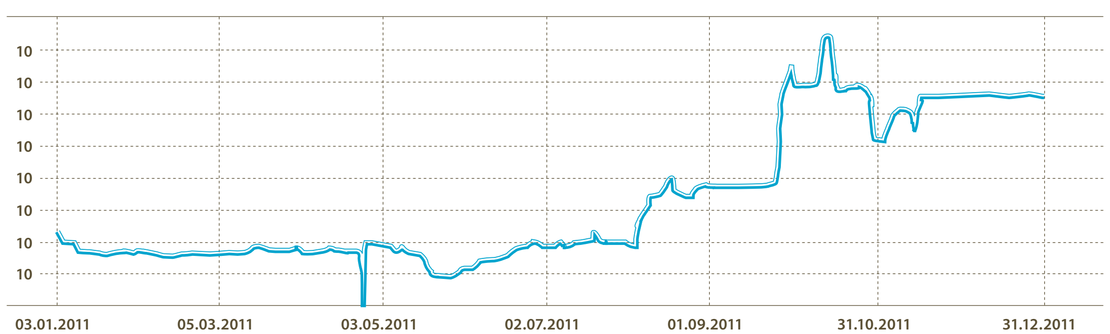
EUROBONDS IN ISSUE

The Company issued five-year priority unsecured Eurobonds totalling $200 million in October 2010, maturing on October 29, 2015. The bonds have semi-annual coupons with coupon of 10% per annum. The lead managers and bookrunners for the issue were JP Morgan and Troika Dialog. Bank of New York Mellon is the payment agent and trustee.

The bonds were issued in accordance with Regulation S of the U.S. Securities Act of 1933 and were listed on the London Stock Exchange with ticker number: 78MA, and Bloomberg system ticker - AVINPU.

Fitch Ratings Agency assigned a B rating to the bonds when they were issued and confirmed this rating in August 2011.

AVANGARDCO IPL EUROBOND YIELD TO MATURITY, % PER ANNUM



Sources: Russtocks.com, FINRA TRACE

RATINGS

IN AUGUST 2011 FITCH CONFIRMED AVANGARDCO IPL CREDIT RATINGS:

Rating for:	Type of rating	Rating
Avangardco Investments Public Limited bonds	Priority unsecured foreign currency rating	B
Avangardco Investments Public Limited bonds	Recovery rating	RR4
Avangardco Investments Public Limited	Long-term foreign currency and national currency default rating	B
Avangardco Investments Public Limited	National long-term rating	A+ (UKR)

DIVIDEND POLICY

The company plans to waive dividend payments for 2011 and plans to invest all its profit in the development of the Company in the near future.

IR TEAM

We are always open to any questions you may have!

THE BOARD OF DIRECTORS' REPORT

The Board of Directors presents the annual report and the audited consolidated financial report of Avangardco Investments Public Limited (hereinafter the Company or AVANGARDCO IPL) for the year ending December 31, 2011.

CORE BUSINESS

AVANGARDCO IPL is the owner of a group of companies located and registered in Ukraine and forming a vertically integrated holding that produces and sells eggs and egg products on the domestic and foreign markets. The Company is a shell egg and egg products production and sales leader on the domestic market and a leading exporter of these products from Ukraine. It has the world's second largest flock of laying hens. In addition, a small percentage of revenue comes from the sale of one-day old chicks, poultry flock at the end of its production cycle and as well as bird manure.

OVERVIEW

THE COMPANY CONSISTS OF

19 poultry farms	**9** grow-out farms	**3** breeder farms
6 fodder mills	**3** long-term egg storage facilities	**Imperovo Foods** shell egg processing plant

The free float amounted to **22.5%** of the total amount of shares out.

AVANGARDCO IPL is currently involved in two investment projects to build the Avis and Chornobaivske egg production complexes in the Khmelnnitskii and Kherson regions of Ukraine. A more detailed overview of operations is presented in a previous section of this annual report.

The Company carried out an Initial Public Offering (IPO) on the London Stock Exchange in May 2010. The Company sold 1,387,185 newly issued shares in the form of GDRs (10 GDRs = 1 share) and raised $208 million. The free float amounted to 22.5% of the total amount of shares out. OTC trading with ADRs (1 ADR = 1 GDR) was organized together with Bank of New York Mellon in September 2010.

The Company issued five-year Eurobonds totalling $200 million with semi-annual coupon of 10%. The bonds are traded on the London Stock Exchange and OTC market.

A financial review for 2011 is presented in a previous section of this annual report.

STRATEGY & DEVELOPMENT PLANS

The Company's strategy, taking into account the possible future merger with its parent company Ukrlandfarming PLC (one of Ukraine's largest producers of wheat, sunflower and other crops as well as a substantial holder of agricultural land), is to create a global player in the international agriculture industry with complete vertical integration. More detailed strategy and development plans are set out in a previous section of this annual report.

DIVIDENDS

The Company doesn't plan to pay dividends in 2011 and in the near future intends to invest all profit in its development.

Responsibilities of the Board of Directors

The Directors are responsible for the establishment, revision and approval of the Company's development strategy, budgets, certain capital spending items and the appointment of key management personnel. Despite the fact the Company's GDRs are listed on the London Stock Exchange, it is not subject to the UK Corporate Governance Code, issued by the Financial Reporting Council, because the Company is registered in Cyprus.

Board of Directors in the reported year

In the year ending December 31, 2011 the Board of Directors consisted of the following members:

- **Oleg Bakhmatyuk** – Chairman of the Board of Directors
- **Oleg Pohotsky** – Independent Director
- **Nataliya Vasylyuk** – Chief Executive Officer
- **Iryna Marchenko** – Chief Financial Officer
- **Oksana Prosolenko** – Head of Business Development

These individuals were members of the Board of Directors during the reported period.

DISCLOSURE OF INFORMATION TO AUDITORS

According to the information available to the Board of Directors, the Company does not have any substantial information that was not disclosed to the auditors.

Each member of the Board of Directors has made every effort necessary as a member of the Board of Directors to obtain all substantial information and ensure it is submitted to the Company's auditors.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- The consolidated financial report, under IFRS, give a true and fair view of assets, liabilities, financial position, profit or loss of the Company and the subsidiaries included in the consolidation taken as a whole;
- This annual report includes a fair review of the development and performance of the business and the position of the Company and the subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Members of the Board of Directors:

- Oleg Bakhmatyuk
- Oleg Pohotsky
- Nataliya Vasylyuk
- Iryna Marchenko
- Oksana Prosolenko

The annual report was approved at the Board of Directors meeting on 27.04.2012.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AVANGARDCO INVESTMENTS PUBLIC LIMITED

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of AvangardCo Investments Public Limited (the "Company") and its subsidiaries (the "Group") on pages 8 to 73, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

REPORT ON OTHER LEGAL REQUIREMENTS

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

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 4 and 5 is consistent with the consolidated financial statements.

OTHER MATTER

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and cc this report may come to.

Comparative figures

The consolidated financial statements of the Group for the year ended 31 December 2010 were audited by another auditor who expressed an unqualified audit opinion on those consolidated financial statements on 4 March 2011.

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

KPMG Limited
Certified Public Accountants and Registered Auditors

Nicosia, 16 March 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

(IN USD THOUSAND, UNLESS OTHERWISE STATED)

The notes on pages 55 to 108 are an integral part of these consolidated financial statements.

	Note	31 December 2011	31 December 2010
ASSETS			
Property, plant and equipment	5	512.697	396.236
Held-to-maturity financial assets	6	–	295
Non-current biological assets	7	44.304	59.078
Deferred tax assets	20	1.922	–
Other non-current assets	8	93.041	60.428
Non-current assets		**651.964**	**516.037**
Inventories	10	202.279	185.624
Current biological assets	7	58.916	44.705
Trade accounts receivable, net	11	51.437	54.678
Prepaid income tax	20	–	7
Prepayments and other current assets, net	12	26.946	41.829
Taxes recoverable and prepaid, net	9	76.298	53.084
Cash and cash equivalents	13	237.814	183.065
Total current assets		**653.690**	**562.992**
TOTAL ASSETS		**1.305.654**	**1.079.029**
EQUITY			
Share capital	14	836	836
Share premium	14	201.164	201.164
Reserve capital	14	115.858	115.858
Retained earnings		673.909	482.328
Effect of translation into presentation currency		(67.761)	(64.587)
Equity attributable to owners of the Company		**924.006**	**735.599**
Non-controlling interest		15.333	10.620
Total equity		**939.339**	**746.219**

	Note	31 December 2011	31 December 2010
LIABILITIES			
Long-term loans	15	15.384	30.999
Long-term bond liabilities	16	194.563	193.471
Deferred tax liabilities	20	86	1.110
Deferred income (non-current portion)	34, c	5.351	5.676
Long-term finance lease	24	3.830	6.372
Total non-current liabilities		**219.214**	**237.628**
Short-term bond liabilities	25	25.013	25.120
Current portion of non-current liabilities	19	26.565	4.319
Short-term loans	17	53.063	1.036
Trade payables	21	17.894	23.191
Current income tax liabilities	20	–	6
Accrued expenses	22	1.601	1.308
Other current liabilities and accrued expenses	23	22.965	40.202
Total current liabilities		**147.101**	**95.182**
TOTAL LIABILITIES		**366.315**	**332.810**
TOTAL EQUITY AND LIABILITIES		**1.305.654**	**1.079.029**

The notes on pages 55 to 108 are an integral part of these consolidated financial statements.

On 16 March 2012, the Board of Directors of Avangardco Investments Public Limited authorized these consolidated financial statements for issue.

Nataliya Vasylyuk
Director

Iryna Marchenko
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

(IN USD THOUSAND, UNLESS OTHERWISE STATED)

The notes on pages 55 to 108 are an integral part of these consolidated financial statements.

