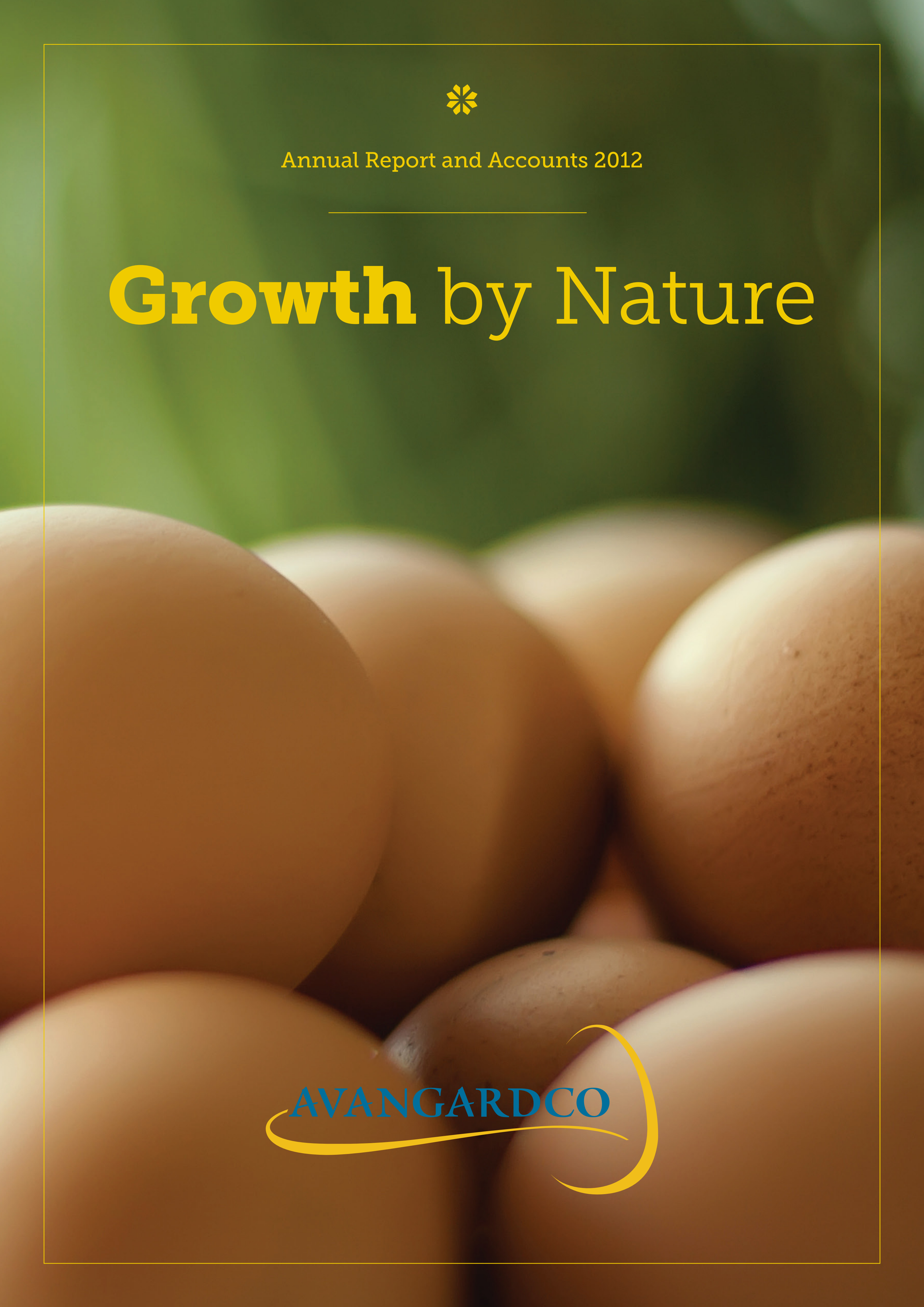
Annual Report and Accounts 2012

Growth by Nature



AVANGARDCO

AVANGARDCO IPL at a **glance**

AVANGARDCO IPL is a global leader in the production and processing of chicken eggs based in Ukraine. A dominant player in its home market, the Company has achieved considerable progress in promoting business to foreign markets.

AVANGARDCO IPL makes extensive use of innovations and state-of-the-art technologies to manage both operations and risk.

