

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Consolidated financial statements

For the year ended 31 December 2010

AVANGARDCO INVESTMENTS PUBLIC LIMITED

CONTENTS

Page

BOARD OF DIRECTORS AND OTHER OFFICERS	2
REPORT OF THE BOARD OF DIRECTORS	4
<i>Declaration of the Members of the Board of Directors and the person responsible for the preparation of the consolidated financial statements of the Company</i>	6
Independent Auditor's Report	7
Consolidated statement of financial position	9
Consolidated statement of comprehensive income	10
Consolidated statement of changes in equity	11
Consolidated statement of cash flows	12
1.General information	14
2.Basis of presentation of consolidated financial statements	16
3. Significant accounting policies	19
4.Significant accounting judgments and estimates	28
4.Significant accounting judgments and estimates (continued)	29
5. Property, plant and equipment, net	32
6.Held to maturity financial assets	34
7.Biological assets	34
8.Other non-current assets	36
9.Taxes recoverable and prepaid	36
10.Inventories	36
11.Prepayments and other current assets	37
12.Trade receivable	37
13.Cash and cash equivalents	37
14.Long-term and short-term bank deposits.	38
15. Share capital, share premium, capital contribution reserve	38
16.Long-term loans	39
17. Long-term bond liabilities	40
18.Short-term loans	41
19.Security	42
20. Current portion of non-current financial liabilities	42
21.Deferred tax assets and liabilities	43
22.Trade payables	44
23.Accrued expenses	45
24.Other current liabilities and accrued expenses	45
25.Finance lease liabilities	45
26.Short-term bond liabilities	46
27.Revenue	47
28. Cost of sales	47
29.Cost of sales by elements	48
30.General administrative expenses	48
31.Distribution expenses	48
32.Other operating expenses	49
33.Finance costs	49
34.Finance income	49
35.Income from government grants and incentives and income from special VAT treatment	49
36.Payroll and related taxes	51
37.Related party balances and transactions	51
38.Business segments	56
40.Contingent and contractual liabilities	58
41. Financial risk management	59
42. Risks related to the Group's operating environment in Ukraine	68
43. Events after the balance sheet date	68

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Board of Directors and other officers

BOARD OF DIRECTORS:

Oleg Bakhmatyuk (Non Executive Chairman appointed 22 March 2010)
Oksana Prosolenko (Chief Marketing officer appointed 22 March 2010)
Nataliya Vasylyuk (Chief Executive officer)
Iryna Marchenko (Chief Financial officer appointed 22 March 2010)
Philippou Philippos (resigned 22 March 2010)
Michalis Mouamis (appointed 2 July 2010)

COMPANY SECRETARY:

Confida Secretarial Limited
16 – 18 Zinas Kanther Street
Agia Triada
3035 Limassol
Cyprus

REGISTERED OFFICE:

16-18 Zinas Kanther Street
CY-3035 Limassol
Agia Triada
Cyprus

LEGAL ADVISORS:

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

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

Mouaimis & Mouaimis
16-18 Zinas Kanther Street
Agia Triada
3035 Limassol
Cyprus

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Board of Directors and other officers

INDEPENDENT AUDITORS:

Baker Tilly Klitou
11 Bouboulinas street
1060 Nicosia
Cyprus

BANKERS:

TD Investments Limited
2-4 Arch.Makarios III Avenuc
Capital Center
9th floor
1505
Nicosia
Cyprus

Report of the Board of Directors

The Board of Directors presents its report together with the audited consolidated financial statements of AvangardCo Investments Public Limited (the "Company") and its subsidiaries for (the "Group") for the year ended 31 December 2010.

Principal activities

The principal activities of the Group are:

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

Review of developments, position and performance of the Company's business

The Group's financial performance for the year as presented in the consolidated statement of comprehensive income of the consolidated financial statements is considered satisfactory. The Group recorded a profit of USD 186 178 thousand compared to a profit of USD 133 669 thousand in the previous year. The Company's gross assets also increased to USD 1 079 029 from USD 844 146 mainly as a result of increases in profitability and injections of new capital as a result of issuance of new shares.

On 6 May 2011 the Company was listed on the London Stock Exchange. In this respect the Company issued in May and June 2011 1 387 185 ordinary shares of EUR 0,10 each at a premium and received total proceeds amounting to EUR 164 166 744,10 or USD 208 270 thousand.

On 29 October 2010 the Company issued USD 200 million 10% p.a. five year Notes to meet the financing requirements in line with its development strategy. These Notes are listed on the London Stock Exchange.

Principal risks and uncertainties

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

Results and dividends

The Group's results for the year are set out in the consolidated financial statements on page 10. The Board of Directors does not recommend the payment of dividends and the profit for the year is retained.

Share capital

The changes to the share capital of the Company are disclosed in Note 15 to the consolidated financial statements.

Board of Directors

The members of the Board of Directors at 31 December 2010 and at the date of this report are shown on page 2. The Directors who were members of the Board throughout the year were only Ms Natalya Vasylyuk and Mr Philippos Philippou. The latter resigned on 22 March 2010 and was replaced on the same date by Mr Oleg Bakhmatyuk, Ms Iryna Marchenko, Ms Oksana Prosolenko, Mr Michalis Mouamis was also appointed as Director on 2 July 2010.

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

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

Report of the Board of Directors (continued)

Board of Directors (continued)

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

Events after the consolidated balance sheet date

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

Branches

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

Independent Auditors

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

By Order of the Board

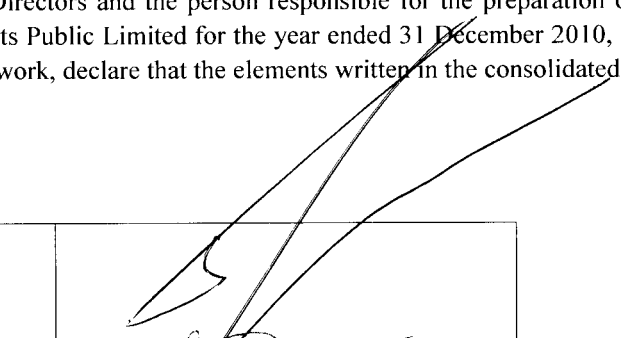

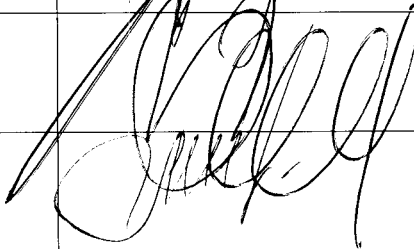
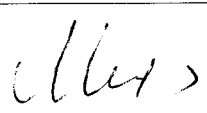
Nataliya Vasylyuk
Director

Nicosia,
4 March 2011

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

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

Board of Directors members:

Oleg Bakhatyuk	
Oksana Prosolenko	
Nataliya Vasylyuk	
Iryna Marchenko	
Michalis Mouamis	

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

Nataliya Vasylyuk	
-------------------	--

4 March 2011



11 Bouboulinas Str.
1060 Nicosia
Mailing address:
P.O. Box 27783
2433 Nicosia, Cyprus
Tel: + 357 22 458500
Fax: + 357 22 751648
Email: info@bakertillyklitou.com
Website: www.bakertillyklitou.com

Independent Auditor's Report To the Members of Avangardco Investments Public Limited

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of Avangardco Investments Public Limited (the "Company") and its subsidiaries (the "Group") on pages 9 to 68, which comprise the consolidated statement of financial position as at 31 December 2010, 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 notes.

Board of Directors' Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Baker Tilly Klitou and Partners Ltd
trading as Baker Tilly Klitou



Limassol tel: + 357 25 591515, Larnaca tel: + 357 24 663299, Bulgaria tel: + 359 2 9586980, Romania tel: +40 21 3156400, Moldova tel: + 373 22 253003

Registered in Cyprus - Reg. No. 156879. List of Directors can be found at the Company's Registered Office.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 37 of the consolidated financial statements which indicates that a substantial portion of the Group's assets are due from related parties and a significant component of the Group's revenue is derived from activities with related parties. Related parties may enter into transactions which unrelated parties might not and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

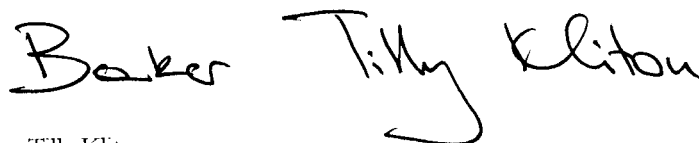
Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of the Cyprus Companies Law, Cap. 113, 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 to 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 156 of the Cyprus Companies Law, Cap. 113, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.