	Note	31 December 2011	31 December 2010
Revenue	26	553.310	439.703
Profit on revaluation of biological assets at fair value	7	23.697	26.187
Cost of sales	27,28	(353.232)	(308.144)
GROSS PROFIT		**223 775**	**157.746**
General administrative expenses	29	(13.161)	(7.168)
Distribution expenses	30	(10.035)	(5.058)
Income from government grants and incentives	34.1	318	17.504
Income from special VAT treatment	34.2	38.037	21.910
Other operating income and expenses	31	(7.430)	(4.032)
OPERATING PROFIT		**231.504**	**180.902**
Finance income	33	1.492	34.058
Finance cost	32	(33.106)	(29.948)
Income from the purchase of subsidiary		191	–
PROFIT BEFORE TAX		**200.081**	**185.012**
Income tax expense	20	(3.787)	(254)
PROFIT FOR THE YEAR		**196.294**	**184 758**
OTHER COMPREHENSIVE INCOME FOR THE YEAR:			
Effect of translation into presentation currency		(3.174)	(450)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**193.120**	**184.308**
PROFIT FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		191.943	182.221
Non-controlling interests		4.351	2.537
		196.294	**184.758**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the Company		189.424	181.771
Non-controlling interests		3.696	2.537
		193.120	**184.308**
Earnings per share USD (basic and diluted)	**39**	**30**	**32**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

(IN USD THOUSAND, UNLESS OTHERWISE STATED)

The notes on pages 55 to 108 are an integral part of these consolidated financial statements.

	Attributable to owners of Company						
	Share capital	Capital contribution reserve (1)	Share premium (2)	Retained earnings	Foreign currency translation reserve	Non-controlling interest	Total equity
As at 1 January 2010	**644**	**115.858**	**–**	**300.107**	**(64.137)**	**8.083**	**360.555**
Additional capital contribution (Note 1,15)	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**
As at 1 January 2011	**836**	**115.858**	**201.164**	**482.328**	**(64.587)**	**10.620**	**746.219**
Effect of acquisitions of non-controlling interest	–	–	–	(362)	–	362	–
Effect from translation into presentation currency	–	–	–	–	(3.174)	–	(3.174)
Profit for the year	–	–	–	191.943	–	4.351	196.294
AS AT 31 DECEMBER 2011	**836**	**115.858**	**201.164**	**673.909**	**(67.761)**	**15.333**	**939.339**

(1) 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.

(2) Companies which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defense of the Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special contribution for defence at 20% for the tax years 2012 and 2013 and 17% for 2014 and thereafter (on 2011 the rate was 15% up to 30 August 2011 and 17% therafter) will be payable on such deemed dividend to the extent that the owners (individuals and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer, are Cyprus tax residents. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year at any time. This special contribution for defence is paid by the Company for the account of the owners.

The above requirements of the Law are not applied in the case of the Company due to the fact that its owners are not Cyprus tax residents.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011

(IN USD THOUSAND, UNLESS OTHERWISE STATED)

The notes on pages 55 to 108 are an integral part of these consolidated financial statements.

	Note	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		200.081	185.012
Adjustments for:			
Depreciation of property, plant and equipment	5	14.330	12.637
Change in allowance for irrecoverable amounts	31	814	433
Other provisions		293	30
Loss on disposal of property, plant and equipment		233	56
Impairment of current assets	31	1.129	259
Effect of fair value adjustments on biological assets	7	(23.697)	(26.187)
Profit on payables written-off	31	(26)	(869)
Amortization of deferred income on government grants	34	(306)	306
Loss from disposal of held to maturity investments		32	–
Discount on long-term bonds amortization		1.092	–
Bargain purchase		(191)	–
Interest income		(1.492)	(34.058)
Interest payable		30.849	25.799
Operating profit before working capital changes		**223.141**	**163.418**
Decrease/(increase) in trade receivables		3.282	(7.200)
Decrease/(increase) in prepayments and other current assets		14.061	(23.208)
Increase in taxes recoverable and prepaid		(20.291)	(24.376)
Increase in inventories		(17.120)	(93.127)
Decrease in deferred income		(20)	(593)
Decrease in trade payables		(5.297)	(44.828)
Decrease/(increase) in biological assets		23.401	(11.140)
Decrease in finance leases		(802)	–
Decrease in advances received and other current liabilities and accrued expenses		(15.456)	(94.344)
Cash generated from/(used in) operations		**204.899**	**(135.399)**
Interest paid		(12.256)	(23.526)
Income tax paid		(6.782)	(34)
Net cash generated from/(used in) operating activities		**185.861**	**(158.959)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments and receipts – property, plant and equipment		(113.021)	(82.157)
Payments for prepayments of property, plant and equipment		(32.613)	(1)
Decrease in bank deposits		–	156.421
Proceeds from disposal of held to maturity investments		225	–

	Note	2011	2010
Payment of acquisition of held to maturity investments		–	(255)
Payment of acquisitions of subsidiary		(17.722)	–
Interest received		1.502	73.459
Net cash (used in)/generated from investing activities		**(161.629)**	**147.468**

The notes on pages 55 to 108 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONT.) FOR THE YEAR ENDED 31 DECEMBER 2011

(IN USD THOUSAND, UNLESS OTHERWISE STATED)

The notes on pages 55 to 108 are an integral part of these consolidated financial statements.

	Note	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES			
New loans received		94.976	166.646
Repayment of loans		(38.056)	(364.351)
Interest paid for bonds issued		(25.183)	(4.267)
Proceeds from long-term bonds issued		–	193.471
Repayment of short-term bonds issued		(19)	
Increase in share capital – share issue (nominal value)	14	–	192
Increase in share capital – share premium	14	–	201.164
Net cash generated from financing activities		**31.718**	**192.855**
Effect from translation to presentation currency		(1.201)	–
Net increase in cash and cash equivalents		**54.749**	**181.364**
Restricted cash		**(7.174)**	**–**
Cash and cash equivalents at the beginning of the year		**183.065**	**1.701**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		230.640	183.065

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(IN USD THOUSAND, UNLESS OTHERWISE STATED)

1. GENERAL INFORMATION

AvangardCo Investments Public Limited (the “Company”) 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 Registrar of Companies in Cyprus issued a certificate to the effect that the Company was re-registered as a public limited company and changed its name to AvangardCo Investments Public Limited. The Company was listed at London Stock Exchange Main Market on 6 May 2010.

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

The consolidated financial statements of the Company as at and for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the “Group”).

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

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

The Group's activities cover all the links of the value chain: from production of combined feed, maintenance and breeding of chickens to production and sale of eggs and egg products. As at 31 December 2011 the production facilities of the Group include 28 poultry facilities (consisting of 17 egg laying farms, 8 hen rearing farms and 3 breeding farms), 5 feed mills, and 1 plant for 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.

(IN USD THOUSAND, UNLESS OTHERWISE STATED)

1. GENERAL INFORMATION (cont.)

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

Company name	Principal Activity	Country of registration	Ownership Interest , % 31 December 2011	Ownership Interest , % 31 December 2010
PJSC Avangard	Keeping of technical laying hen, production and selling of eggs	Ukraine	99,00%	99,00%
PJSC Chornobaivske		Ukraine	93,00%	97,00%
PJSC Agrofirma Avis		Ukraine	100,00%	100,00%
PJSC Kirovskiy		Ukraine	100,00%	100,00%
PJSC Ptakhohospodarstvo Chervonyi Prapor		Ukraine	98,00%	98,00%
SC Ptakhofabryka Lozuvatska of Avangardco Investments Public Limited		Ukraine	100,00%	100,00%
LLC Yuzhnaya – Holding		Ukraine	100,00%	100,00%
LLC Makarivska Ptakhofabryka		Ukraine	100,00%	100,00%
LLC PF Volnovaska		Ukraine	100,00%	100,00%
PJSC Cross-PF Zorya		Ukraine	89,00%	89,00%
PJSC Ptakhofabryka Pershe Travnya		Ukraine	93,00%	93,00%
PJSC Chernivetska Ptakhofabryka		Ukraine	98,00%	98,00%
ALLC Donetska Ptakhofabryka		Ukraine	100,00%	100,00%
LLC Areal-Snigurivka		Ukraine	100,00%	100,00%
LLC Torgivenlniy Budynok Bohodukhivska Ptakhofabryka		Ukraine	100,00%	100,00%
PPB LLC Ptytsecompleks		Ukraine	100,00%	100,00%
PSPC Interbusiness		Ukraine	100,00%	100,00%
SC Avangard-Agro of PJSC Avangard	Incubation (production and sale of day-old chick), farming of young poultry for sale, and poultry	Ukraine	99,00%	99,00%
SC Gorodenkivska Ptakhofabryka of PJSC Avangard		Ukraine	99,00%	99,00%
SC Rogatynska Ptakhofabryka of PJSC Avangard		Ukraine	99,00%	99,00%
SC Ptakhohospodarstvo Donetske of ALLC Donetska Ptakhofabryka		Ukraine	100,00%	100,00%
LLC Slovyany		Ukraine	90,00%	90,00%
SC Ptakhohospodarstvo Lozuvatske of Avangardco Investments Public Limited		Ukraine	100,00%	100,00%
SC Zorya of PJSC Cross-PF Zoraya		Ukraine	89,00%	89,00%
SC Ptakhofabryka Chervonyi Prapor Poultry, of PJSC Ptakhohospodarstvo ChervoniyPrapor		Ukraine	98,00%	98,00%
SC Ptakhohospodarstvo Yuzhnaya Holding of LLC Yuzhnaya Holding		Ukraine	100,00%	100,00%
SC Ptakhogopodarstvo Volnovaske of LLC PF Volnovaska		Ukraine	100,00%	100,00%
SC Ptakhohospodarstvo Chornobaivske of PJSC Chornobaivske		Ukraine	93,00%	97,00%

1. GENERAL INFORMATION (cont.)

Company name	Principal Activity	Country of registration	Ownership Interest , % 31 December 2011	Ownership Interest , % 31 December 2010
LLC Rohatyn-Korm	Production and selling of animal feed	Ukraine	99,00%	99,00%
PJSC Vuhlehirskyi Eksperementalnyi Kombikormovyi Zavod		Ukraine	80,00%	80,00%
PJSC Volnovaskyi Kombinat Khliboproduktiv		Ukraine	72,00%	72,00%
LLC Kamyanets-Podilsky KombikormoviyZavod		Ukraine	100,00%	100,00%
LLC Pershe Travnya Kombikormoviy Zavod		Ukraine	93,00%	93,00%
LLC Imperovo Foods	Processing of eggs and selling of egg products	Ukraine	99,00%	100,00%
LLC Agrarnyi Holding Avangard	Rendering services under guarantee agreements	Ukraine	100,00%	100,00%
LLC Imperovo Ltd	Rental services	Ukraine	99,00%	–

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 2011 with nominal value of €0,10 per share.