The global market for chicken eggs continues to demonstrate double-digit growth, which is largely driven by emerging markets.

As global demand continues to grow, the supply landscape is undergoing ground-breaking transformations as key exporters from the emerging world increasingly choose home market expansion over exports to fully benefit from their domestic growth, thus freeing up market space for the likes of Ukraine.

AVANGARDCO IPL will continue to grow by benefiting from both sources of global growth, consumption growth and the shifts in the global supply landscape favourable to Ukraine and the Company. Despite the fact that Ukraine's home market is close to saturation, as measured by per capita consumption, the domestic growth of AVANGARDCO IPL will not discontinue as consolidation within the industry takes hold and as households continue their exodus from the market.

The core strategy of AVANGARDCO IPL, therefore, is to continue growing both globally and domestically by capitalising on its unrivalled scale, technology, vertical integration and cost leadership achieved in no small part by successfully leveraging Ukraine's comparative advantage in cheap feed. It is only natural that the Company should seek to embrace this growth, which comes as *Growth by Nature.*

Growth by nature

Flock size:
27.5 million hens
(22.8 million laying hens)

Output:
6.3 billion eggs

Number of egg farms:
19 egg farms including new sites at Avis and Chornobaivske

Contents

A letter from the Chairwoman

Our 2012 performance was in line with expectations contributing to the success of our growth strategy. I strongly believe in our Company's ability to deliver long-term growth and create shareholder value while operating as a socially and environmentally responsible business.

Dear Shareholders

Let me begin by thanking you all for your unwavering support and interest in our Company. 2012 was rich in exciting developments; it posed new challenges and opened up fresh opportunities.

We continued to benefit from solid market fundamentals and leverage our unique competitive strengths for enduring success.

We further solidified our dominant position in Ukraine's domestic market and continued to expand export operations reaching 32 markets all over the globe.

As I take over the Chairmanship of the Board of Directors at AVANGARDCO IPL, I commit to keeping up our excellent performance, supporting growth and maintaining adherence to high standards of corporate governance and transparency as the basis for building up shareholder value.

I take pride in reporting that our 2012 performance was quite in line with our projections and expectations contributing to the success of our progressive growth strategy.

Our sales and EBITDA grew 14%, with the EBITDA margin staying at its sustainable level of 44% of sales.

2012 became a pivotal year in the delivery of our ambitious investment programme, marked by the launching of the first phase of new capacity at our new egg production complexes of Avis and Chornobaivske adding 3.2 million pullets and 6.2 million layers or a total of 9.4 million birds to our flock.

But it is not only the scale of our operations that grew substantially in 2012. We continued to implement crucial innovations to improve operating efficiency, streamline decision-making and increase transparency by leveraging our competitive edge in advanced technologies.

We have pioneered the use of CISCO Telepresence in our industry, a cutting-edge video-conferencing system that enables Head Office to communicate with all our operating companies using videophones.

Our new facilities are equipped with closed-circuit television cameras that enable 24/7 monitoring of critical operating processes.

The E-Flow system builds online graphic process flows feeding back all key operating performance indicators, e.g. temperature inside a henhouse, number of eggs laid, output of egg powder in kilograms, etc., all in real time. E-Flow operates as an early warning system proactively alerting management of any bottlenecks or anomalies in the standard process flow.

As Chairwoman, it is my duty to uphold the interests of Shareholders, Bondholders and other stakeholders with a legitimate interest in the business of the Company by enforcing a high-standard of transparency and management accountability.

If I were asked to identify the single most important skill that AVANGARDCO IPL has acquired over the years, I would name its unique ability to embrace growth. I can not think of a single year in our corporate history in which we have grown at less than double-digit rates. Keeping up such high growth for nearly a decade has been a challenge demanding the concerted actions of all our key business functions and a very high degree of team cohesion.

I look to the future with confidence and strongly believe in our Company's ability to deliver long-term growth and create shareholder value while operating as a socially and environmentally responsible business corporation.