Baker Tilly Klitou
Nicosia, 4 March 2011

AVANGARDCO INVESTMENTS PUBLIC LIMITED
Consolidated statement of financial position
AS AT 31 DECEMBER 2010
(in USD thousand, unless otherwise stated)

ASSETS	Note	31 December 2010	31 December 2009
<i>NON-CURRENT ASSETS:</i>			
Property, plant and equipment	5	396 236	375 426
Held to maturity financial assets	6	295	40
Non-current biological assets	7	59 078	21 546
Long-term bank deposits	14	-	504
Other non-current assets	8	60 428	16 630
Total non-current assets		516 037	414 146
<i>CURRENT ASSETS:</i>			
Inventories	10	185 624	92 757
Current biological assets	7	44 705	44 910
Trade receivables	12	54 678	47 320
Prepaid income tax	21	7	35
Prepayments and other current assets	11	41 829	58 626
Taxes recoverable and prepaid	9	53 084	28 708
Short-term bank deposits	14	-	155 917
Cash and cash equivalents	13	183 065	1 727
Total current assets		562 992	430 000
TOTAL ASSETS		1 079 029	844 146
EQUITY AND LIABILITIES			
<i>EQUITY:</i>			
Share capital	15	836	644
Share premium	15	201 164	-
Capital contribution reserve	15	115 858	115 858
Retained earnings		482 328	300 107
Currency translation reserve		(64 587)	(64 137)
Total equity attributable to: Equity holders of the parent		735 599	352 472
Non-controlling interests		10 620	8 083
Total equity		746 219	360 555
<i>NON-CURRENT LIABILITIES:</i>			
Long-term loans	16	30 999	85 975
Long-term bond liabilities	17	193 471	-
Deferred income tax liabilities	21	1 110	943
Deferred income (non-current portion)	35, c)	5 676	5 963
Long-term finance leases	25	6 372	6 142
Total non-current liabilities		237 628	99 023
<i>CURRENT LIABILITIES:</i>			
Short-term bond liabilities	26	25 120	24 249
Current portion of non-current financial liabilities	20	4 319	115 975
Short-term loans	18	1 036	33 001
Trade payables	22	23 191	68 019
Current income tax liabilities		6	7
Accrued expenses	23	1 308	1 278
Other current liabilities and accrued expenses	24	40 202	142 039
Total current liabilities		95 182	384 568
TOTAL LIABILITIES		332 810	483 591
TOTAL LIABILITIES AND EQUITY		1 079 029	844 146

On 4 March 2011 the Board of Directors of Avangardco Investments Public Limited authorized these consolidated financial statements for issue.


Nataliya Vasyljuk
Director


Iryna Marchenko
Director

The notes on pages 14 to 68 form an integral part of these consolidated financial statements.

AVANGARDCO INVESTMENTS PUBLIC LIMITED
Consolidated statement of comprehensive income
FOR THE YEAR ENDED 31 DECEMBER 2010
(in USD thousand, unless otherwise stated)

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

The notes on pages 14 to 68 form an integral part of these consolidated financial statements.

AVANGARDCO INVESTMENTS PUBLIC LIMITED

**Consolidated statement of changes in equity
FOR THE YEAR ENDED 31 DECEMBER 2010**

(in USD thousand, unless otherwise stated)

	Attributable to owners of parent					Non-controlling interests	Total equity
	Share capital	Capital contribution reserve (1)	Share premium (2)	Retained earnings (3)	Foreign currency translation reserve		
As at 1 January 2009	644	-	-	168 151	(56 698)	6 406	118 503
Additional capital contribution (Note 1,15)	-	115 858	-	-	-	-	115 858
Effect of acquisitions of non-controlling interest	-	-	-	-	-	(34)	(34)
Effect from translation into presentation currency	-	-	-	-	(7 439)	(2)	(7 441)
Profit for the year	-	-	-	131 956	-	1 713	133 669
As at 31 December 2009 / 1 January 2010	644	115 858	-	300 107	(64 137)	8 083	360 555
Shares issue (Note 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

- (1) The details of the capital contribution reserve are included in Note 1 and 15 of these consolidated financial statements
- (2) In accordance with the Cyprus Companies Law, Cap. 113, Section 55 (2) the share premium, reserve can only be used by the Company in (a) paying up unissued shares of the Company to be issued to members of the Company as fully paid bonus shares; (b) writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the Company; and (c) providing for the premium payable on redemption of any redeemable preference shares or of any debentures of the Company.
- (3) Companies which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the 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 defense at 15% will be payable on such deemed dividend to the extent that the shareholders (individuals and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer, are Cyprus tax residents. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year at any time. This special contribution for defense is paid by the Company for the account of the shareholders.

The notes on pages 14 to 68 form an integral part of these consolidated financial statements.

AVANGARDCO INVESTMENTS PUBLIC LIMITED
Consolidated statement of cash flows
FOR THE YEAR ENDED 31 DECEMBER 2010
(in USD thousand, unless otherwise stated)

	Note	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		185 012	134 837
Adjustments for:			
Depreciation of property, plant and equipment	5	12 637	12 285
Change in allowance for irrecoverable amounts	32	433	69
Other provisions		30	274
Loss on disposal of property, plant and equipment		56	90
Cost of current assets written-off	32	259	1 571
Effect of fair value adjustments on biological assets	7	(26 187)	(7 695)
Gains realised from accounts payable written-off	32	(869)	(22 525)
Amortization of deferred income on government grants	35	306	312
Goodwill impairment		-	629
Interest income	34	(34 058)	(41 180)
Interest payable on loans		25 799	42 643
Operating profit before working capital changes		163 418	121 310
(Increase)/decrease in trade receivables		(7 200)	(14 517)
(Increase)/decrease in prepayments and other current assets		(23 208)	161 386
(Increase)/decrease in taxes recoverable and prepaid		(24 376)	24 957
(Increase)/decrease in inventories		(93 127)	(2 130)
Increase/(decrease) in deferred income		(593)	(847)
(Increase)/decrease in other non-current assets		(1)	13
Increase/(decrease) in trade payables		(44 828)	38 058
(Increase)/decrease in biological assets		(11 140)	(1 641)
Increase/(decrease) in advances received and other current liabilities and accruals		(94 344)	(109 100)
Cash generated from operations		(135 399)	217 489
Interest paid		(23 526)	(51 781)
Income tax paid		(34)	(48)
Net cash (used in)/generated from operating activities		(158 959)	165 660
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	5	(82 157)	(3 370)
Effect from acquisition of subsidiaries net of an cash acquired		-	28
(Increase)/decrease in bank deposits	14	156 421	126 200
Acquisition of available for sale investments	6	(255)	-
Interest received		73 459	1 769
Net cash generated from investing activities		147 468	124 627

AVANGARDCO INVESTMENTS PUBLIC LIMITED

**Consolidated statement of cash flows (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010**

(in USD thousand, unless otherwise stated)

	Note	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES:			
New loans received		166 646	15 511
Repayment of loans		(364 351)	(308 016)
Interest paid for bonds issued		(4 267)	(2 166)
Proceeds from short-term bonds issued	17	193 471	-
Repayment of short-term bonds issued	26		(798)
Increase in share capital – share issue (nominal value)	15	192	-
Increase in share capital – share premium	15	201 164	-
Net cash generated from/(used in) financing activities		192 855	(295 469)
Effect from translation into presentation currency		-	1 097
Net increase/(decrease) in cash		181 364	(4 085)
Cash at the beginning of the year	13	1 701	5 786
Cash at the end of the year	13	183 065	1 701

The notes on pages 14 to 68 form an integral part of these consolidated financial statements.

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

1. General information

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

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

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

AvangardCo Investments Public Limited was incorporated as a private limited company on 23 October 2007 in accordance with the provisions of the Cyprus Companies Law, Cap 113 under the name of Ultrainvest Limited. On 8 July 2009, the Registrar of Company 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.

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

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

The Group's activities cover all the links of the value chain: from production of combined feed, maintenance and breeding of chickens to production and sale of eggs and egg products. As at 31 December 2010 the production facilities of the Group include 28 poultry facilities (consisting of 17 egg laying farms, 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.

AVANGARDCO INVESTMENTS PUBLIC LIMITED
Notes to the consolidated financial statements
FOR THE YEAR ENDED 31 DECEMBER 2010
(in USD thousand, unless otherwise stated)
1. General information (continued)

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

Company name	Principal Activity	Country of registration	Ownership Interest 2010	Ownership Interest 2009
CJSC Avangard	Keeping of technical laying hen, production and selling of eggs	Ukraine	99%	99%
APP CJSC Chornobaivske		Ukraine	97%	97%
CJSC Agrofirma Avis		Ukraine	100%	100%
OJSC Kirovskiy		Ukraine	100%	100%
OJSC Ptakhohospodarstvo Chervonyi Prapor		Ukraine	98%	98%
SC Ptakhofabryka Lozuvatska		Ukraine	100%	100%
LLC Yuzhnaya - Holding		Ukraine	100%	100%
LLC Makarivska Ptakhofabryka		Ukraine	100%	100%
LLC PF Volnovaska		Ukraine	100%	100%
LLC Cross-PF Zorya		Ukraine	89%	89%
OJSC Ptakhofabryka Pershe Travnya		Ukraine	93%	93%
CJSC Chernivetska Ptakhofabryka		Ukraine	98%	98%
ALLC Donetska Ptakhofabryka		Ukraine	100%	100%
LLC Areal-Snigurivka		Ukraine	100%	100%
LLC Torgivenlniy Budynok Bohodukhivska Ptakhofabryka		Ukraine	100%	100%
PPB LLC Pitysecompleks		Ukraine	100%	100%
PSPC Interbusiness		Ukraine	100%	100%
SC Avangard-Agro of CJSC Avangard	Incubation (production and sale of day-old chick), farming of young poultry for sale, and poultry	Ukraine	99%	99%
SC Gorodenkivska Ptakhofabryka of CJSC Avangard		Ukraine	99%	99%
SC Rogatynska Ptakhofabryka of CJSC Avangard		Ukraine	99%	99%
SC Ptakhohospodarstvo Donetske of ALLC Donetska Ptakhofabryka		Ukraine	100%	100%
LLC Slovyany		Ukraine	90%	90%
SC Ptakhohospodarstvo Lozuvatske		Ukraine	100%	100%
SC Zorya of LLC Cross-PF Zoraya		Ukraine	89%	89%
SC Ptakhofabryka Chervonyi Prapor Poultry, of OJSC Ptakhohospodarstvo Chervonyi Prapor		Ukraine	98%	98%
SC Ptakhohospodarstvo Yuzhnaya Holding of LLC Yuzhnaya Holding		Ukraine	100%	100%
SC Ptakhogopodarstvo Volnovaske of LLC PF Volnovaska		Ukraine	100%	100%
SC Ptakhohospodarstvo Chornobaivske of APP CJSC Chornobaivske		Ukraine	97%	97%
LLC Rohatyn-Korm	Production and selling of animal feed	Ukraine	99%	99%
OJSC Vuhchirskiy Eksperimentalnyi Kombikormoviy Zavod		Ukraine	80%	80%
OJSC Volnovaskiy Kombinat Khliboproduktiv		Ukraine	72%	72%
LLC Kamyants-Podilsky Kombikormoviy Zavod		Ukraine	100%	100%
LLC Pershe Travnya Kombikormoviy Zavod		Ukraine	93%	93%
LLC Imperovo Foods	Processing of eggs and selling of egg products	Ukraine	100%	100%
LLC Kross	Rendering services under guarantee agreements	Ukraine	100%	100%

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

1. General information (continued)

The parent company of the Group is AvangardCo Investments Public Limited, registered in Cyprus, with an issued share capital of 6 387 185 ordinary shares as at 31 December 2010 with nominal value of Euro 0,10 per share (Note 15).