The shares were distributed as follows:

Owner	31 December 2011		31 December 2010	
	Number of shares	Ownership interest, %	Number of shares	Ownership interest, %
Oleg Bakhmatyuk	–	–	20.000	0.3%
Quickcom Limited	1	–	1.074.684	16.8%
Omtron Limited	1.848.575	28.9%	1.848.575	28.9%
Tanchem Limited	926.280	14.5%	926.280	14.5%
Mobco Limited	1	–	1.080.143	17.0%
BNY (Nominees) Limited	1.437.500	22.5%	1.437.500	22.5%
UkrLandFarming Plc	2.174.825	34.1%	–	–
Other	3	–	3	–
	6.387.185	100.0%	6.387.185	100.0%

As at 31 December 2011 and 31 December 2010 the interests in Quickcom Limited, Omtron Limited, Tanchem Limited, Mobco Limited, UkrLandFarming Plc beneficially owned by Oleg Bakhmatyuk («the beneficial owner» hereinafter) were as follows:

	Ownership interest	
	as at 31 December 2011, %	as at 31 December 2010, %
Quickcom Limited	100%	100%
Omtron Limited	100%	100%
Tanchem Limited	100%	100%
Mobco Limited	100%	100%
UkrLandFarming Plc	100%	100%

In May 2010 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 USD 201.164 thousand (net of share issue costs of USD 6.914 thousand) (10 GDR are equal to 1 ordinary share) as a result of initial placement of 14.375.000 GDR on the main market of the London Stock Exchange, out of which the 13.871.859 GDRs were issued.

2. BASIS OF PRESENTATION

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113 and are for the year ended 31 December 2011.

2.2 Basis of measurement

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

2.3 Functional and presentation currency

The functional currency of all companies of the Group is the Ukrainian Hryvnia («UAH»). The currency of Cyprus is the Euro, but the principle exposure of the parent undertaking is through its Ukrainian subsidiaries, and therefore the functional currency of the Company is also considered to be UAH. Transactions in currencies other than the functional currency of the Group are treated as transactions in foreign currencies. The Group's management used US dollar ("USD") as the presentation currency in the consolidated financial statements in compliance with IAS 21 «The effects of changes in foreign exchange rates».

2.4 Going concern basis

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

2.5 Standards and interpretations

Adoption of new and revised International Financial Reporting Standards and Interpretations

As from 1 January 2011, the Group adopted all of the International Financial Reporting Standards (IFRSs) and International Accounting Standards (IAS), which are relevant to its operations. The adoption of these Standards did not have a significant effect on the consolidated financial statements of the Company.

The following Standards, Amendments to Standards and Interpretations had been issued but are not yet effective for the year ended 31 December 2011:

(i) Standards and Interpretations adopted by the EU
- IFRS 7 (Amendments) "Financial Instruments Disclosures" Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011).

(ii) Standards and Interpretations not adopted by the EU
- IFRS 1 (Amendments) "Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters" (effective for annual periods beginning on or after 1 July 2011).
- IFRS 7 (Amendments) "Financial Instruments" Disclosures "Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 7 (Amendments) "Financial Instruments" Disclosures – "Disclosures on transition to IFRS 9" (effective for annual periods beginning on or after 1 January 2015).
- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2015).
- IFRS 10 "Consolidated Financial Statements" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 11 "Joint Arrangements" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 12 "Disclosure of Interests in Other Entities" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 13 "Fair Value Measurement" (effective for annual periods beginning on or after 1 January 2013).
- IAS 1 (Amendments) "Presentation of items of other Comprehensive Income" (effective for annual periods beginning on or after 1 July 2012).
- IAS 12 (Amendments) "Deferred tax" Recovery of Underlying Assets: (effective for annual periods beginning on or after 1 January 2012).
- IAS 19 (Amendments) "Employee Benefits" (effective for annual periods beginning on or after 1 January 2013).
- IAS 27 (Revised) "Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2013).
- IAS 28 (Revised) "Investments in Associates and Joint ventures" (effective for annual periods beginning on or after 1 January 2013).
- IAS 32 (Amendments) "Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2014).
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" (effective for annual periods beginning on or after 1 January 2013).

The Board of Directors expects that the adoption of the above financial reporting standards in future periods will not have a significant effect on the consolidated financial statements of the Company except for:
- *The adoption of IFRS9 could change the classification and measurement of financial assets. The extent of the impact has not been determined.*

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, and have been applied consistently to Group entities.

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

3.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and the companies controlled by the Company as at 31 December 2011.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont.)

3.1 Basis of consolidation (cont.)

Subsidiaries

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

Loss of control

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

Combinations of businesses under common control

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

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

Acquisitions of businesses not under common control

The purchase method is applied for the consolidation of subsidiaries being acquired. On acquisition, the identifiable assets and liabilities of the subsidiary are measured at fair value on the acquisition date, irrespective of the extent of any non controlling interest. 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 carrying amounts of recognised assets and liabilities.

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

Transactions eliminated by consolidation

Under both methods of accounting, all significant transactions and balances between the Group's companies are eliminated in the consolidated financial statements. Unrealised profits and losses under transactions between the Group's companies are also subject to elimination.

3. SIGNIFICANT ACCOUNTING POLICIES (cont.)

3.1 Basis of consolidation (cont.)

Non-controlling interests

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

Business combinations and goodwill

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

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

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

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

Goodwill is initially measured as the excess of the cost of acquisition over the net amount of the identifiable assets acquired and liabilities assumed. If the cost of acquisition 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.

3.2 Foreign currency translation

(a) Transactions and balances

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

Monetary assets and liabilities are translated into the functional currency of each company included into the Group, at the rates ruling at the reporting 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 in profit or loss.

(IN USD THOUSAND, UNLESS OTHERWISE STATED)

3. SIGNIFICANT ACCOUNTING POLICIES (cont.)

3.2 Foreign currency translation (cont.)

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

Currency	31 December 2011	Weighted average for the year 2011	31 December 2010	Weighted average for the year 2010
US dollar to Ukrainian Hryvnia	7,9898	7,9677	7,9617	7,9353

The foreign currencies may be freely convertible on 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 the 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);

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

3.3 Property, plant and equipment

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

PPE is recognised by the Group as an asset only in a case, when:
- it is probable that the Group will receive certain future economic benefits;
- the historical cost can be assessed in a reliable way;
- it is intended for use during more than one operating cycle (usually more than 12 months).

After actual commissioning, PPE previously under contstruction is transferred to the relevant category of PPE.

Expenses after the initial recognition of property, plant and equipment

Any subsequent expenses, increasing the future economic benefits from the asset, are treated as additions. Otherwise, the Group recognises subsequent expenses as expenses of the period, in which they have been incurred. The Group divides all expenses, related to the property, plant and equipment, into the following types:
- current repairs and expenses for maintenance and technical service;
- capital refurbishment, including modernisation.

Subsequent measurement of property, plant and equipment

After initial recognition as an asset, the Group applies the model of accounting for the property, plant and equipment at historical cost, net of accumulated depreciation and any accumulated losses from impairment, taking into account estimated residual values of such assets at the end of their useful lives. Such cost includes the cost of replacing significant parts of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required

to be replaced from time to time, the Group recognises such parts as individual assets with specific estimated useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying value of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated statement of comprehensive income as incurred.

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

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

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

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

An asset is not depreciated during the first year of placing into operation. The acquired asset is depreciated starting from the following year from the date of placing into operation and depreciation is fully accumulated when useful life terminates.

De-recognition

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 exists. 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 financial assets at fair value through profit or loss, investments held to maturity, available-for-sale financial assets, loans and accounts receivable. The classification depends on the purpose for which the financial assets 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 recognized net of any costs of realization.

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 less than twelve months from the reporting date, if selling of these assets will not result from the need of increasing the working capital, in which case they will be included in current assets. Available for sale financial assets are recorded at fair value through equity.

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 intent and ability to hold to maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to 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 statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income 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, of which the valuation technique is based on open market data.

All acquisitions and sales of financial instruments which are to be carried out on a regular basis, set by regulations or marketing agreements (acquisitions and sales carried out under regular transaction procedures) are recognised at the date of transaction. Change in value of an asset which is reflected at fair value or amortized value between the date of incurring the liability and settlement date, is recognised either in the profit or loss (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 that a 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.

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 value 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.

De-recognition

The financial assets are de-recognised 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.

3.5 Financial liabilities

(a) Loans and borrowings

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

Initial recognition

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

Subsequent measurement

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

Borrowing 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.

De-recognition

The financial liabilities are de-recognised if the term of contractual obligations expires and contractual obligations fulfilled or agreement cancelled.

3.6 Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is determined as the estimated selling price in the ordinary course of business less the 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 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

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

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

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 cost to sell, except in cases, where fair value cannot be determined reliably.

The Group includes the following elements into cost of lying hens in the process of growing:
- Animal feed
- Depreciation of property, plant and equipment objects related to the process of growing
- Wages and salaries of personnel related to the process of growing
- Other expenses directly related to the process of growing

Determination of the fair value of biological assets

Due to an absence of an active market for laying hens in Ukraine, to determine the fair value of biological assets, the Group 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 in hand, cash in transit, issued letters of credit.