Nataliya Vasylyuk
Chairwoman
AVANGARDCO IPL

2012 performance highlights

Strong Operating Performance

No.1 Ukraine producer

6.3 billion eggs

0.70 UAH per egg

27.5 million hens

Shell egg output (+5.6%) 6.3 billion eggs in 2012 vs. 6.0 billion in 2011

Average selling shell eggs price (+9.4%) 0.70 UAH (net of VAT) in 2012 vs. 0.64 UAH (net of VAT) in 2011

Export sales of shell eggs (+74.9%) 516 million eggs in 2012 vs. 295 million in 2011

Sales to third parties (+7.4%) 5.2 billion eggs in 2012 vs. 4.9 billion in 2011

Average price of egg products (+0.7%) 8.11 US$/kg in 2012 vs. 8.05 US$/kg in 2011

Total flock (+9.6%) 27.5 million hens as at YE2012 vs. 25.1 million as at YE2011

Strong Financial Performance

US$629.3 million revenue

US$279.8 million EBITDA

44% EBITDA margin

1.3x gross debt/EBITDA

Revenue (+13.7%) US$629.3 million in 2012 vs. US$553.3 million in 2011

EBITDA (+13.8%) US$279.8 million in 2012 vs. US$245.8 million in 2011

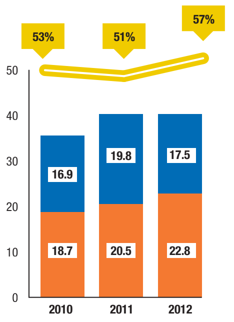
EBITDA margin remained flat at 44% in 2012

Gross debt/LTM EBITDA 1.3x

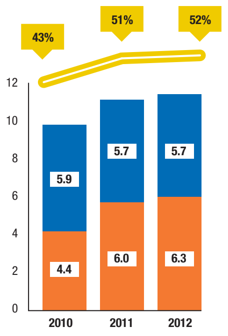
Industry Leader

AVANGARDCO IPL | Other
AVANGARDCO IPL's share

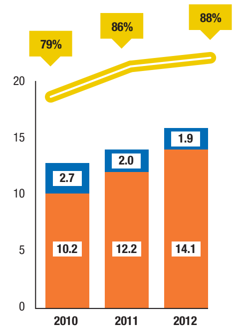
Industrial Laying Flock, million hens



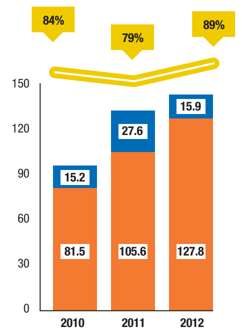
Industrial Production of Shell Eggs, billion pcs



Industrial Production of Dry Egg Products, thousand tons



Export of Shell Eggs and Egg Products from Ukraine, US$ million



Source: Pro-Consulting, AVANGARDCO IPL's data


Healthy
by
Nature
AVANGARDCO

Our products

We are proud to produce eggs and egg products.

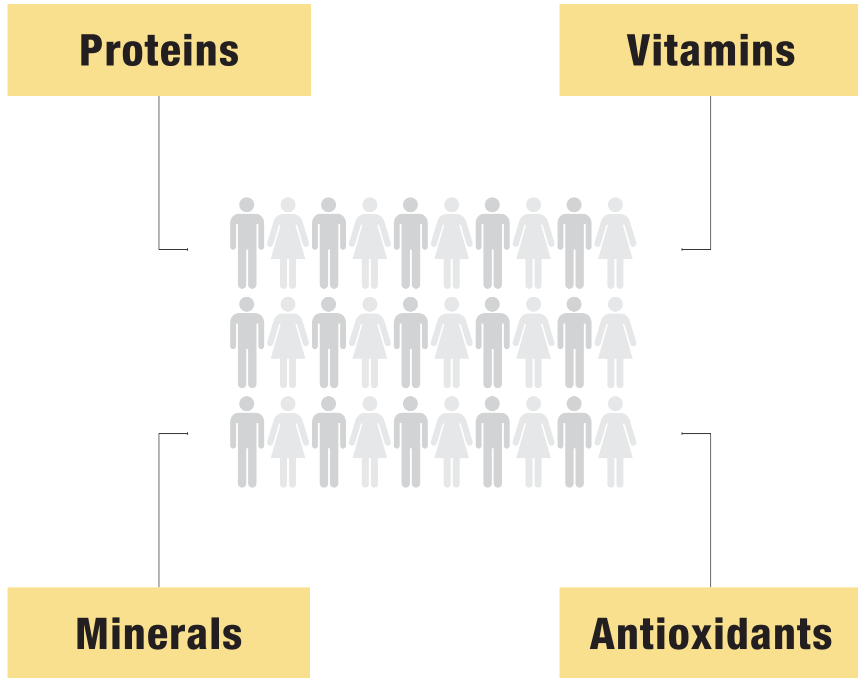
Eggs have been widely recognised as healthy by modern nutrition science. It was not always the case though.