The shares were distributed as follows:

Shareholder	31 December 2010		31 December 2009	
	Number of shares	Ownership interest, %	Number of shares	Ownership interest, %
Oleg Bakhmatyuk	20 000	0.3%	20 000	0,4%
Quickcom Limited	1 074 684	16.8%	1 074 684	21,5%
Omtron Limited	1 848 575	28.9%	1 848 575	37,0%
Tanchem Limited	926 280	14.5%	926 280	18,5%
Mobco Limited	1 080 143	17.0%	1 130 458	22,6%
BNY (Nominees) Limited	1 437 500	22.5%		
Other	3	-	3	-
	6 387 185	100.0%	5 000 000	100,0%

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

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

In the year ended 31 December 2009 the beneficial owner made an "Additional Capital Contribution" in the amount of USD 115 858 thousand, in his capacity as an owner. This transaction was carried out under a debt-for-equity swap agreement resulting in a contribution but no issue of shares (Note 15).

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

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 of consolidated financial statements

2.1 Basis of preparation and accounting

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

Subsidiaries of the Group keep accounting records in compliance with requirements of accounting and reporting in Ukraine. Ukrainian generally accepted accounting principles (GAAP) differ from IFRS. Accordingly, these consolidated financial statements, prepared based on accounting registers of the Group's Subsidiaries, contain adjustments, required to bring the financial statements in compliance with IFRS.

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

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

2.2 Functional and presentation currency

The functional currency of all companies of the Group is the Ukrainian Hryvnia ("UAH"). The currency of the Republic 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 as the presentation currency in the consolidated financial information in compliance with IAS 21 "The effects of changes in foreign exchange rates".

2.3 Going concern basis

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.

2.4 Standards and interpretations

a) New and amended standards and interpretations

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

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

Adoption of new and revised IFRSs

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

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

(i) Adopted by the European Union

New standards

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

Amendments

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

New IFRICs

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

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

2.4 Standards and interpretations (continued)

(ii) Not adopted by the European Union

New standards

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

Amendments

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

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

IFRS 2 Share-based Payment (Revised)

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

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

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

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

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

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

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

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

3. Significant accounting policies

3.1 Basis of consolidation

The consolidated financial statements comprise the consolidated financial statements of the companies controlled by the Group ("Subsidiaries") as at 31 December 2010 and 31 December 2009.

Transactions under common control

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

Subsidiaries

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

Combinations of businesses under common control

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

- The Group does not restate assets and liabilities to their fair values. Instead the Group incorporates the assets and liabilities at the amounts recorded in the books of the acquired company (the predecessor carrying values) adjusted only to achieve harmonisation of accounting policies.
- No goodwill arises in predecessor accounting. Predecessor accounting may lead to differences in consolidation, for example the consideration given may differ from the aggregate book value of the assets and liabilities (as of the date of the transaction) of the acquired entity. Such differences are included in equity in retained earnings.
- The consolidated financial 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.

Combinations of businesses not under common control

The purchase method is applied to consolidation of subsidiaries being acquired. On acquisition, the identifiable assets and liabilities of the subsidiary are measured at fair value on the acquisition date, irrespective of the extent of any noncontrolling interest. The excess of the consideration paid over the fair value of assets and liabilities acquired is treated as goodwill. Any negative goodwill arising on a "bargain purchase" (where the consideration is less than the fair value of assets and liabilities acquired) is immediately recognised in profit and loss. Non-controlling interests are reflected proportionally to fair value of cost of recognised assets and liabilities.

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

Transactions eliminated by consolidation

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

Non-controlling interests

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

Business combinations and goodwill

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

3.1 Basis of consolidation (continued)

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 acquire. For each business combination, the acquirer measures the noncontrolling interest in the acquire either at fair value or at the proportionate share of the acquire'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 acquire.

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

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

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquire 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 balance sheet dates. Foreign exchange gains and losses, arising from transactions in foreign currency, and also from translation of monetary assets and liabilities into the functional currency of each company included into the Group at the rate ruling at the end of the year, are recognised profit or loss.

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

Currency	31 December 2010	Weighted average for 2010	31 December 2009	Weighted average for 2009	31 December 2008
US dollar	7,94	7,96	7,99	7,79	7,70

The foreign currencies may be freely convertible 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 statements all the assets and liabilities are translated at the exchange rate of the National Bank of Ukraine at the date;

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

3.2 Foreign currency translation (continued)

(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 construction is transferred to the relevant category of PPE.

Expenses after the initial recognition of property, plant and equipment

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

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

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 income statement 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 as the follows:

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

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

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 exist. If the recoverable value of an asset or a group of assets within PPE is lower than their carrying (residual) value, the Group recognises such asset or

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

3.3 Property, plant and equipment (continued)

group of assets as impaired, and accrues a provision for impairment of the amount of excess of the carrying value over the recoverable value of the asset. Impairment losses are recognised immediately in profit or loss.

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

3.4 Financial assets

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

(a) Loans and accounts receivable

Loans and accounts receivable are non-derivative financial assets with fixed payments or payments that are to be determined, and which are not listed in an active market. Loans and accounts receivable comprise trade and other accounts receivable.

Loans issued by the Group are financial assets resulting from delivering cash to the borrower. Loans issued are accounted for at amortised cost using the effective interest method. Accounts receivable are recognised net of any costs of realisation. Accounts receivables are recognised net of costs of realisation.

b) Available for sale financial assets

Investments which Management plans to hold for an indefinite period of time, and which may be sold to improve liquidity or due to changes in interest rates, are classified as available for sale financial assets. These assets are included into non-current assets unless the Group has an obvious intention to hold these assets for a period 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 into 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 intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

Initial recognition

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

All acquisitions and sales of financial instruments which are to be carried out on a regular basis, set by regulations or marketing agreements (acquisitions and sales carried out under regular transaction procedures) are recognised at the date of transaction. Change in value of an asset which is reflected at cost or amortized value between the date of incurring the liability and settlement date, is recognised either in the income statement (for trade investments), or in equity (for assets classified as available-for-sale).

Principles of fair value measurement

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

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

3.4 Financial assets (continued)

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

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

Subsequent measurement

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

All non-trading financial liabilities, loans and accounts receivable, assets held to maturity, are measured at amortised cost less impairment losses. Amortised cost is calculated using the effective interest method. Premium and discount, including initial transaction costs, are included in the carrying amount of the corresponding instrument and amortised using the effective interest method.

Impairment of financial assets

At each reporting date the Group measures whether there is any objective evidence of impairment of financial assets or group of financial assets. A financial asset or group of financial assets is considered to be impaired if and only if there is objective evidence of impairment in the result of one or more events which occurred after initial recognition of an asset ("experience losses"), which had effect, that was subject to reliable measurement, on future cash flows from the financial asset or group of financial assets. Impairment evidence may comprise indicators that a debtor or group of debtors is in significant financial difficulties, is unable to repay the debt or makes inaccurate payments of interest or principal amount of debt, and also the probability of bankruptcy or any other financial reorganisation. In addition, such evidence includes other observable data indicating a decrease in expected cash flows from the financial asset which is subject to reliable measurement, for example, an overdue debt.

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

3.5 Financial liabilities

(a) Financial liabilities at fair value through profit or loss

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

(b) Loans and borrowings

Loans and borrowings are financial liabilities of the Group resulting from raising borrowings. Loans and borrowings are classified as short-term liabilities except for cases when the Group has 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.

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

3.5 Financial liabilities

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

De-recognition

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

3.6 Inventories

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

The cost of inventories comprises all expenses for acquisition, processing and other expenses incurred in bringing the inventories to their present location and condition. The cost of work in progress and finished goods includes the cost of raw materials, direct labor 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 realisation 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 expenses for sale, except for the cases, when it is not possible to quantify fair value with sufficient reliability.

Determination of the fair value of biological assets

Due to 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 on hand, cash in transit, issued letters of credit.

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

3.9 Impairment of non-current assets

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

The expected recoverable amount of a cash-generating unit is the higher of the cash-generating unit's selling value and its value in use. In estimating value in use, the future cash flows are discounted to present value using a discount rate before taxation which reflects current market assessments of the time value of money and the risks specific to the asset.

If the expected recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying value, the carrying value of the asset (or cash-generating unit) shall be reduced to its recoverable amount. That reduction is an impairment loss, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset shall be treated as a revaluation decrease. If the impairment loss is reversed subsequently, then carrying value of an asset (or cash-generating unit) increases to the revised and estimated amount of its recoverable amount, where increased carrying value does not exceed the carrying value which could be determined only in that case if impairment loss for an asset (or cash-generating unit) was not recognised in the previous years. Reversal of the impairment loss is recognised as profit immediately.

3.10 Value added tax (VAT)

There are two rates of value added 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 Law of Ukraine "About value-added tax" dated 03.04.1997 No.168-BP 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 statement of financial position.