3.9 Impairment of non-current assets

The Group assesses at each reporting 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 highest 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 deficit. 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 taxes: 20% – on import and sales of goods and services in the territory of Ukraine and 0% – on export of goods and rendering of services and works outside Ukraine.

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

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

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

For goods and services supplied at the 20% tax rate, revenue, expenses and assets are recognised net of VAT amount, unless:
- the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable;
- receivables and payables that are stated 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 consolidated statement of financial position.

3.11 Income tax and deferred 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 statement of comprehensive income. 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 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 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.

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. 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.

3.13 Interest income/expense

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carryingvalue of the financial asset or liability. Interest income is included in finance income in in profit or loss.

3.14 Leases

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

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

Group as a lessee

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

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

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

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 bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

3.15 Distribution of dividends

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

3.16 Non Controlling interests (NCI)

NCI is represented by interest in the subsidiaries not owned by the Group. It is determined at the reporting date as interest in the fair value of identified assets and liabilities of the subsidiary at the date of acquisition or creation of a new subsidiary, as well as interest in change in net assets of a subsidiary after the acquisition or creation of a new subsidiary.

NCI is the interest in companies not connected with formal structure and not having a common parent company, not owned by management or ultimate owners. It is determined at the reporting date as interest in the fair value of identified assets and liabilities of companies not connected with formal structure and not having a common parent company at the date of merger or creation of such companies, as well as interest in change in net assets of these companies after the merger or creation of companies not connected with formal structure and not having a common parent company.

The Group provides information on NCI in net assets of subsidiaries and companies not connected with formal structure and not having a common parent company separately from items of equity attributable to owners of the Company.

3.17 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.

3.18 Government grants

Recognition of government grants

The Group recognises government grants when received.

The Group recognises the government grants as other operating income in the same periods as the corresponding expenses, which they compensate, on a systematic basis:
- All grants, compensating the expenses of the preceding periods, shall be recognised by the Group in full in the period of their receipt as other operating income;
- All grants, related to assets not depreciated, such as a land site, shall be correlated by the Group with the expenses to fulfill the obligations. Where a grant in the form of provision of a land site is conditional on construction of a building on the site, the Group divides the recognition of the grant as other operating income over the whole useful life of the building;
- All grants, related to the 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.

3.19 Contingent assets and liabilities

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

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

3.20 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 present obligationas 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;
- 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.

Provisions

A provision is a liability of uncertain amount or timing. Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

3.21 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.

3.22 Segment reporting

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

3.23 Events after the reporting period

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of revenues, expenses, assets and liabilities. Actual results may differ these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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 statements:

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 consolidated statement of comprehensive income.

4.3 Impairment of non-financial assets

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 in flows 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 statements as impairments of receivables.

Group approach is used in calculating the impairment of receivables:

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

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

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

(IN USD THOUSAND, UNLESS OTHERWISE STATED)

The Group does not accrue provisions for doubtful debts on balances with related parties regardless of the origin 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 judgment is required in estimating the probability of a successful claim against the Group or the crystallising of a material obligation, and in determining the probable amount of the final settlement or obligation. Due to uncertainty inherent to the process of estimation, actual expenses may differ from the initial estimates. Such preliminary estimates may alter as new information is received, from internal specialists within the Group, if any, or from third parties, such as lawyers. Revision of such estimates may have a significant effect on the future results of operating activity.

4.6 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 4 types depending on storage period or turnover index:

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

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 judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Deferred tax assets are reviewed at each reporting 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 judgments, which are based on expected characteristics of activity. To estimate the probability of utilising deferred tax assets in future, various factors are used, including previous years' results, operating plans, expiry of tax losses recovery, strategies of tax planning. Should actual results differ from the estimates, and should such estimates need to be reviewed in future periods, this can negatively influence the financial position, financial results and cash flows. Should the estimated utlisation of deferred tax assets be reduced, such reduction is to be recognised in consolidated 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 judgments and estimates of the outcomes of such future events. In particular, the tax laws in Ukraine are complex and significant management judgement is required to interpret those laws in connection with the tax affairs of the Group, which 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 re-finance 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, 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.

(IN USD THOUSAND, UNLESS OTHERWISE STATED)

5. PROPERTY, PLANT AND EQUIPMENT

Cost	Land	Buildings and constructions	Machinery and equipment	Equipment for biological assets	Vehicles	Other equipment	Assets under construction-in-progress and uninstalled equipment	Total
As at 1 January 2011	**3.477**	**157.864**	**14.801**	**87.435**	**4.355**	**1.412**	**163.570**	**432.914**
Acquisitions	–	1.071	728	99	1.021	759	119 373	123.051
Acquisitions of subsidiary	–	8.248	6.310	–	–	319	–	14.877
Disposals	–	(56)	(106)	(69)	(52)	(23)	(5.230)	(5.536)
Foreign currency translation	(12)	(577)	(89)	(319)	(18)	(5)	(858)	(1.878)
Internal transfers	–	7.317	377	4.225	–	–	(11.919)	–
Reclassification	–	(19)	21	–	–	(2)	–	–
As at 31 December 2011	**3.465**	**173.848**	**22.042**	**91.371**	**5.306**	**2.460**	**264.936**	**563.428**
ACCUMULATED DEPRECIATION								
As at 1 January 2011	**–**	**12.181**	**3.236**	**18.933**	**1.632**	**696**	**–**	**36.678**
Depreciation charge	–	5.101	1.497	6.943	557	232	–	14.330
Depreciation eliminated on disposal	–	(5)	(48)	(11)	(26)	(16)	–	(106)
Foreign currency translation	–	(57)	(15)	(86)	(7)	(6)	–	(171)
Reclassification	–	–	–	–	–	–	–	–
As at 31 December 2011	**–**	**17.220**	**4.671**	**25.778**	**2.156**	**906**	**–**	**50.731**
NET CARRYING VALUE AS AT:								
31 DECEMBER 2011	**3.465**	**156.628**	**17.371**	**65.593**	**3.150**	**1.554**	**264.936**	**512.697**

Cost	Land	Buildings and constructions	Machinery and equipment	Equipment for biological assets	Vehicles	Other equipment	Assets under construction-in-progress and uninstalled equipment	Total
As at 1 January 2010	**3.466**	**121.378**	**24.914**	**66.403**	**3.751**	**6.129**	**173.435**	**399.476**
Acquisitions	–	7.291	3 440	60	107	32	21.543	32.473
Disposals	–	(23)	(23)	(17)	(24)	(10)	–	(97)
Foreign currency translation	11	235	106	125	9	34	542	1.062
Internal transfers	–	14.664	82	17.157	10	2	(31.915)	–
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**

Cost	Land	Buildings and constructions	Machinery and equipment	Equipment for biological assets	Vehicles	Other equipment	Assets under construction-in-progress and uninstalled equipment	Total
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)
Foreign currency translation	–	–	5	12	–	12	–	29
Reclassification	–	1.127	(234)	863	119	(1.875)	–	–
As at 31 December 2010	**–**	**12.181**	**3.236**	**18.933**	**1.632**	**696**	**–**	**36.678**
NET CARRYING VALUE AS AT:								
31 December 2010	**3.477**	**145.683**	**11.565**	**68.502**	**2.723**	**716**	**163.570**	**396.236**
31 DECEMBER 2009	**3.466**	**114.950**	**22.422**	**54.588**	**2.776**	**3.789**	**173.435**	**375.426**

The property, plant and equipment that was used as security for long-term and short-term loans were as follows:

	Carrying value of security as at	
	31 December 2011	31 December 2010
Buildings and structures	87.998	49.873
Machinery and equipment	6.406	1
Equipment for biological assets	10.724	933
Vehicles	407	213
Other equipment	333	–
Assets under construction-in-progress and uninstalled equipment	46.463	–
	152.331	**51.020**

As at 31 December 2011 and 31 December 2010 the net book value of property, plant and equipment which were acquired under finance leases amounted to USD 11.109 thousand and USD 11.257 thousand respectively. The residual amount of contractual commitments is presented in Note 24.

At each reporting period, the Group reviews the book values of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). As at 31 December 2011 and 31 December 2010 the recoverable amount was estimated at the lower of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate of 22%. As a result, no impairment indications were identified in neither 2011 nor 2010.

(IN USD THOUSAND, UNLESS OTHERWISE STATED)

6. HELD TO MATURITY FINANCIAL ASSETS

	31 December 2011	31 December 2010
VAT government bonds	–	257
Other long-term investments in unrelated parties	–	38
	–	295

7. BIOLOGICAL ASSETS

		31 December 2011	31 December 2010
NON-CURRENT BIOLOGICAL ASSETS			
Replacement poultry	a), b)	44.304	59.078
CURRENT BIOLOGICAL ASSETS			
Commercial poultry	a), b)	58.913	44.700
Other biological assets	c)	3	5
		58.916	44.705
		103.220	103.783

a)Commercial poultry and replacement poultry were as follows:

	31 December 2011		31 December 2010	
	Number, thousand head	Fair value	Number, thousand head	Fair value
Loman	2.303	6.152	3.092	16.515
Hy-Line	22.833	97.065	20.834	86.551
Hisex	–	–	297	570
Other	–	–	30	143
	25.136	103.217	24.253	103.779

b) Reconciliation of commercial and replacement poultry fair value

As at 1 January 2010	66.396
Acquisitions	55.638
Increase in value as a result of increase in weight/number	38.404
Net change in fair value	26.187
Decrease in value resulting from disposals	(54.885)
Effect from translation into presentation currency	70
Decrease in value resulting from hens slaughtering	(27.975)
Other changes	(56)
As at 31 December 2010	103.779

As at 1 January 2011	103.779
Acquisitions	60.120
Increase in value as a result of increase in weight/number	41.374
Net change in fair value	23.697
Decrease in value resulting from disposals	(83.829)
Effect from translation into presentation currency	(364)
Decrease in value resulting from hens slaughtering	(41.488)
Other changes	(72)
As at 31 December 2011	103.217

Due to the absence of an active market for laying hen in Ukraine, to determine the fair value of biological assets, the Group uses the discounted net present value of future net cash flows expected from the biological assets. As a discount rate, the rate of 25% prevailing as at 31 December 2011 was applied (2010: 28.0%).