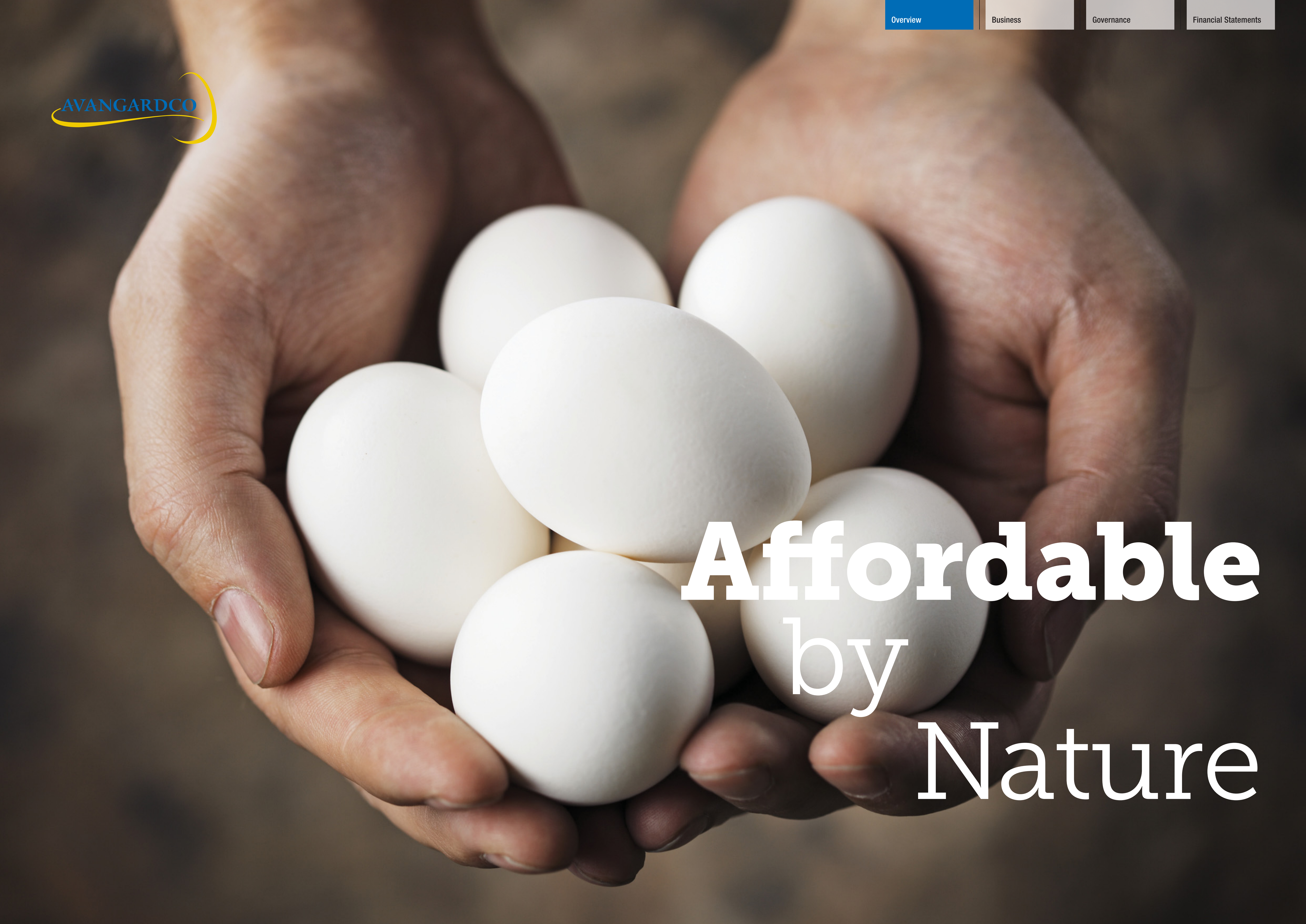
Historically, eggs have been considered unhealthy because they contain cholesterol. A large egg contains 212mg of cholesterol, which is a lot compared to most other foods.