3.11 Income tax and deferred income tax

Current income tax

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

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

Deferred income tax

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

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

3.11 Income tax and deferred income tax (continued)

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

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

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

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

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

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

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

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

3.12 Revenue recognition

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

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

Revenue is recorded at fair value of assets receivable.

Interest income

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

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

3.13 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfillment 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 income statement on a straight line basis over the lease term.

Group as a lesser

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.

3.14 Distribution of dividends

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

3.15 Borrowing costs

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

3.16 Government grants

Recognition of government grants

The Group recognises government grants when received.

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

- All grants, compensating the expenses of the preceding periods, shall be recognised by the Group in full in the period of their receipt as other operating income;
- All grants, related to assets not depreciated, such as a land site, shall be correlated by the Group with the expenses to 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 fulfillment of conditions for the government grant.

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

3.16 Government grants (continued)

Return of the government grants

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

3.17 Contingent assets and liabilities

Contingent liabilities are not recognised in the financial 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.

3.18 Accrued expenses and provisions

Accrued expenses

The Group accrues the following expenses:

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

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

- there exists present obligation as a result of a past event;
- there exists a probability that an outflow of resources, embodying economic benefits, will be necessary to satisfy the obligations;
- 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 income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

3.19 Share capital

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

4. Significant accounting judgments and estimates

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

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

4. Significant accounting judgments and estimates (continued)

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 statement of comprehensive income.

4.3 Impairment of non-financial assets

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

4.4 Impairments of receivables

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

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

1. *Individual approach* – receivables from customers (consumers) exceeding UAH 50 thousand are analysed separately and, if necessary, provision is made individually for each debt. The amount of provision is calculated as a difference between the carrying value of accounts receivable and estimated future cash flows (including the amounts which may be received from guarantees and enforcement of pledge), discounted using interest rate of debtor at the date of receivables incurrence.
2. *Group approach* - receivables not exceeding UAH 50 thousand, are grouped, and turnover is analysed for the group as a whole, rather than on each individual debt separately. Based on the analysis of accounts receivable according to the previous reporting period data for the share of uncollectible receivables, interest is calculated for calculation of reserve for doubtful debt of current reporting period. Subsequently, to calculate the provision of doubtful debt of current reporting period, interest is applied to outstanding balance for the current period, less the amount of accounts receivable, provision for which is calculated on an individual basis.

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

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

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

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

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 utilisation of deferred tax assets be reduced, such reduction is to be recognised in statement of comprehensive income.

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

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 judgment 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 liquidity crisis which commenced in the middle of 2008 has resulted in, among others things, a lower level of capital market funding, lower liquidity levels across the banking sector, 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 and bank rescues in the United States of America, Western Europe, Russia, Ukraine and elsewhere. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against. Since September 2008, there has been increased volatility in currency markets and the Ukrainian Hryvna has depreciated significantly against some major currencies.

The volume of wholesale financing has significantly reduced since August 2008. 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.

The market in Ukraine for many types of real estate has been severely affected by the recent volatility in global financial markets. As such the carrying value of land and buildings measured at fair value has been updated to reflect market conditions at the reporting date. However, in certain cases, the absence of reliable market-based data has required the Group to amend its valuation methodologies.

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.

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

5. Property, plant and equipment

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

Initial value	Land	Buildings and structures	Machinery and equipment	Equipment for biological assets	Vehicles	Other equipment	Assets under construction-progress and uninstalled equipment	Total
As at 1 January 2009	3 595	110 106	21 868	65 479	3 840	6 181	169 713	380 782
Acquisitions	-	5 037	2 186	132	60	62	22 063	29 540
Replacement of components	-	1 766	257	102	16	24	-	2 165
Merger of entities under common control	-	-	1 501	-	-	18	-	1 519
Disposals	-	(64)	(3)	-	(27)	(6)	-	(100)
Foreign currency translation	(129)	(4 274)	(904)	(2 417)	(138)	(229)	(6 339)	(14 430)
Internal transfers	-	8 807	9	3 107	-	79	(12 002)	-
As at 31 December 2009	3 466	121 378	24 914	66 403	3 751	6 129	173 435	399 476
Accumulated depreciation								
As at 1 January 2009	-	3 189	1 014	6 285	513	1 517	-	12 518
Depreciation charges for year	-	3 441	1 546	5 898	499	901	-	12 285
Merger of entities under common control	-	-	6	-	-	1	-	7
Depreciation eliminated on disposal	-	(3)	-	-	(7)	(3)	-	(13)
Foreign currency translation	-	(199)	(74)	(368)	(30)	(76)	-	(747)
As at 31 December 2009	-	6 428	2 492	11 815	975	2 340	-	24 050
Net carrying value as at:								
31 December 2009	3 466	114 950	22 422	54 588	2 776	3 789	173 435	375 426

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

5. Property, plant and equipment (continued)

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

Initial value	Land	Buildings and structures	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
Additions		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
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		(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	3 237	18 932	1 632	696	-	36 678
Net carrying value as at:								
31 December 2010	3 477	145 683	11 564	68 503	2 723	717	163 569	396 236

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

5. Property, plant and equipment (continued)

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

	Carrying value of security as at 31 December 2010	Carrying value of security as at 31 December 2009
Buildings and structures	49 873	114 950
Machinery and equipment	1	22 422
Equipment for biological assets	933	54 588
Vehicles	213	2 776
Assets under construction in- progress and uninstalled equipment	-	173 435
	51 020	368 171

In 2010 the Group received government grants "Partial compensation of complex agricultural equipment cost" in the amount of USD 306 thousand (in 2009 - USD 312 thousand), (Note 35).

As at 31 December 2010 and 2009 net book value of property, plant and equipment which were acquired under finance leases amounted to USD 11 257 thousand and USD 11 522 thousand respectively. The residual amount of contractual commitments is presented in Note 25.

At each balance sheet date, the Group reviews the book values of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). As at 31 December 2010 and 31 December 2009 the recoverable amount was the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using discount rates of 22,00% as at 31 December 2010 and 2009. As a result, no impairment indicators were identified at 31 December 2010 and 31 December 2009.

6. Held to maturity financial assets

	31 December 2010	31 December 2009
VAT government bonds	257	-
Other long-term financial assets to no- related parties	38	40
	295	40

7. Biological assets

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

Non-current biological assets	Note	31 December 2010	31 December 2009
Replacement poultry	a)	59 078	21 546
		59 078	21 546
Current biological assets			
Commercial poultry	b)	44 700	44 850
Other biological assets	c)	5	60
		44 705	44 910

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

7. Biological assets (continued)

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

	31 December 2010		31 December 2009	
	Number, thousand head	Fair value	Number, thousand head	Fair value
Decalb	-	-	-	-
Isa Brown	-	-	-	-
Loman	3 092	16 515	331	1 947
Hy-Line	20 834	86 551	14 795	61 572
Hisex	297	570	350	2 115
Other	30	143	645	762
	24 253	103 779	16 121	66 396

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

As at 1 January 2009	56 571
Acquisitions	38 065
Increase in value as a result of increase in weight/number	30 082
Income from revaluation of biological assets at fair value	12 386
Changes in value of biological assets as a result of agricultural produce harvesting	<u>(4 691)</u>
<i>Net change in fair value</i>	7 695
Decrease in value resulting from assets disposal	(44 590)
Effect from translation into presentation currency	(4 822)
Other changes (1)	<u>(16 605)</u>
As at 31 December 2009 /1 January 2010	66 396
Acquisitions	55 638
Increase in value as a result of increase in weight/number	38 404
Income from revaluation of biological assets at fair value	28 371
Changes in value of biological assets as a result of agricultural produce harvesting	<u>(2 184)</u>
<i>Net change in fair value</i>	26 187
Decrease in value resulting from assets disposal	(54 885)
Effect from translation into presentation currency	70
Other changes (1)	<u>(28 031)</u>
As at 31 December 2010	103 779

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

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

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

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

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements FOR THE YEAR ENDED 31 DECEMBER 2010 (in USD thousand, unless otherwise stated)

8. Other non-current assets

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

	31 December 2010	31 December 2009
Prepayments for property, plant and equipment	60 071	16 273
Other non-current assets	357	357
	60 428	16 630

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

9. Taxes recoverable and prepaid

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

	Note	31 December 2010	31 December 2009
VAT settlements	a)	52 924	28 625
Other taxes prepaid		160	83
		53 084	28 708

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

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

10. Inventories

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

		31 December 2010	31 December 2009
Raw and basic materials	a)	165 826	72 877
Work-in-progress		1 192	1 935
Agricultural produce		5 915	884
Finished goods		5 681	9 958
Package and packing materials		4 329	3 262
Goods for resale		1 012	2 640
Other inventories		1 669	1 201
		185 624	92 757

For the years ended 31 December 2010 and 2009 the Group produced shell eggs in the quantity of 4 419 968 480 and 3 634 124 230 items respectively. The fair value produced shell eggs for the years ended 31 December 2010 and 2009 amounted to USD 245 080 thousand and USD 125 148 thousand respectively.

As at 31 December 2010, finished goods – inventory with a carrying value of USD 136 thousand (2009: USD 135 thousand) and also raw and basic materials with a carrying value of 197 thousand (2009: USD 196 thousand) were pledged as security for the Group's loans (Note 19).

As at 31 December 2010 grains in the amount of USD 75 621 thousand (489 673 ton) and fodder in the amount of USD 24 085 thousand (96 848 ton) were on the safe storage by the third parties.

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

AVANGARDCO INVESTMENTS PUBLIC LIMITED**Notes to the consolidated financial statements****FOR THE YEAR ENDED 31 DECEMBER 2010***(in USD thousand, unless otherwise stated)***11. Prepayments and other current assets**

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

	31 December 2010	31 December 2009
Prepayments	26 357	12 006
Provision for doubtful debts	b) (726)	(422)
Loans to related parties	a) 180	4 320
Commission receivable for acquisition of corporate rights	-	-
Interest receivable on deposits	10	39 411
Accounts receivable for bonds	-	-
Other non-trade accounts receivable	16 008	3 311
	41 829	58 626

- a) "Loans to related parties" include interest-free loans to related parties. The settlement term of the loans will be effected in accordance with the terms of respective loan agreements.
- b) Provision for doubtful debts has increased by USD 304 thousand.