“Other changes” relate to hen mortality, discarding and utilisation of poultry.

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

As at 31 December 2011 and 31 December 2010, the biological assets with a fair value of USD 4.487 thousand and USD 3.741 thousand respectively were pledged as a security for long-term and short-term loans (Note 18).

8. OTHER NON-CURRENT ASSETS

	31 December 2011	31 December 2010
Prepayments for property, plant and equipment	92.684	60.071
Other non-current assets	357	357
	93.041	60.428

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, NET

	31 December 2011	31 December 2010
VAT settlements	76.181	52.924
Other taxes prepaid	117	160
	76.298	53.084

VAT settlements related to 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.

(IN USD THOUSAND, UNLESS OTHERWISE STATED)

10. INVENTORIES

	31 December 2011	31 December 2010
Raw and basic materials	181.504	165.826
Work-in-progress	1.117	1.192
Agricultural produce	4.623	5.915
Finished goods	1.672	5.681
Package and packing materials	5.834	4.329
Goods for resale	3.632	1.012
Other inventories	3.897	1.669
	202.279	185.624

The Group produced shell eggs in the quantity of 5.955.780.052 (2010: 4.419.968.480 items) which have fair value amounted to USD 478.394 thousand (2010: USD 245.080 thousand).

Finished goods with carrying amount USD 135 thousand (2010:USD 136 thousand) and raw and basic materials with carrying amount 196 thousand (2010: USD 197 thousand) were pledged as a security for the Group's loans (Note 18).

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

11. TRADE ACCOUNTS RECEIVABLE, NET

	31 December 2011	31 December 2010
Trade receivables-gross	51.686	54.801
Provision for doubtful debts	(249)	(123)
	51.437	54.678

As at 31 December 2011 USD 6.328 thousand or 12.3% of the total carrying value of trade receivable is due from the single most significant debtor (as at 31 December 2010–see note 41).

The exposure of the Group to credit risk, market risk, and impairment losses in relation to trade receivables is reported in note 41 of the consolidated financial statements.

12. PREPAYMENTS AND OTHER CURRENT ASSETS, NET

	31 December 2011	31 December 2010
Prepayments	22.166	26.357
Provision for doubtful debts	(631)	(726)
Loans to related parties	16	180
Interest receivable on deposits	–	10
Other receivables	5.395	16.008
	26.946	41.829

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are analysed as follows:

	31 December 2011	31 December 2010
Cash at bank	231.164	182.949
Cash in hand	116	77
Cash in transit	21	39
Cash equivalents (notes, deposits – repayment on demand)	6.000	–
Other bank accounts in foreign currency	513	–
	237.814	183.065
Less restricted cash:		
Other bank accounts in foreign currency	(7.174)	–
Cash as per the consolidated statement of cash flows	230.640	183.065

The exposure of the Group to credit risk, liquidity risk and impairment losses in relation to cash and cash equivalents is reported in note 41 of the consolidated financial statements.

14. SHARE CAPITAL, SHARE PREMIUM, CAPITAL CONTRIBUTION RESERVE

	2011			
	Number of shares	Share capital	Share premium	Capital contribution reserve
Authorised Ordinary shares	6.500.000	–	–	–
Issued and fully paid				
AS AT 31 DECEMBER 2011	6.387.185	836	201.164	115.858

	2010			
	Number of shares	Share capital	Share premium	Capital contribution reserve
Authorised Ordinary shares	6.500.000	–	–	–
Issued and fully paid				
As at 1 January 2010	**5.000.000**	**644**	**–**	**115.858**
Issue of shares	1.387.185	192	201.164	–
AS AT 31 DECEMBER 2010	6.387.185	836	201.164	115.858

On 22 April 2010 the Company increased its authorized share capital by 1.500.000 ordinary shares of EUR 0,10 per share

In May and June 2010 the Company issued 1.387.185 ordinary shares with nominal value EUR 0,10 per share.

In respect of this share issue, the Company generated net share premium amounting to USD 201.164 thousand (net of share issue costs of USD 6.914 thousand) (10 GDR are equal to 1 ordinary share) as a result of initial placement of 14.375.000 GDR on the main market of London Stock Exchange, out of which the 13.871.859 GDR were issued.

(IN USD THOUSAND, UNLESS OTHERWISE STATED)

15. LONG-TERM LOANS

	Note	31 December 2011	31 December 2010
Long-term bank loans in national currency	a),b),c)	5.613	33.086
Long-term bank loans in foreign currency		29.870	–
Total loans		**35.483**	**33.086**
Other long-term loans		2.500	–
Commodity credit	d)	1.109	1.113
		39.092	**34.199**
Current portion of non-current liabilities for bank loans in national currency	(1.321)	(3.200)	
Current portion of non-current liabilities for bank loans in foreign currency	(22.387)	–	
		15.384	**30.999**

a) The long-term bank loans by maturities were as follows:

	31 December 2011	31 December 2010
Under a year (Note 19)	23 708	3 200
From 1 to 2 years	7 483	1 550
From 2 to 3 years	4 292	28 336
	35 483	**33 086**

b) The long-term bank loans by currencies were as follows:

	31 December 2011	31 December 2010
Long-term bank loans in UAH	5.613	33.086
Long-term bank loans in USD	29.870	–
	35.483	**33.086**

c) The interest rates for long-term bank loans were as follows:

	31 December 2011	31 December 2010
Long-term bank loans denominated in UAH	14–21%	17%–23%
Long-term bank loans denominated in USD	11%	–

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

d) Commodity credit amounting to USD 1.109 thousand is represented by a liability of the Group's companies, such as OJSC "Volnovahskyi KombinatKhilboprodiktiv" 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.

The exposure of the Group to interest rate risk and liquidity risk in relation to loans and borrowings is reported in note 41 of the consolidated financial statements.

16. LONG-TERM BOND LIABILITIES

	31 December 2011	31 December 2010
Par value	200.000	200.000
Discount on issued bonds	(5.437)	(6.529)
	194.563	**193.471**

	31 December 2011	31 December 2010
Interest payable	3.462	3.461

On 29 October 2010, the Company issued 2.000 five year non-convertible bonds with par value equal to USD 100.000 each. The Notes have been admitted to the official list of the UK listing Authority and to trading on London Stock Exchange plc's regulated market with effect from 1 November 2010.

The USD 200.000.000 10% Notes, bear interest from 29 October 2010 at a rate of 10% per annum payable semi annually in arrears on 29 April and 29 October in each year, commencing on 29 April 2011. The maturity date is 29 October 2015 and the placement price was 98.093% of the principal amount of the Notes.

Surety providers of the 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.

The exposure of the Group to interest rate risk and liquidity risk in relation to long term bond liabilities is reported in note 41 of the consolidated financial statements.

17. SHORT-TERM LOANS

	Note	31 December 2011	31 December 2010
Short-term loans in national currency	a),b),c)	32	292
Short-term loans in foreign currency	a),b),c)	52.850	724
Interest free loans		181	20
		53.063	**1.036**

a) The short-term bank loans by maturity were as follows:

	31 December 2011	31 December 2010
Less than 3 months	668	1.016
Between 3 to 6 months	52.182	–
	52.850	**1.016**

(IN USD THOUSAND, UNLESS OTHERWISE STATED)

17. SHORT-TERM LOANS (cont.)

b) The short-term bank loans by currencies were as follows:

	31 December 2011	31 December 2010
Short-term loans in UAH	–	292
Short-term loans in USD	50.669	724
Short-term loans in EUR	2.181	–
	52.850	1.016

c) The interest rates for short-term bank loans by were as follows:

	31 December 2011	31 December 2010
Short-term loans denominated in UAH	–	25%–29%
Short-term loans denominated in USD	10%–17%	17%
Short-term loans denominated in EUR	2.5%+EURIBOR–10%	–

The exposure of the Group to interest rate risk and liquidity risk is reported in note 41 of the consolidated financial statements.

18. SECURITIES

Long-term (Note 15) and short-term loans (Note 17) as at 31 December 2011 and 31 December 2010 were secured as follows:

	31 December 2011	31 December 2010
Buildings and structures	87.998	49.873
Machinery and equipment	6.406	1
Equipment for biological assets	10.724	933
Vehicles	407	213
Other equipment	333	–
Assets under construction-in-progress and uninstalled equipment	46.463	–
Total Property, plant and equipment	*152.331*	*51.020*
Inventories	331	333
Biological assets	4.487	3.741
	157.149	55.094

During both 2011 and 2010 shares of APP CJSC Chornobaivske were pledged under long-term bank loans.