However, it has been proven, time and time again, that eggs and dietary cholesterol do not adversely affect cholesterol levels in the blood causing heart diseases.

According to authoritynutrition.com, eggs raise High-density lipoprotein (HDL) the "good" cholesterol. They also change Low-density lipoprotein (LDL) cholesterol from small, dense LDL (which is bad) to large LDL, which is benign.

Eggs are loaded with high-quality proteins, vitamins, minerals, good fats and antioxidants and are *Healthy by Nature*.





Affordable by Nature

Our products: shell eggs

Numerous studies have been conducted over the past couple of decades to reveal unique nutritional qualities of eggs

Eggs are unique not only for their exceptional nutritional qualities. The chicken egg is also among the cheapest animal proteins available on the market.

Eggs are affordable to families from almost all income brackets. Even in times of crises, when consumers have to cut their spending substantially and drop many foods from their basket, they continue to eat as many eggs as in normal times, sometimes even more than that.

As income drops, a powerful income effect forces consumers to switch from relatively more expensive to relatively cheaper animals proteins - from beef to pork, from pork to chicken, from chicken to dairy and eggs. Not all consumers necessarily switch in that sequence but one thing is certain, there is no level below eggs in animal proteins to switch down to. If consumers have to switch lower they will often have experienced a very severe loss of income and are effectively forced to completely abandon animal proteins from their diets.

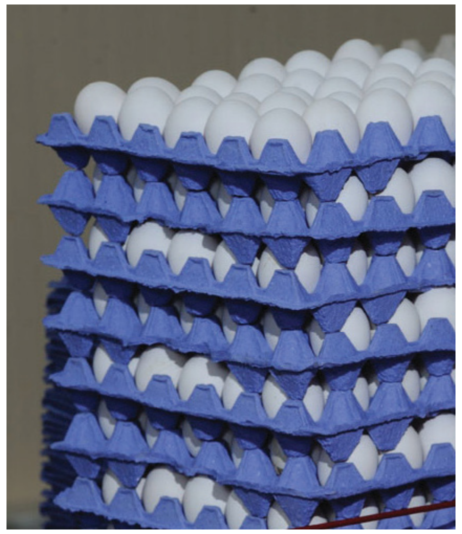
A similar income effect may be triggered by cost inflation. All animal protein prices are driven by the cost of feed which, in its turn, depends on grain prices. Any time grain prices grow, which happens more and more often due to droughts and other adverse developments, animal protein prices tend to follow suit. Unless income grows in proportion to such cost inflation, consumers start to switch down to cheaper options, often all the way to eggs.

Exceptionally low demand elasticity allows egg farmers much greater freedom in terms of passing cost increases on to customers than other animal protein producers. All these facts make eggs *Affordable by Nature*

КВОЧКА

KVOCHKA

Kvochka is our flagship brand in the segment of packaged eggs. Kvochka delivers high quality and freshness at a reasonable price. Kvochka eggs are recommended by Ukraine's Nutrition Institute for their exceptional nutritional qualities and excellent taste.



КВОЧКА Домашні

DOMASHNI (HOMELAID)