12. Trade receivable

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

	31 December 2010	31 December 2009
Trade receivables-gross	54 801	47 600
Provision for doubtful debts	a) (123)	(280)
Trade receivables - net	54 678	47 320

As at 31 December 2010, USD 24 148 thousand or 44.2% of the total carrying value of trade accounts receivable is due from the single most significant debtor (as at 31 December 2009—see note 41, a)).

- a) Provision for doubtful debts has decreased by USD 157 thousand.

13. Cash and cash equivalents

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

	31 December 2010	31 December 2009
Cash in banks	182 949	1 493
Cash on hand	77	103
Cash in transit	39	105
Letter of credit in national currency	-	26
	183 065	1 727
Less restricted cash:		
Letter of credit in national currency	-	(26)
Cash to be represented in statement of cash flows	183 065	1 701

AVANGARDCO INVESTMENTS PUBLIC LIMITED

**Notes to the consolidated financial statements
FOR THE YEAR ENDED 31 DECEMBER 2010**
(in USD thousand, unless otherwise stated)

14. Long-term and short-term bank deposits.

Deposits as at 31 December 2010 and 31 December 2009 were as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Bank deposits (with maturity under 3 months)	-	-
Bank deposits (with maturity from 3 to 12 months)	-	155 917
Bank deposits (with maturity above 12 months)	-	504
	<u>-</u>	<u>156 421</u>

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

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

	<u>31 December 2010</u>	<u>31 December 2009</u>
Bank deposits (with maturity under 3 months)	-	-
Bank deposits (with maturity from 3 to 12 months)	-	16.0%
Bank deposits (with maturity above 12 months)	-	12.0%

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

15. Share capital, share premium, capital contribution reserve

	2010	2010	2010	2010
	Number of shares	Share capital	Share premium	Capital contribution reserve
Authorised				
Ordinary shares (1)	6 500 000	-	-	-
Issued and fully paid				
On 1 January 2010	5 000 000	644	-	115 858
Issue of shares (2)	1 387 185	192	201 164	-
Balance at 31 December 2010	6 387 185	836	201 164	115 858

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

(2) 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.

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

15. Share capital, share premium, capital contribution reserve (continued)

	2009	2009	2009	2009
	Number of shares	Share capital	Share premium	Capital contribution reserve
Authorised Ordinary shares	5 000 000	-	-	-
Issued and fully paid				
On 1 January 2009	5 000 000	644	-	-
Capital contribution (1)	-	-	-	115 858
Balance at 31 December 2009	5 000 000	644	-	115 858

(1) In the year ended 31 December 2009 the beneficial owner made an "Additional Capital Contribution" in the amount of USD 115 858 thousand, in his capacity as an owner. This transaction was carried out under a debt-for-equity swap agreement resulting in a contribution but no issue of shares.

16. Long-term loans

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

	Note	31 December 2010	31 December 2009
Long-term bank loans in national currency	a),b),c)	33 086	196 634
Long-term bank loans in foreign currency	a),b),c)	-	1 845
Total loans		33 086	198 479
Commodity credit	d)	1 113	1 110
		34 199	199 589
Current portion of bank loans in national currency (Note 20)		(3 200)	(112 652)
Current portion of bank loans in foreign currency (Note 20)		-	(962)
Total long-term loans		30 999	85 975

AVANGARDCO INVESTMENTS PUBLIC LIMITED
Notes to the consolidated financial statements
FOR THE YEAR ENDED 31 DECEMBER 2010
(in USD thousand, unless otherwise stated)

16. Long-term loans (continued)

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

	<u>31 December 2010</u>	<u>31 December 2009</u>
Under a year (current portion) (Note 20)	3 200	113 614
From 1 to 2 years	1 550	51 278
From 2 to 3 years	28 336	-
From 3 to 4 years		33 587
From 4 to 5 years		-
Above 5 years		-
	<u>33 086</u>	<u>198 479</u>

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

	<u>31 December 2010</u>	<u>31 December 2009</u>
Long-term bank loans in UAH	33 086	196 634
Long-term bank loans in CHF	-	1 845
	<u>33 086</u>	<u>198 479</u>

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

	<u>31 December 2010</u>	<u>31 December 2009</u>
Long-term bank loans denominated in UAH	17%-23%	16.0%-23.0%
Long-term bank loans denominated in CHF		9.0%

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

d) Commodity credit is represented by a liability of the Group's companies, such as OJSC "Volnovahskyi Kombinat Khilboproduktiv" and OJSC "Ptakhoospodarstvo Chervonyi Prapor" for an interest-free budget loan received in the years 1995-1998 for the acquisition of agricultural products under a Government contract. This loan is subject to repayment and, according to Ukrainian laws, is set equal to compulsory payments in the State budget of Ukraine, applying sanctions stipulated by the laws with regard to late payment of taxes and making of non-tax payments.

17. Long-term bond liabilities

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

	<u>31 December 2010</u>	<u>31 December 2009</u>
Par value	200 000	-
Discount on issued bonds	(6 529)	-
	<u>193 471</u>	<u>-</u>
	<u>31 December 2010</u>	<u>31 December 2009</u>
Coupon payable	<u>3 461</u>	<u>-</u>

On 29 October 2010, the Company launched 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.

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

17. Long-term bond liabilities (continued)

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 Torgivelnii Budynok Bohodukhivska Ptahofabryka, (4) CJSC Chernivetska Ptakhofabryka, (5) OJSC Ptakhohospodarstvo Chervonyi Prapor, (6) APP CJSC Chornobaivske, (7) CJSC Avangard, (8) ALLC Donetska Ptakhofabryka, (9) SC Gorodenkivska Ptakhofabryka, (10) LLC Imperovo Foods, (11) PSPC Interbusiness, (12) SC Rohatynska Ptahofabryka, (13) SC Ptakhofabryka Lozuvatska, (14) LLC PF Volnovaska, (15) PJSC Cross P/F Zorya.

18. Short-term loans

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

	Note	31 December 2010	31 December 2009
Short-term bank loans in national currency	a),b),c)	292	23 741
Short-term bank loans in foreign currency	a),b),c)	725	725
Interest free loans	d)	19	8 535
		1 036	33 001

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

	31 December 2010	31 December 2009
under 3 months	1 017	975
from 3 to 6 months	-	11 151
from 6 to 12 months	-	12 340
	1 017	24 466

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

	31 December 2010	31 December 2009
Short-term bank loans in UAH	292	23 741
Short-term bank loans in USD	725	725
	1 017	24 466

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

	31 December 2010	31 December 2009
Short-term bank loans denominated in UAH	25%-29%	10.25%-28.0%
Short-term bank loans denominated in USD	17.0%	17.0%

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

d) As at 31 December 2010 and 31 December 2009 interest-free loans received under financial assistance contracts amounted to USD 20 000 and USD 8 535 respectively, with contracts not exceeding a year from the reporting date.

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

19. Security

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

	31 December 2010	31 December 2009
Buildings and structures	49 873	114 950
Machinery and equipment	1	22 422
Equipment for biological assets	933	54 588
Vehicles	213	2 776
Assets under construction-in-progress and uninstalled equipment	-	173 435
<i>Property, plant and equipment, total</i>	<u>51 020</u>	<u>368 171</u>
Inventories	333	331
Biological assets	3 741	3 227
Personal investment certificates	-	-
Bank deposits	-	156 421
	<u>55 094</u>	<u>528 150</u>

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

20. Current portion of non-current financial liabilities

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

	Note	31 December 2010	31 December 2009
<i>Trade and other payables</i>			
Deferred income (current portion)	35, c)	305	304
<i>Financial liabilities</i>			
Current portion of finance lease liabilities	25	678	1 714
VAT included in current portion of finance lease liabilities	25	136	343
Current portion of bank loans in national currency	16a)	3 200	112 652
Current portion of bank loans in foreign currency	16a)	-	962
		<u>4 319</u>	<u>115 975</u>

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

21. Deferred tax assets and liabilities

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

Influence of temporary differences on deferred tax assets

	<u>31 December 2010</u>	<u>31 December 2009</u>
Advances received	44	321
Intangible assets	1	1
Provisions	30	37
Total deferred tax assets	<u>75</u>	<u>359</u>
Influence of temporary differences on deferred tax liabilities		
Advances issued to suppliers	(22)	(527)
Property, plant and equipment, non-current assets	(1 109)	(775)
Deferred expenses	(54)	-
Low-value items	-	-
Total deferred tax liabilities	<u>(1 185)</u>	<u>(1 302)</u>
Net deferred tax liabilities	<u><u>(1 110)</u></u>	<u><u>(943)</u></u>

Principal components of income tax expense

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

	<u>2010</u>	<u>2009</u>
Current income tax	(54)	(19)
Deferred tax	(200)	(1 149)
	<u>(254)</u>	<u>(1 168)</u>

Reconciliation of deferred tax liabilities

	<u>2010</u>	<u>2009</u>
Balance as at 1 January	<u>(943)</u>	<u>180</u>
Deferred income/ (expenses) for income tax for the reporting period	(254)	(1 168)
Effect from translation into presentation currency	87	45
Balance as at 31 December	<u><u>(1 110)</u></u>	<u><u>(943)</u></u>

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

21. Deferred tax assets and liabilities(continued)

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

	<u>2010</u>	<u>2009</u>
Profit / (loss) before tax	185 011	134 837
Less profit / (loss) of the companies being fixed agricultural tax payers	(181 813)	(126 247)
	<u>3 198</u>	<u>8.590</u>
Profit / (loss) of the companies being income tax payers at the rate 10%	(2 049)	93
Profit / (loss) of the companies being income tax payers at the rate 25%	5247	8 497
	<u>3 198</u>	<u>8 590</u>
Income (loss) tax, taxable at the rate of 10%	205	(9)
Income (loss) tax, taxable at the rate of 25%	(1 312)	(2 124)
Expenses not included in gross expenses for income tax	853	965
Profit / (loss) for income tax	<u>(254)</u>	<u>(1 168)</u>

As at 1 January 2009

Income tax accrued for the period	(19)
Income tax paid for the period	49
Effect from translation into presentation currency	(0)
As at 31 December 2009 / 1 January 2010	<u>35</u>
Income tax accrued for the period	(54)
Income tax paid for the period	34
Effect from translation into presentation currency	(8)
As at 31 December 2010	<u>7</u>

The income tax payers in 2010 and 2009 were the following companies: LLC "Rohatyn-Korm", OJSC "Vuhlelhirskiy Ekspermentalnyi Kombikormoviy Zavod", OJSC "Volhovatskiy Kombinat Khiboproductiv", LLC "Kamyanets-Podilsky Kombikormoviy Zavod", LLC "Pershe Travnya Kombikormoviy Zavod", and LLC, "ImperovoFoods". All other companies of the Group were payers of the fixed agricultural tax.