19. CURRENT PORTION OF NON-CURRENT FINANCIAL LIABILITIES

	Note	31 December 2011	31 December 2010
Trade and other payables			
Deferred income (current portion)	34, c)	304	305
Financial liabilities			
Current portion of finance lease liabilities	24	2.128	678
VAT included in current portion of finance lease liabilities	24	426	136
Current portion of non-current liabilities for bank loans in foreign currency	15, a)	22.387	–
Current portion of non-current liabilities for bank loans in national currency	15, a)	1.320	3 200
		26.565	4 319

20. DEFERRED TAX ASSETS AND LIABILITIES

The principal components of deferred tax assets and liabilities before netting off on a company basis as at 31 December 2011 and 31 December 2010 were as follows:

	31 December 2011	31 December 2010
Influence of temporary differences on deferred tax assets		
Property, plant and equipment	1.771	–
Advances received	–	44
Intangible assets	–	1
Provisions	70	30
Total deferred tax asset	**1.841**	**75**
Influence of temporary differences on deferred tax liabilities		
Advances issued to suppliers	–	(22)
Property, plant and equipment	–	(1.109)
Deferred expenses	(5)	(54)
Total deferred tax liability	**(5)**	**(1.185)**
NET DEFERRED TAX ASSET/(LIABILITY)	1.836	(1.110)

Principal components of income tax expense

As at 31 December 2011 the rate of income tax in Ukraine was equal to 25%–23% (31 December 2010 : 25%)

	Year ended 31 December 2011	Year ended 31 December 2010
Current income tax	(6.783)	(54)
Deferred tax asset/(liabilities)	2.996	(200)
Effect of translation into presentation currency	–	–
	(3.787)	(254)

(IN USD THOUSAND, UNLESS OTHERWISE STATED)

20. DEFERRED TAX ASSETS AND LIABILITIES (cont.)

Reconciliation of deferred tax asset/(liabilities)

	Year ended 31 December 2011	Year ended 31 December 2010
As at 1 January	**(1.110)**	**(943)**
Deferred income/ (expenses) for income tax for the reporting period	2.996	(254)
Effect of translation into presentation currency	(50)	87
AS AT 31 DECEMBER	**1.836**	**(1.110)**

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

	Year ended 31 December 2011	Year ended 31 December 2010
Accounting profit before tax	200.081	185.012
Less accounting profit of the companies being fixed agricultural tax payers	(207.171)	(181.814)
	(7.090)	**3.198**
Accounting loss of the companies being income tax payers at the rate 10%	(25.184)	(2.049)
Accounting profit of the companies being income tax payers at the rate 21%	18.094	5.247
	(7.090)	**3.198**
Income tax, taxable at the rate of 10%	2.518	205
Loss tax, taxable at the rate of 21%	(3.800)	(1.312)
Expenses not included in gross expenses for income tax	(2.506)	853
TAX AS PER CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME-CHARGE	**(3.787)**	**(254)**

As at 1 January 2010	**35**
Income tax accrued for the period	(54)
Income tax paid for the period	34
Effect of translation into presentation currency	(8)
As at 31 December 2010 / 1 January 2011	**7**
Income tax accrued for the period	(6.783)
Income tax paid for the period	6.798
Effect of translation into presentation currency	(22)
As at 31 December 2011	**–**

The income tax payers in 2011 and 2010 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”, LLC “ImperovoFoods”, LLC “Agrarnyi Holding Avangard” and LLC “Imperovo LTD”. 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.

21. TRADE PAYABLES

	31 December 2011	31 December 2010
Trade payables	15.920	20.980
Short-term notes issued	1.974	2.211
	17.894	**23.191**

The short-term notes issued were represented by promissory, non-interest bearing notes.

The exposure of the Group to liquidity risk in relation to trade payables is reported in note 41 of the consolidated financial statements.

22. ACCRUED EXPENSES

	31 December 2011	31 December 2010
Accrued expenses for future employee benefits	1.426	1.182
Other accrued expenses	175	126
	1.601	**1.308**

23. OTHER CURRENT LIABILITIES AND ACCRUED EXPENSES

	Note	31 December 2011	31 December 2010
Wages and salaries and related taxes liabilities		2.215	2.815
Other taxes and compulsory payments liabilities	a)	547	3.958
Accounts payable for property, plant and equipment		4.687	6.728
Advances received from customers	b)	1.971	11.972
Interest payable		717	2.665
Accrued coupon on bonds		5.918	5.727
Other payables		6.909	6.337
		22.964	**40.202**

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 exposure of the Group to liquidity risk in relation to other current liabilities and accrued expenses is reported in note 41 of the consolidated financial statements.

(IN USD THOUSAND, UNLESS OTHERWISE STATED)

24. FINANCE LEASE

	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 2011				
Within a year	2.674	426	2.128	426
From one to five years	3.589	638	3.191	638
	6.263	1.064	5.319	1.064
Less: finance expenses of future periods	(944)			
Current value of lease liabilities	5.319	1.064	5.319	1.064
Less: amount to be paid within a year			(2.128)	(426)
AMOUNT TO BE PAID AFTER A YEAR			3.191	638

	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 2010				
Within a year	1.332	136	678	136
From one to five years	6.253	1.062	5.310	1.062
	7.585	1.198	5.988	1.198
Less: finance 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

The net carrying value of property, plant and equipment acquired via finance lease was as follows:

	31 December 2011	31 December 2010
Equipment for biological assets	11.068	11.143
Vehicles	41	62
Other equipment	–	52
	11.109	11.257

Non-current assets under finance lease include equipment for biological assets, construction-in-progress and uninstalled equipment, and vehicles with finance lease term of 3–4 years. Interest rate under finance lease agreements is LIBOR+8% per annum for the years ended 31 December 2011 and 31 December 2010. Finance lease agreements do not provide the possibility of changing the initial terms of agreements.

The exposure of the Group to interest rate risk and liquidity risk in relation to finance lease liabilities is reported in note 41 of the consolidated financial statements.

25. SHORT-TERM BOND LIABILITIES

	31 December 2011	31 December 2010
Nominal value	25.032	25.120
Bonds repurchased	(19)	–
	25.013	25.120

	31 December 2011	31 December 2010
Interest payable	2.456	2.266

As at 31 December 2011 and 31 December 2010 current liabilities for bonds were presented as liabilities for A-type bonds with nominal value of USD 25.013 thousand and USD 25.120 thousand respectively, which was equivalent to UAH 200.000 thousand, issued by CJSC "Avangard" on 2 July 2008. These bonds were issued in book-entry form in number of 200.000 items. The bonds issue were secured by SC "Zorya, LLC Cross-PF Zorya", LLC "Cross-PF Zorya",OJSC "Ptakhohospodarstvo Chervonyi Prapor", SC "Ptakhofabryka Lozuvatska", SC "Ptakhofabryka Chervonyi Prapor Poultry Farm, of OJSC Ptakhohospodarstvo 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.

Interest on bonds 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 is board of directors based on market conditions, but cannot be set less than the National Bank of Ukraine bank rate on the date of the decision of determing the interest rate. The bonds owner has the right to present the bonds to the issuer for payment on the following dates: 25 May 2009, 24 May 2010, 23 May 2011 and 21 May 2012, under the notification conditions. The bonds circulation period is from 2 July 2008 to 19 May 2013.

The exposure of the Group to interest rate risk and liquidity risk in relation to short term bond liabilities is reported in note 41 of the consolidated financial statements.

26. REVENUE

	Year ended 31 December 2011	Year ended 31 December 2010
Revenue from finished goods	552.129	427.292
Revenue from goods sold and services rendered	1.181	12.411
	553.310	439.703

For the year ended 31 December 2011 USD 45.876 thousand or 8.3% from the Group's revenue is referred to the sales transactions carried out with one of the Group's clients (for 2010– note 41).

(IN USD THOUSAND, UNLESS OTHERWISE STATED)

27. COST OF SALES

	Note	Year ended 31 December 2011	Year ended 31 December 2010
Cost of finished goods sold	28	351.962	293.318
Cost of goods sold and services rendered		1.270	14.826
		353.232	308.144

28. COST OF SALES BY ELEMENTS

The cost of finished goods sold (Note 27) for the years ended 31 December 2011 and 31 December 2010 was as follows:

	Note	Year ended 31 December 2011	Year ended 31 December 2010
Raw materials		287.362	249.235
Payroll of production personnel and related taxes	35	20.054	16.394
Depreciation	5	13.870	12.165
Services provided by third parties		30.503	14.949
Other expenses		173	575
		351.962	293.318

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

29. GENERAL ADMINISTRATIVE EXPENSES

	Note	Year ended 31 December 2011	Year ended 31 December 2010
Salaries and wages	35	5.285	3.254
Services provided by third parties		6.078	3.122
Depreciation	5	91	98
Repairs and maintenance		69	43
Tax expenses (except for income tax)		854	293
Material usage		491	267
Other expenses		293	91
		13.161	7.168

30. DISTRIBUTION EXPENSES

	Note	Year ended 31 December 2011	Year ended 31 December 2010
Salaries and wages	35	2.063	1.478
Transportation		5.989	2.531
Depreciation	5	368	373
Services provided by third parties		222	126
Packing materials		914	305
Repairs and maintenance		59	27
Other expenses		420	218
		10.035	5.058

31. OTHER OPERATING INCOME AND EXPENSES

	Year ended 31 December 2011	Year ended 31 December 2010
Loss from disposal of current assets	505	126
Loss from disposal of non current assets	205	56
Impairment of current assets	1.129	259
Payable written off	(26)	(869)
Losses on exchange	2.041	163
Provision for doubtful debts	814	433
Fines and penalties	1.426	1.188
Other expenses	1.336	2.676
	7.430	4.032

32. FINANCE COST

	Year ended 31 December 2011	Year ended 31 December 2010
Interest payable on loans	10.308	34.587
Capitalised interest	(4.833)	(16.727)
Total finance cost on loans	**5.475**	**17.860**
Finance cost on finance lease	651	4.014
Finance cost on bonds (interest)	25.374	7.939
Other finance cost	1.606	135
	33.106	29.948

(IN USD THOUSAND, UNLESS OTHERWISE STATED)

33. FINANCE INCOME

Finance income for 2011 and 2010 mainly comprises of the amount of interest income from placement of deposits, in the amount of USD 1.492 thousand and USD 34.058 thousand respectively.

34. INCOME FROM GOVERNMENT GRANTS AND INCENTIVES AND FROM SPECIAL VAT TREATMENT

34.1 Income from government grants and incentives

	Note	Year ended 31 December 2011	Year ended 31 December 2010
Partial compensation of interest for loans received by agro-industrial enterprises from financial institutions	a)	2	16.951
VAT for development of poultry keeping	b)	–	233
Amortization of deferred income on government grants	c)	306	306
Other grants	d)	10	14
		318	17.504

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

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

b) 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 compensations received for above mentioned period is UAH 60.608 thousand. Those grants were recognised as deferred income and reflected within the «Deferred income» item in the statement of financial position (note 19). The deferred income is amortised over the estimate useful life of the relevant *asset (generally 25 years) and the amortisation is reflected in the above table.*

d) Other grants

Other grants relate to grants granted for sowing of winter crops, meat, and maintaining parent flock.