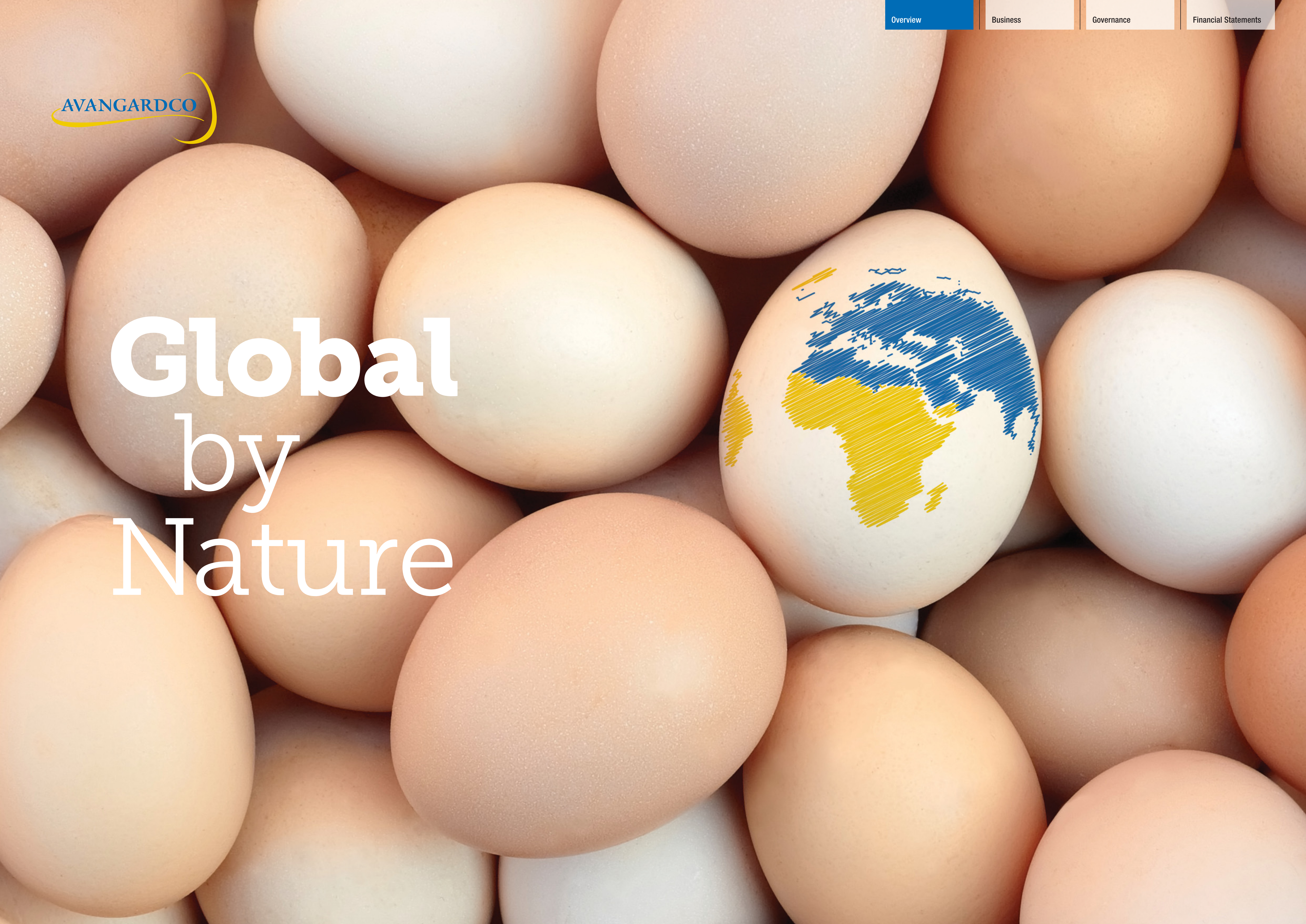
Kvochka Domashni (Homelaid) adds the home flavour to your egg buying experience. Our Kvochka Domashni eggs look and taste just like grandma's and bring back the happy memories of blissful childhood.

ORGANIC EGGS

ORGANIC EGGS

Kvochka Organic Eggs is the top brand of the Kvochka family that celebrates our commitment to organic farming. While Ukraine has yet to implement standards and definitions for organic products, we have proactively enforced rigorous corporate rules to set organically produced eggs apart from the rest of our output as those produced using organic inputs only.

Global by Nature



Our products: egg products

AVANGARDCO IPL not only produces high-quality chicken eggs, it also processes them into high-quality egg products, mainly egg powder.

Egg powder is a product made by completely dehydrating chicken eggs. It results in a far less perishable product, making them an excellent choice for long-term storage.

Egg powder is used in a variety of pre-cooked meals, e.g. omelettes. Now you can make an omelette without breaking eggs.

Egg powder also has a wide variety of applications within the food industry and beyond. Egg powder comes in several varieties, each with its own unique characteristics and distinct uses.

They are whole egg powder, egg yolk powder, egg white powder (albumen) high-whip and high-gel. You will find egg inputs in baked products, pasta, confectioneries, sauces, mayonnaises, dressings, meat products, fish sticks and even cosmetics and pharmaceuticals. For example, most vaccines against flu contain egg albumen.