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

22. Trade payables

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

	<u>31 December 2010</u>	<u>31 December 2009</u>
Trade payables	20 980	65 893
Short-term notes issued a)	2 211	2 126
	<u>23 191</u>	<u>68 019</u>

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

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

23. Accrued expenses

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

	31 December 2010	31 December 2009
Accrued expenses for future employee benefits	1 182	1 139
Other accrued expenses	126	139
	1 308	1 278

24. Other current liabilities and accrued expenses

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

	31 December 2010	31 December 2009
Wages and salaries and related taxes liabilities	2 815	2 858
Other taxes and compulsory payments liabilities a)	3 958	132
Accounts payable for property, plant and equipment	6 728	12 847
Advances received from customers b)	11 972	108 395
Interest payable	2 665	8 331
Accrued coupon on bonds	5 727	2 055
Other payables	6 337	7 421
	40 202	142 039

- a) Other taxes and compulsory payments liabilities mainly comprises of liabilities for VAT and community charges.
 b) Advances received from customers consist of prepayments for the sale of agriculture products and finished goods from buyers. The decrease in advances from customers is related to the investors' requirements to minimize transactions with related parties (Note 37).

25. Finance lease liabilities

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

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

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

25. Finance lease liabilities (continued)

	Minimum lease payments	VAT included in minimum lease payments	Current value of minimum lease payments	VAT included in current value of minimum lease payments
Amounts payable for Finance lease as at 31 December 2010:				
Within a year	1 332	136	678	136
From one to five years	6 253	1 062	5 310	1 062
Above 5 years				
	7 585	1 198	5 988	1 198
Less: financial expenses of future periods	(1 597)	-	-	-
Current value of lease liabilities	5 988	1 198	5 988	1 198
Less: amount to be paid within a year	-	-	(678)	(136)
Amount to be paid after a year	-	-	5 310	1 062

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

	31 December 2010	31 December 2009
Equipment for biological assets	11 143	9 677
Vehicles	62	71
Assets under construction-in-progress and uninstalled equipment	-	1 696
Other equipment	52	78
	11 257	11 522

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 2009 and 31 December 2010. Finance lease agreements do not provide the possibility of changing the initial terms of agreements.

26. Short-term bond liabilities

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

	31 December 2010	31 December 2009
Nominal value	25 120	24 249
Discount on bonds issued	-	-
	25 120	24 249
	31 December 2010	31 December 2009
Bonds coupon payable	2 266	2 055

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

26. Short-term bond liabilities (continued)

As at 31 December 2010 current liabilities for bonds were presented as liabilities for A-type bonds with nominal value of USD 25 974 thousand, which was equivalent to UAH 200 000 thousand, issued by CJSC "Avangard" 2 July 2008. Those bonds were issued in book-entry form in number of 200 000 items. The bonds issue was secured by SC "Zorya, LLC Cross-PF Zorya", LLC "Cross-PF Zorya", OJSC "Ptakhohospodarstvo Chervonyi Prapor", SC "Ptakhofabryka Lozuvatska", SC "Ptakhofabryka Chervonyi Prapor Poultry Farm, of OJSC Ptakhohospodarstvo Chervoniy Prapor", OJSC "Volnovaskyi Kombinat Khiboprodyktiv", OJSC "Vuhlehirskiy Eksperementalnyy Kombikormoviy 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 "Kamyans-Podilsky Kombikormoviy Zavod", OJSC "Kirovskiy", LLC "Slovyany", OJSC "Ptakhofabryka Pershe Travnya", SC "Ptakhohospodarstvo Yuzhnaya Holding of LLC Yuzhnaya Holding", LLC "Yuzhnaya Holding", LLC "Areal-Snigurivka". The Guarantors are fully responsible for the issuer's liabilities to bond holders.

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

27. Revenue

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

	2010	2009
Revenue from finished goods	427 292	318526
Revenue from goods and services sold/rendered	12 411	1 329
	<u>439 703</u>	<u>319 855</u>

For the year ended 31 December 2010 USD 99 088 thousand or 22.5% from the Group's revenue is referred to the sales transactions carried out with one of the Group's clients (for 2009– note 41, a)).

28. Cost of sales

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

	Note	2010	2009
Cost of finished goods sold	29	(293 318)	(215 883)
Cost of goods and services sold/rendered		(14 826)	(4 524)
		<u>(308 144)</u>	<u>(220 407)</u>

AVANGARDCO INVESTMENTS PUBLIC LIMITED**Notes to the consolidated financial statements****FOR THE YEAR ENDED 31 DECEMBER 2010***(in USD thousand, unless otherwise stated)***29. Cost of sales by elements**

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

	Note	<u>2010</u>	<u>2009</u>
Raw materials		(249 235)	(174 827)
Payroll of production personnel and related taxes	36	(16 394)	(14 953)
Depreciation	5	(12 165)	(11 641)
Services provided by third parties (1)		(14 949)	(14 365)
Other expenses		(575)	(97)
		<u>(293 318)</u>	<u>(215 883)</u>

(1) This item consist of expenses for electricity, gas, water, current repairs of production premises, sanitary cleaning services, veterinary services and other.

30. General administrative expenses

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

	Note	<u>2010</u>	<u>2009</u>
Salaries and wages of administrative personnel	36	(3 254)	(2 889)
Services provided by third parties		(3 122)	(1 216)
Depreciation	5	(98)	(144)
Repairs and maintenance costs		(43)	(44)
Tax expenses, except for income tax		(293)	(252)
Material usage		(267)	(271)
Other expenses		(91)	(117)
		<u>(7 168)</u>	<u>(4 933)</u>

31. Distribution expenses

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

	Note	<u>2010</u>	<u>2009</u>
Salaries and wages of distribution personnel	36	(1 478)	(1 015)
Transport expenses		(2 531)	(864)
Depreciation	5	(373)	(499)
Services provided by third parties		(126)	(319)
Packing materials		(305)	(128)
Repairs and maintenance costs		(27)	(27)
Other expenses		(218)	(234)
		<u>(5 058)</u>	<u>(3 086)</u>

AVANGARDCO INVESTMENTS PUBLIC LIMITED**Notes to the consolidated financial statements
FOR THE YEAR ENDED 31 DECEMBER 2010**
*(in USD thousand, unless otherwise stated)***32. Other operating expenses**

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

	Note	2010	2009
Loss from disposal of current assets		(126)	(890)
Income/(loss) from disposal of noncurrent assets		(56)	(90)
Impairment of current assets		(259)	(1 571)
Losses on exchange		(163)	(672)
Other expenses		(433)	(69)
Fines, penalties recognized		(1 188)	(1049)
Other income/(expenses)		(2 676)	768
		(4 901)	(3 573)

For the year ended 31 December 2009 the item "Income received from waiver of amounts due to related parties in the amount of USD 22 525 thousand resulted from the waiver of debt due to related parties (Note 37).

33. Finance costs

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

	2010	2009
Interest payable on loans	(34 587)	(60 025)
Capitalised interest	16 727	17 382
Total financial expenses on loans	(17 860)	(42 643)
Financial expenses on finance lease	(4 014)	(1 216)
Financial expenses on bonds (interest)	(7 939)	(2 259)
Other financial expenses	(135)	(32)
	(29 948)	(46 150)

34. Finance income

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

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

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

	Note	2010	2009
Partial compensation of interest for loans received by agro-industrial enterprises from financial institutions	a)	16 951	6 261
VAT for development of poultry keeping	b)	233	2 855
Amortization of deferred income on government grants	c)	306	312
Other grants	d)	14	12
		17 504	9 440

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

35. Income from government grants and incentives (continued)

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

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

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

b) *VAT for development of poultry keeping*

The following regime for VAT compensation for poultry keeping was effective until 1 January 2009.

c) *Partial compensation of complex agricultural equipment cost*

Enterprises of the Group received partial compensation of complex agricultural equipment cost during the years 2004-2010 according to Ukrainian laws. The total amount of 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. The deferred income is amortised over the estimate useful life of the relevant asset (generally 25 years) and the amortisation is reflected in above table.

d) *Other grants*

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

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

	Note	2010	2009
Income from special VAT treatment		21 910	12 291
Total		21 910	12 291

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

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

All members of the Group that met the criteria for the use of these VAT benefits except: (LLC Rohatyn-Korm, LLC Kamyanyts-Podilsky Kombikormoviy Zavod, OJSC Vuhlehirskyi Eksperementalny Kombikormoviy Zavod, OJSC Volnovaskyi Kombinat Khiboprodiktiv, LLC Pershe Travnja Kombikormoviy Zavod, LLC Imperovo Foods).