34.2 Income from special VAT treatment

	Year ended 31 December 2011	Year ended 31 December 2010
INCOME FROM SPECIAL VAT TREATMENT	38.037	21.910

According to the Tax Code of Ukraine agricultural enterprises (those with a relative value of agricultural products in total sales not less than 75% for the previous 12 months) have a tax benefit for VAT on agriculture transactions. Positive VAT balance (positive difference between tax liability and tax credit) from agricultural transactions shall be recognized as other operating income and transferred to special current account and negative balance (negative difference between tax liability and tax credit) shall be included into other operating expenses. These income and expenses are reflected in consolidated financial statements on a net basis.

All members of the Group that 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, LLC Imperovo Foods, LLC Imperovo LTD, LLC Agrarnyi Holding Avangard).

35. PAYROLL AND RELATED TAXES

	Year ended 31 December 2011	Year ended 31 December 2010
Salary	17.184	15.423
Contributions to state funds	10.218	5.703
	27.402	21.126

	Note	Year ended 31 December 2011	Year ended 31 December 2010
Payroll of production personnel and related taxes	28	20.054	16.394
Salaries and wages of administrative personnel	29	5.285	3.254
Salaries and wages of distribution personnel	30	2.063	1.478
		27.402	21.126

	Year ended 31 December 2011	Year ended 31 December 2010
AVERAGE NUMBER OF EMPLOYEES	5.287	4.855

36. RELATED PARTY BALANCES AND TRANSACTIONS

The Group is controlled by Mr Oleg Bakhmatyuk, who directly or indirectly owns 77.5% of the Group share capital. 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.

36. RELATED PARTY BALANCES AND TRANSACTIONS (cont.)

The Group enters into transactions with both related and non related 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.

Payroll costs of key management for the year ended 31 December 2011were as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Salary	1.322	1.952
Contributions to state funds	444	638
	1.766	2.590

Outstanding amounts of the Group for transactions with related parties as at 31 December 2011 and 31 December 2010 were as follows:

	Outstanding balances with related parties as at	
	31 December 2011	31 December 2010
Other current asset:		
C. Companies in which the Group's owners have an equity interest;	–	279
D. Companies which activities are significantly influenced by the Group's owners	–	341
	–	**620**
Prepayments and other current assets:		
D. Companies which activities are significantly influenced by the Group's owners	242	–
	242	**–**
Trade receivables:		
B. Companies having the same top management;	–	200
D. Companies which activities are significantly influenced by the Group's owners	722	23
	722	**223**
Cash and cash equivalents:		
D. Companies which activities are significantly influenced by the Group's owners	11.557	4.312
	11.557	**4.312**
Long-term loans		
B. Companies having the same top management;	2.500	–
	2.500	**–**
Short-term loans		
D. Companies which activities are significantly influenced by the Group's owners	65	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(IN USD THOUSAND, UNLESS OTHERWISE STATED)

CONTENT

	Outstanding balances with related parties as at	
	31 December 2011	31 December 2010
	65	**–**
Trade payables:		
C. Companies in which the Group's owners have an equity interest;	–	1.162
D. Companies which activities are significantly influenced by the Group's owners	1.293	985
	1.293	**2.147**
Other current liabilities :		
C. Companies in which the Group's owners have an equity interest;	1.290	
D. Companies which activities are significantly influenced by the Group's owners	293	105
	293	**1.395**

The Group's transactions with related parties as at 31 December 2011 and 31 December 2010 were as follows:

	Transactions with related parties for the year ended	
	31 December 2011	31 December 2010
Revenue:		
C. Companies in which the Group's owners have an equity interest;	364	30.420
D. Companies which activities are significantly influenced by the Group's owners	2.099	66.895
	2.463	**97.315**
Administrative expenses:		
C. Companies in which the Group's owners have an equity interest;	(73)	(4)
D. Companies which activities are significantly influenced by the Group's owners	(60)	(64)
	(133)	**(68)**
Distribution expenses:		
C. Companies in which the Group's owners have an equity interest;	(23)	(12)
D. Companies which activities are significantly influenced by the Group's owners	(90)	(872)
	(113)	**(884)**
Other operating income/(expenses)		
C. Companies in which the Group's owners have an equity interest;	6	39
D. Companies which activities are significantly influenced by the Group's owners	(11)	941
	(5)	**980**
Finance income:		
D. Companies which activities are significantly influenced by the Group's owners	1	31.356
	1	**31.356**
Finance cost:		
D. Companies which activities are significantly influenced by the Group's owners	(283)	(27.095)
	(283)	**(27.095)**

(IN USD THOUSAND, UNLESS OTHERWISE STATED)

37. ACQUISITIONS OF SUBSIDIARIES

On 30 September 2011 the Group acquired from a related party the 100% interest in LLC Imperovo Ltd. The transaction was accounted for under the purchase method of accounting. The Group's effective ownership interest in LLC Imperovo Ltd upon the acquisition and for 2011 was equal to 99.0%.

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

	Fair value	Book value
Property, plant and equipment	14.877	14.617
Prepayments and other current assets	7	6
Taxes recoverable and prepaid	2.923	2.923
Trade receivables	167	167
Total assets	**17.974**	**17.713**
Deferred tax liabilities	(60)	–
Other current liabilities and accrued expenses	(1)	(1)
Total liabilities	**(61)**	**(1)**
Net assets acquired	17.913	17.712
Non-controlling interest	–	
The value of acquired net assets	17.913	
Bargain purchase	(191)	
Consideration for acquisition	**17.722**	
Cash and cash equivalents acquired	–	
NET CASH OUTFLOW ARISING ON THE ACQUISITION	(17.722)	

The amount of revenue and profit before tax of LLC Imperovo LTD included in the results of the Group since acquisition are USD 0 thousand and USD (444) thousand respectively. If the Group had acquired LLC Imperovo LTD on 1 January 2011 the revenue of the Group would have amounted to USD 553.618 thousand, and Group's profit would have been USD 169.603 thousand and earnings for the year per share would have been equal to USD 31 thousand.

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 5 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 segments' activities are measured on the basis of operating profit or loss, its measurement is carried out accordingly to measurement of operating profit or loss in the consolidated financial information.

Business segment information for the year ended 31 December 2011 was as follows:

	Shell egg	Poultry	Animal feed	Egg products	Other activities	Adjustments and elimination	Total
Revenue	482.325	83.319	162.042	99.013	7.358	–	834.057
Intra-group elimination	(93.060)	(56.484)	(126.733)	(514)	(3.956)	–	(280.747)
Revenue from external buyers	**389.265**	**26.835**	**35.309**	**98.499**	**3.402**	**–**	**553.310**
Income from revaluation of biological assets at fair value	12.445	11.253	–	–	–	–	23.698
Other operating income/(expenses)	(4.167)	(493)	(750)	(1.042)	(979)	–	(7.431)
Income from government grants and incentives	312	7	–	–	–	–	319
OPERATING PROFIT/(LOSS)	235.593	(11.092)	20.270	(7.187)	(6081)	–	231.503
Finance income	684	17	13	24	754	–	1.492
Finance cost,	(6.706)	(177)	(2.179)	(2.606)	(21.437)	–	(33.105)
Including:							–
Interest payable on loans	(533)	(176)	(2.179)	(2.580)	(7)	–	(5.475)
Income tax expense	–	–	(4.164)	345	32	–	(3.787)
NET PROFIT/(LOSS) FOR THE PERIOD	**229.571**	**(11.252)**	**13.940**	**(9.424)**	**(27.191)**	**–**	**195.294**
TOTAL ASSETS	1.252.500	71.802	258.128	285.455	225.349	(787.581)	1.305.654
Capitalised expenses	120.555	61	2.153	36	247	–	123.052
Depreciation	12.371	1.026	172	595	166	–	14.330
TOTAL LIABILITIES	**567.779**	**11.383**	**249.465**	**114.047**	**304.583**	**(880.943)**	**366.314**

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

	Shell egg	Poultry	Animal feed	Egg products	Other activities	Adjustments and elimination	Total
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

	Shell egg	Poultry	Animal feed	Egg products	Other activities	Adjustments and elimination	Total
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

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

	Revenue from external customers		Non-current assets	
	Years ended 31 December		As at 31 December	
	2011	2010	2011	2010
Ukraine	447.717	358.107	650.042	515.742
Middle East	58.303	72.685	–	–
Far East	46.031	7.249	–	–
Rest of the World	1.259	1.662	–	–
TOTAL	553.310	439.703	650.042	515.742

39. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share for the years ended 31 December 2011 and 31 December 2010 was based on profit attributable to the owners of the Company, and a weighted average number of ordinary shares as follows:

Profit attributable to the owners of the Company:

(in USD thousands)

	31 December 2011	31 December 2010
Profit attributable to the owners of the Company	191.943	182.221

Weighted average number of ordinary shares:

	31 December 2011	31 December 2010
Weighted average number of ordinary shares at 31 December	6.387.185	5.710.695

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 10 for 1 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 each reporting 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 reporting 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 reporting 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.

Pension and other liabilities

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

As at 31 December 2011 and 31 December 2010 the Group had no liabilities for any supplementary pension payments, health care, insurance or other benefits after retirement to their working or former employees.

(IN USD THOUSAND, UNLESS OTHERWISE STATED)

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 reporting dates, active legal proceedings on such matters will not have any significant influence on its financial position.

Commitments under exclusive distribution agreement (poultry)

On 28 November 2009 the Group signed new exclusive distribution agreement accordingly to which the Group has an 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 mentioned in the agreement. The duration of the agreement is three years and expires on 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, loans to and from related parties, accounts receivable, bonds, bank loans, finance leases and accounts payable.

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

Additional disclosures of quantitative information are presented in many other sections of these financial statements, including:
- information on finance income and expenses is disclosed in Notes 32, 33 (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 21, 23;
- information on significant terms of borrowings and loans granting is disclosed in Notes 15, 17, 19;
- information on timing and terms of effective contracts for finance lease is disclosed in Note 24;
- information on significant conditions of issued bonds is disclosed in Note 16, 25.

a) Credit risk

Credit risk is the risk of financial loss for the Group in case of non-fulfillment 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) and loans to related parties.

The carrying value of financial assets is a maximum value exposed to credit risk. Maximum level of credit risk as at 31 December 2011 and 2010 was presented as follows:

Financial assets	31 December 2011	31 December 2010
Loans and receivables		
Cash and cash equivalents	237.814	183.065
Trade accounts receivable, net	51.437	54.678
Loans to related parties	16	180
Interest receivable on deposits	–	10
	289.267	**237.933**
Held-to-maturity investments		
VAT government bonds	–	257
Other long-term financial assets to non-related parties	–	38
	–	**295**
TOTAL	**289.267**	**238.228**

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 Group's clients are longstanding clients, there were no significant losses during 2011 and 2010 resulting from non-fulfillment of obligations by clients. Concentration of credit risk on trade accounts receivable is characterised by the following indicators:

For the year ended 31 December 2011 USD 45.876 thousand or 8.3% of Group's revenue is referred to the sales transactions carried out with one of the Group's clients. As at 31 December 2011 USD 6.328 thousand or 12.3% of the total carrying value of trade accounts receivable is due from the single most significant debtor.

For the year ended 31 December 2010 USD 99.088 thousand or 22.5% of Group's revenue is related to the sales transactions, carried out with one of the Group's clients. As at 31 December 2010 USD 24.184 thousand or 44.2% of the total carrying value of trade accounts receivable is due from the single most significant debtor.

Trade receivables as at 31 December 2011 and 31 December 2010 by dates of origin were presented as follows:

31 December 2011	0–30 days	31–60 days	61–90 days	91–120 days	121–180 days	181–365 days	More than 1 year	TOTAL
Carrying value of trade accounts receivable	50.417	212	36	84	77	–	611	51.437

31 December 2010	0–30 days	31–60 days	61–90 days	91–120 days	121–180 days	181–365 days	More than 1 year	TOTAL
Carrying value of trade accounts receivable	29.190	45	670	300	5.286	18.969	218	54.678

(IN USD THOUSAND, UNLESS OTHERWISE STATED)

41. FINANCIAL RISK MANAGEMENT (cont.)

a) Credit risk (cont.)

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

The aim of the Group is to maintain a 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 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
31 DECEMBER 2011					
Trade accounts receivable	51.437	51.437	–	–	–
Loans to related parties	16	16	–	–	–
Cash and cash equivalents	237.814	237.814	–	–	–
Other nontrading accounts receivable	5.395	5.395	–	–	–
Interest receivable for deposits	–	–	–	–	–
Bank loans	(88.333)	(668)	(75.890)	(11.775)	–
Other long-term loans	(3.609)	–	–	(3.609)	–
Short-term loans	(213)	–	(213)	–	–
Trade accounts payable	(17.894)	(17.894)	–	–	–
Interest free loans	(181)	–	(181)	–	–
Finance lease (including VAT)	(6.384)	–	(2.554)	(3.830)	–
Current liabilities for bonds	(25.013)	–	(25.013)	–	–
Long-term bond liabilities	(194.563)	–	–	(194.563)	–
Accounts payable for property, plant and equipment	(4.687)	–	(4.687)	–	–
Interest payable	(717)	(717)	–	–	–
Bonds coupon profit payable	(5.918)	(5.918)	–	–	–
Other accounts payable	(6.910)	(6.910)	–	–	–
	(59.760)	262.555	(108.538)	(213.777)	–

41. FINANCIAL RISK MANAGEMENT (cont.)

b) Liquidity risk (cont.)

	Carrying value	Less than 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
31 DECEMBER 2010					
Trade accounts receivable	54.678	54.678	–	–	–
Loans to related parties	180	180	–	–	–
Cash and cash equivalents	183.065	183.065	–	–	–
Other nontrading accounts receivable	16.008	16.008	–	–	–
Interest receivable for deposits	10	10	–	–	–
Bank loans	(34.071)	(985)	(3.200)	(29.886)	–
Other long-term loans	(1.113)	–	–	(1.113)	–
Short-term loans	(51)	–	(51)	–	–
Trade accounts payable	(23.191)	(23.191)	–	–	–
Interest free loans	(20)	–	(20)	–	–
Finance lease (including VAT)	(7.186)	–	(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	(6.337)	(6.337)	–	–	–
	(51.739)	215.036	(35.933)	(230.842)	

c) Market risk

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

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

41. FINANCIAL RISK MANAGEMENT (cont.)

i) Foreign currency risk (cont.)

Exposure to foreign currency risk

The Group's exposure to foreign currency risk and the amount in local currency (Ukraine Hryvnia) as at 31 December 2011 based on carrying amounts was as follows:

(in conversion to USD thousand)	USD	EUR	CHF	UAH	TOTAL
Long-term bond liabilities	194.563	–	–	–	194.563
Short-term bank loans (including overdrafts)	50.669	2.181	–	–	52.850
Trade payables	517	105	–	15.299	15.921
Accounts payable for property, plant and equipment	–	3.969	–	718	4.687
Trade receivables	(46 638)	–	–	(5.048)	(51.686)
Accrued coupon on bonds	3.462	–	–	2.456	5.918
NET EXPOSURE TO FOREIGN CURRENCY RISK	202.573	6.255	–	13.425	222.253

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 USD thousand)	USD	EUR	CHF	UAH	TOTAL
Long-term bond liabilities	193.471	–	–	–	193.471
Short-term bank loans (including overdrafts)	724	–	–	292	1.016
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	195.376	12.385	–	50	207.811

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 USD thousand:	Increase in currency rate against UAH	Effect on profit before tax
2011		
USD	15%	(30.386)
EUR	10%	(626)

41. FINANCIAL RISK MANAGEMENT (cont.)

ii) Sensitivity analysis (foreign currency risk) (cont.)

Effect in USD thousand:	Increase in currency rate against UAH	Effect on profit before tax
2010		
USD	15%	(29.307)
EUR	10%	(1.239)

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 in borrowings at fixed interest rates.

The structure of interest financial instruments of the Group, classified according to the types of interest rates, and presented as follows:

	31 December 2011	31 December 2010
INSTRUMENTS WITH FIXED INTEREST RATE		
Financial assets	–	–
Financial liabilities	(309.550)	(252.694)
INSTRUMENTS WITH VARIABLE INTEREST RATE		
Financial assets	–	–
Financial liabilities	(8.564)	(7.185)

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

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

Fair value of financial instruments is defined at the amount at which 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, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instruments. The estimates presented herein are not necessarily indicative of the amounts the Group could realise in a market exchange from the sale of its full holding of a particular instrument.

As at 31 December 2011 and 31 December 2010, 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, loans to related parties – the fair value is reasonably estimated to be the same as the carrying value, as provision for doubtful debts is reasonable estimation of discount needed for reflection of credit risk influence.

(IN USD THOUSAND, UNLESS OTHERWISE STATED)

41. FINANCIAL RISK MANAGEMENT (cont.)

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

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

Short-term and long-term bank loans, finance lease liabilities, short-term bonds issued – the fair value of short-term and long-term bank loans, finance lease liabilities, short-term bonds issued is estimated to approximate the total carrying value as the nominal interest rate of long-term bank loans is approximately tied to the market rate concerning bank loans with similar credit risk rate and repayment period at the 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 Group's debtors, which, in its 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 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 consolidated statement of financial position 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.

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.

41. FINANCIAL RISK MANAGEMENT (cont.)

e) Financial markets volatility (cont.)

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 2011 and 31 December 2010 the Group's financial leverage coefficient made up 7.9% and 9.4% respectively.

	Carrying value	
	31 December 2011	31 December 2010
Short-term loans	53.063	1.036
Loans and borrowings	15.384	30.999
Current portion of loans and borrowings	23.708	3.200
Long-term finance lease (including VAT)	6.383	7.185
Long-term bond liabilities	194.563	193.471
Short-term bond liabilities	25.013	25.120
Total amount of borrowing costs	**318.114**	**261.011**
Cash and cash equivalents	237.814	183.065
Financial assistance issued	16	180
Net debt	**80.284**	**77.766**
Share capital	836	836
Share premium	201.164	201.164
Capital contribution reserve	115.858	115.858
Retained earnings	673.909	482.328
Effect of translation into presentation currency	(67.761)	(64.586)
Non-controlling interests	15.333	10.620
Total equity	**939.339**	**746.220**
Total amount of equity and net debt	**1.019.623**	**823.986**
FINANCIAL LEVERAGE COEFFICIENT	**7,9%**	**9,4%**

For the year ended 31 December 2011 ratio of net debt to EBITDA amounted to:

	Year ended 31 December 2011	Year ended 31 December 2010
PROFIT/(LOSS) FOR THE PERIOD	196.294	184.758
Income tax income/expenses	3.787	254
Financial income	(1.492)	(34.058)
Financial expenses	33.106	29.948
Income from the purchase of subsidiary	(191)	–
EBIT (earnings before interest and income tax)	**231.504**	**180.902**
Depreciation	14.330	12.637
EBITDA (EARNINGS BEFORE INTEREST, INCOME TAX, DEPRECIATION AND AMORTISATION)	**245.834**	**193.539**
Net debt at the year end	80.284	77.766
NET DEBT AT THE YEAR END / EBITDA	**0,33**	**0,40**

e) Financial markets volatility (cont.)

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

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 2011. 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 REPORTING PERIOD

There were no material events after the reporting period, which affect the financial statements as at 31 December 2011.

The consolidated financial statements were approved and authorized for issue on 16 March 2012.

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