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

36. Payroll and related taxes

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

	<u>2010</u>	<u>2009</u>
Salary	(15 423)	(14 461)
Contributions to pension fund	(5 197)	(3 912)
Other contributions	(506)	(484)
	<u>(21 126)</u>	<u>(18 857)</u>

	Note	<u>2010</u>	<u>2009</u>
Payroll of production personnel and related taxes	29	(16 394)	(14 953)
Salaries and wages of administrative personnel	30	(3 254)	(2 889)
Salaries and wages of distribution personnel	31	(1 478)	(1 015)
		<u>(21 126)</u>	<u>(18 857)</u>

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

	<u>2010</u>	<u>2009</u>
Average number of employees, persons	<u>4 855</u>	<u>4 978</u>

37. Related party balances and transactions

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

The Company is controlled by Mr Oleg Bakhmatyuk, who directly or indirectly owns 100% of the Company's share capital as at 31 December 2009.

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

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

- A. Key management;
- 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.

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

	<u>31 December 2010</u>	<u>31 December 2009</u>
Salary	1 952	932
Contributions to pension funds	576	244
Other contributions	62	31
	<u>2 590</u>	<u>1 207</u>

Number of top management personnel for the years ended 31 December 2010 and 31 December 2009 was as follows:

	<u>2010</u>	<u>2009</u>
Number of top management personnel, persons	<u>182</u>	<u>122</u>

AVANGARDCO INVESTMENTS PUBLIC LIMITED
Notes to the consolidated financial statements
FOR THE YEAR ENDED 31 DECEMBER 2010
(in USD thousand, unless otherwise stated)

37. Related party balances and transactions (continued)

Outstanding amounts of the Group for transactions with related parties as at 31 December 2010 and 31 December 2009 were as follows:

	Outstanding balances with related parties	
	As at 31 December 2010	As at 31 December 2009
<i>Other non-current assets:</i>		
B. Companies having the same top management;	-	-
D. Companies which activities are significantly influenced by the Group's owners.	-	1 286
		1 286
<i>Other current asset:</i>		
B. Companies having the same top management;	-	2
C. Companies in which the Group's owners have an equity interest;	279	1 957
D. Companies which activities are significantly influenced by the Group's owners.	341	46 475
	620	48 434
<i>Trade accounts receivable:</i>		
C. Companies in which the Group's owners have an equity interest;	200	8 181
D. Companies which activities are significantly influenced by the Group's owners.	23	33 319
	223	41 500
<i>Cash and cash equivalents:</i>		
D. Companies which activities are significantly influenced by the Group's owners.	4 312	1 413
	4 312	1 413

AVANGARDCO INVESTMENTS PUBLIC LIMITED
Notes to the consolidated financial statements
FOR THE YEAR ENDED 31 DECEMBER 2010
(in USD thousand, unless otherwise stated)

37. Related party balances and transactions (continued)

	Outstanding balances with related parties	
	As at 31 December 2010	As at 31 December 2009
Deposits:		
D. Companies which activities are significantly influenced by the Group's owners.	-	155 917
		155 917
Long-term loans:		
D. Companies which activities are significantly influenced by the Group's owners.	-	162 884
		162 884
Short-term loans:		
B. Companies having the same top management;	-	-
C. Companies in which the Group's owners have an equity interest;	-	346
D. Companies which activities are significantly influenced by the Group's owners.	-	26 437
	-	26 783
Trade accounts payable:		
B. Companies having the same top management;	-	7
C. Companies in which the Group's owners have an equity interest;	1 162	3 725
D. Companies which activities are significantly influenced by the Group's owners.	985	16 548
	2 147	20 280
Other current liabilities		
B. Companies having the same top management;	-	23
C. Companies in which the Group's owners have an equity interest;	1 290	10 404
D. Companies which activities are significantly influenced by the Group's owners. (1)	105	98 785
	1 395	109 212

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

AVANGARDCO INVESTMENTS PUBLIC LIMITED
Notes to the consolidated financial statements
FOR THE YEAR ENDED 31 DECEMBER 2010
(in USD thousand, unless otherwise stated)

37. Related party balances and transactions (continued)

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

	Transactions with related parties for the year ended	
	31 December 2010	31 December 2009
<i>Sales revenue:</i>		
B. Companies having the same top management;	-	-
C. Companies in which the Group's owners have an equity interest;	30 420	14 413
D. Companies which activities are significantly influenced by the Group's owners.	66 895	83 507
	97 315	97 920
<i>General administrative expenses:</i>		
B. Companies having the same top management;	-	(66)
C. Companies in which the Group's owners have an equity interest;	(4)	-
D. Companies which activities are significantly influenced by the Group's owners.	(64)	-
	(68)	(66)
<i>Distribution expenses:</i>		
C. Companies in which the Group's owners have an equity interest;	(12)	-
D. Companies which activities are significantly influenced by the Group's owners.	(872)	-
	(884)	-
<i>Other operating income/(expenses), net:</i>		
B. Companies having the same top management;	-	(18)
C. Companies in which the Group's owners have an equity interest;	39	80
D. Companies which activities are significantly influenced by the Group's owners.	72	(30)
	111	32
<i>Waiver of amounts due to related parties:</i>		
D. Companies which activities are significantly influenced by the Group's owners.	869	22 525
	869	22 525

AVANGARDCO INVESTMENTS PUBLIC LIMITED
Notes to the consolidated financial statements
FOR THE YEAR ENDED 31 DECEMBER 2010
(in USD thousand, unless otherwise stated)

37.Related party balances and transactions (continued)

Transactions with related parties for the year ended 31 December 2010

	31 December 2010	31 December 2009
Finance income:		
D. Companies which activities are significantly influenced by the Group's owners.	31 356	40 472
	31 356	40 472
Finance cost:		
D. Companies which activities are significantly influenced by the Group's owners.	27 095	41 510
	27 095	41 510

37.1 Acquisitions of subsidiaries

On 1 July 2009 the Group acquired from a third party a 100.0% interest in LLC Imperovo Foods, eggs processing company. The transaction was accounted for under the purchase method of accounting. The Group's effective ownership interest in LLC Imperovo Foods upon the acquisition and as of 31 December 2009 was equal to 100.0%.

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

	Fair value	Book value
Property, plant and equipment, net	1 512	1 451
Inventories	45 121	45 121
Deferred tax assets	22	22
Prepayments and other current assets	47 490	47 490
Trade accounts receivable	17 279	17 279
Cash and cash equivalents	32	32
Total assets	111 456	111 395
Short-term loans	(88 668)	(88 668)
Trade accounts payable	(9 431)	(9 431)
Other current liabilities	(13 986)	(13 986)
Total liabilities	(112 085)	(112 085)
Net liabilities acquired	(629)	(690)
Non-controlling interest	-	-
The value of acquired net assets	(629)	-
Goodwill	634	-
Total amount paid for investments	(5)	-
Cash and cash equivalents acquired	32	-
Net cash inflow arising on the acquisition	27	-

As at 1 July 2009 the item "Short-term loans" amounting to USD 88 668 thousand represented as interest free loans received from related parties.

The amount of revenue and profit of LLC Imperovo included in the results of the Group since acquisition are USD 26 307 thousand and USD 195 thousand respectively. If the Group had acquired LLC Imperovo Foods on 1 January 2009 the revenue of the Group would have amounted to USD 377 669 thousand, and Group's profit would have been USD 134 097 thousand and earnings for the year per share would have been equal to USD 26, 82.

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

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 statements.

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

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

	Shell egg	Poultry	Animal feed	Egg products	Other activities	Unallocated group balances	Adjustments and elimination	Total
Sales revenue	255 819	42 891	68 658	26 758	4044	-	-	398 170
Intra-group elimination	(15 233)	(5 145)	(53 143)	(4 794)	-	-	-	(78 315)
Revenue from external buyers	240 586	37 746	15 515	21 964	4 044	-	-	319 855
Income from revaluation of biological assets at fair value	678	7 017	-	-	-	-	-	7 695
Other operating income/(expenses)	(2 695)	(667)	(343)	-	132	-	-	(3 573)
Income from government grants and incentives	7 346	721	1 373	-	-	-	-	9 440
OPERATING PROFIT/(LOSS)	98 900	17 515	3 378	17 351	3 250	-	(587)	139 807
Finance income	35 661	2 010	3 503	6	-	-	-	41 180
Finance cost, including:	(32 368)	(3 050)	(10 732)	-	-	-	-	(46 150)
Interest payable on loans	(28 863)	(3 048)	(10 731)	-	-	-	-	(42 642)
Income tax expense	-	-	(1 225)	57	-	-	-	(1 168)
NET PROFIT/(LOSS) FOR THE PERIOD	102 193	16 475	(5 076)	17 414	3 250	-	(587)	133 669
TOTAL ASSETS	739 771	59 970	52 052	18 493	2 451	40	(28 631)	844 146
Capitalised expenses	29 498	25	17	-	-	-	-	29 540
Depreciation	11 011	1 095	175	4	-	-	-	12 285
TOTAL LIABILITIES	417 346	29 906	58 337	5 610	709	-	(28 317)	483 591

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

38. Business segments (continued)

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

	Shell egg	Poultry	Animal feed	Egg products	Other activities	Unal- located group balances	Adjust- ments and elimi- nation	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
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)
<i>including:</i>								
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)	332 809

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

39. Earnings per share

Earnings per share is the profit for the year after taxation divided by the weighted average number of shares in issue for each year. There are no options or instruments convertible into new shares and so basic and diluted earnings per share are the same. The earnings per share are shown under the consolidated statement of comprehensive income.

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 unfavorable changes in political and economical environment.

Taxation

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

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

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

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

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 2010 and 31 December 2009 the Group had no liabilities for any supplementary pension payments, health care, insurance or other benefits after retirement to their working or former employees.

Legal matters

In the course of its economic activities the Group is involved in legal proceedings with third parties. In most cases, the Group is the initiator of proceedings with the purpose of prevention or mitigating of economic losses.

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

Operating lease

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

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

40. Contingent and contractual liabilities (continued)

For the year ended 31 December 2010 lease payments were equal to USD 570 thousand (UAH 4 527 thousand).

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 stated in the agreement. The term is three years to November 2012.

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

41. Financial risk management

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

The Group is exposed to the following risks resulting from use of financial instruments: credit risk, liquidity risk and market risk (including foreign currency risk and interest rate risk of fair value). This explanation contains information relating to the Group's exposure to each of the risk types mentioned above, 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 33, 34 (all finance income and expenses are recognised as a part of profit or loss for the period, other than interest capitalised which is allocated to the cost of the relevant asset);
- information on cash is disclosed in Note 13;
- information on trade and other accounts receivable is disclosed in Notes 11, 12;
- information on investments held-to-maturity is disclosed in Note 6;
- information on trade and other accounts payable is disclosed in Notes 22, 23, 24;
- information on significant terms of borrowings and loans granting is disclosed in Notes 16, 17, 18, 19;
- information on timing and terms of effective contracts for finance lease is disclosed in Note 25;
- information on significant conditions of issued bonds is disclosed in Note 17, 26.

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), financial assistance issued, prepayments for bonds, bank deposits.

AVANGARDCO INVESTMENTS PUBLIC LIMITED

**Notes to the consolidated financial statements
FOR THE YEAR ENDED 31 DECEMBER 2010**
(in USD thousand, unless otherwise stated)

41. Financial risk management(continued)

Exposure to credit risk

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

Financial assets	31 December 2010	31 December 2009
<i>Loans and accounts receivable</i>		
Cash and cash equivalents	183 065	1 727
Long-term deposits	-	504
Short-term deposits	-	155 917
Trade accounts receivable, net	54 678	47 320
Loans to related parties	180	4 320
Interest receivable for deposits	10	39 411
	237 933	249 199
<i>Held-to-maturity investments</i>		
VAT government bonds	257	-
Other long-term financial assets to no-related parties	38	40
	295	40
Total	238 228	249 239

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

The Group's exposure to credit risk regarding trade accounts receivable is primarily dependent on specific characteristics of each client. The Group's policy for credit risk management provides systematic work with debtors, which includes: analysis of solvency, determination of maximum amount of risk related to one customer or a group of customers and control over timeliness of debt repayment. The majority of Group's clients are longstanding clients, there were no significant losses during 2010 and 2009 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 2010 USD 99 088 thousand or 22.5% of Group's sales revenue is related to sales transactions, realised with one client of the Group. As at 31 December 2010 USD 24 184 thousand or 44.2 % of trade accounts receivable relates to one customer.

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

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

31 December 2010:	0-30 days	31-60 days	61-90 days	91-120 days	121-180 days	181-365 days	over one year	TOTAL
Carrying value of trade accounts receivable	29 190	45	670	300	5 286	18 969	218	54 678
31 December 2009:	0-30 days	31-60 days	61-90 days	91-120 days	121-180 days	181-365 days	over one year	TOTAL
Carrying value of trade accounts receivable	10 080	11 471	1 268	1 289	5 678	16 620	914	47 320

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

41. Financial risk management (continued)

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

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

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

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

41. Financial risk management(continued)

	Carrying value	Less than 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
31 December 2009:					
Bank deposits	156 421	-	155 917	504	-
Trade accounts receivable	47 320	47 320	-	-	-
Loans to related parties	4 320	4 320	-	-	-
Cash and cash equivalents	1 727	1 727	-	-	-
Other nontrading accounts receivable	3 311	3 311	-	-	-
Interest receivable for deposits	39 411	39 411	-	-	-
Accounts receivable under commission contract	-	-	-	-	-
Bank loans (including overdrafts)	(222 945)	(974)	(137 106)	(84 864)	-
Trade accounts payable	(68 019)	(68 019)	-	-	-
Loans from related parties	(8 535)	-	(8 535)	-	-
Finance lease (including VAT)	(8 199)	-	(2 057)	(6 142)	-
Current liabilities for bonds	(24 249)	-	(24 249)	-	-
Accounts payable for property, plant and equipment	(12 847)	-	(12 847)	-	-
Interest payable	(8 331)	(8 331)	-	-	-
Bonds coupon profit payable	(2 055)	(2 055)	-	-	-
Other accounts payable	(7 421)	(7 421)	-	-	-
	(110 091)	9 289	(28 877)	(90 502)	-

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

41. Financial risk management(continued)

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.

Exposure to foreign currency risk

The Group's exposure to foreign currency risk and the amount in local currency (UAH) as at 31 December 2010 based on carrying amounts was as follows:

	USD	EUR	CHF	UAH	TOTAL
<i>(in conversion to USD thousand)</i>					
Long-term bond liabilities	193 471	-	-	-	193 471
Short-term bank loans (including overdrafts)	725	-	-	292	1 017
Trade accounts payable	1 200	282	-	19 498	20 980
Accounts payable for property, plant and equipment	-	1 257	-	5 471	6 728
Advances received	-	11 036	-	936	11 972
Prepayments made	(19)	(190)	-	(26 147)	(26 356)
Net exposure to foreign currency risk	195 377	12 385	-	50	207 812

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

	USD	EUR	CHF	UAH	TOTAL
<i>(in conversion to USD thousand)</i>					
Long-term bank loans	-	-	1 845	196 634	198 479
Short-term bank loans (including overdrafts)	725	-	-	23 741	24 466
Trade accounts payable	1 346	268	-	66 405	68 019
Accounts payable for property, plant and equipment	-	1 365	-	11 482	12 847
Net exposure to foreign currency risk	2 071	1 633	1 845	298 262	303 811

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010*(in USD thousand, unless otherwise stated)***41. Financial risk management(continued)****ii) Sensitivity analysis (foreign currency risk)**

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

Effect in USD thousand:	Increase in currency rate against UAH	Effect on profit before tax
31 December 2010		
USD	15%	(29 307)
EUR	10%	(1 239)
CHF	10%	-

Effect in USD thousand:	Increase in currency rate against UAH	Effect on profit before tax
31 December 2009		
USD	15%	(311)
EUR	10%	(163)
CHF	10%	(185)

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.

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

41. Financial risk management(continued)

Structure of interest rate risk

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

	31 December 2010	31 December 2009
Instruments with fixed interest rate		
Financial assets	-	156 421
Financial liabilities	(252 694)	(247 194)
Instruments with variable interest rate		
Financial assets	-	-
Financial liabilities	(7 185)	(8 199)

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

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 2010 and 31 December 2009, the following methods and assumptions were used by the Group to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

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

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

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

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

Application of the effective interest rate method for calculating 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.

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

41. Financial risk management(continued)

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 balance sheet plus the amount of net debt.

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

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

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

AVANGARDCO INVESTMENTS PUBLIC LIMITED

**Notes to the consolidated financial statements
FOR THE YEAR ENDED 31 DECEMBER 2010**

(in USD thousand, unless otherwise stated)

41. Financial risk management(continued)

As at 31 December 2010 and 31 December 2009 the Group's financial leverage coefficient made up 9.4% and 29.5% respectively.

	Note	Carrying value	
		31 December 2010	31 December 2009
Short-term loans		1 036	33 001
Long-term loans		30 999	85 975
Current portion of long-term loans		3 200	113 615
Long-term finance lease (including VAT)		7 185	8 199
Long-term bond liabilities		193 471	-
Current portion of non-current liabilities for finance lease (including VAT)		-	-
Short-term bond liabilities		25 120	24 249
Total amount of borrowing costs		261 011	265 039
Cash and cash equivalents		183 065	1 727
Deposits		-	156 421
Financial assistance issued		180	4 320
Net debt		77 766	102 571
Share capital		836	644
Share premium		317 022	
Retained earnings		482 328	300 107
Effect from translation into presentation currency		(64 586)	(64 137)
Minority interest		10 620	8 083
Total equity		746 220	244 697
Total amount of equity and net debt		823 986	347 268
Financial leverage coefficient		9,4%	29,5%

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

	2010	2009
PROFIT/(LOSS) FOR THE PERIOD	184 758	133 669
Income tax income/expenses	254	1 168
Financial income	(34 058)	(41 180)
Financial expenses	29 948	46 150
EBIT (earnings before interest and income tax)	180 902	139 807
Depreciation	12 637	12 285
EBITDA (earnings before interest, income tax, depreciation and amortisation)	193 539	152 092
Net debt at the year end	77 766	102 571
Net debt at the year end / EBITDA	0,4	0,7

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

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(in USD thousand, unless otherwise stated)

41. Financial risk management(continued)

f) Livestock diseases risk

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

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

Since obtaining independence in 1991, Ukraine has undergone substantial political transformation from a constituent republic of the former Soviet Union to an independent sovereign state and has been progressively developing into a market economy. Although substantial progress has been made since independence in reforming Ukraine's economy, along with the country's political and judicial systems to some extent, Ukraine still lacks the necessary legal infrastructure and regulatory framework essential to support market institutions, effective transition to a market economy and broad-based social and economic reforms. Conditions for the Ukrainian economy have been extremely unstable during the course of 2009 and this instability has continued into 2010. Despite signs of stabilisation, major concerns remain over the performance of the Ukrainian economy at a macro level. The economy has remained very energy intensive and is still insufficiently diversified, with exports remaining centered 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 balance sheet date

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

Independent Auditor's Report on pages 7 to 8.