While shell eggs are perishable, egg powder has a much lengthier shelf life. If properly stored, it can have a shelf life of up to 2 years.

Food processors demand consistent quality from their egg powder suppliers. They expect them to meet very precise specifications for PH, protein content, moisture, solubility, etc. to ensure the consistency of their own recipes.

With 75% of moisture gone, egg powder becomes very compact and lends itself easily to storage and transportation. And last but not least, egg powder is very safe.

When eggs are processed at an industrial processing plant, such as at AVANGARDCO IPL's plant Imperovo Foods, all risk of disease is eliminated through pasteurisation and spray drying at temperatures well over the boiling point of water.

The extent to which egg powder is used by food processors instead of shell eggs is a good measure of market maturity and overall economic development. While egg consumption per capita may not differ significantly between a developed market and a developing one, consumption patterns will vary substantially. In less developed low-income markets consumers mostly eat their eggs raw. As a country gets wealthier and income rises, consumers do not abandon eggs as an inferior product though. True, they start eating fewer shell eggs because now they can afford more expensive foods. The trick is, however, that many of those fancier foods that consumers switch to from staples, e.g. sausages, pastries, sauces, contain plenty of egg inputs. Thus, consumption does not decline with income growth, rather, it transforms.

In the European Union, where food processing is a highly developed industry, a large share of total egg consumption occurs indirectly, as consumers eat foods containing egg ingredients.

Egg processing as a segment is crucial to the success of the AVANGARDCO IPL business model. Egg powder is not just another product on the Company's product portfolio.

With both shell and powdered eggs on our portfolio, we enter developing markets with no fear that our business might shrink as those markets became developed. As we enter a new market, we assume a long-term commitment to it and we are proud to see our business grow and develop in line with overall economic development in that market.

We sell to least economically developed countries and we also sell to highly-advanced industrial economies because our balanced product mix enables us to reach customers not only across national boundaries, but also across income levels and levels of economic development, rendering the business of AVANGARDCO IPL truly *Global by Nature*

Egg Powder Varieties and Their Uses

Variety	Uses
Whole egg powder	Pre-cooked meals, e.g. omelettes, meat products, etc.
Egg yolk powder	Mayonnaises, dressings, pasta, ice cream, baked products, desserts, etc.
Egg white powder (albumen) high-gel	Confectionery, baked products, sausages and other meat products, etc.
Egg white powder (albumen) high-whip	Cakes, pastries, mousses, etc.

Growing market

Strong market fundamentals: Global market

SHELL EGGS

Global egg market fundamentals remained strong throughout 2012 and growth continued. Following a slight decline in 2011, global trade in eggs recovered its growth dynamics and moved uphill with renewed vigour.

The European Union retained its leadership as the largest importer of both shell eggs and egg products with an estimated share of 59% of all egg imports, followed by the Middle East and North Africa region (MENA) with 12% of the total and Asia with 11%.In terms of import growth rate, MENA and Asia are clearly at the lead with individual markets within those regions growing 25% year on year. The export landscape is also dynamically evolving.

In 2012, according to International Trade Center, the European Union retained its dominant position as the largest exporter of shell eggs in the world. Second comes the US, followed by Turkey, China, Malaysia and Brazil. Ukraine comes seventh by value of exports.

True, when disaggregating the EU's first place into individual country shares, Ukraine ends up in thirteenth place. Whether seventh or thirteenth, Ukraine has demonstrated truly spectacular growth since 2005, its first year of exports. Admittedly, Ukraine's share of global exports is not very large, not just yet. It is estimated at 2.3%. But one thing is certain - Ukraine has emerged as an international player and joined the ranks of global market leaders.

AVANGARDCO IPL deserves full credit for this achievement as Ukraine's largest exporter with a share of 81% of the country's total shell egg exports.

EGG PRODUCTS

Ukraine's performance in egg product exports has been even more spectacular.

Just as in the case of shell eggs, the largest share of the global egg products export market is held by the European Union with the United States in second place and third comes Ukraine. On a country-by-country basis, its third position becomes fourth, with as few as two EU countries ahead of Ukraine. Ukraine's share of global sales of egg products is already as high as 7% and has a vast potential for growing further.

Ukrainian exports of egg products skyrocketed in 2010 demonstrating an incredible year-on-year growth of 476.2%, according to Pro Consulting.

That was the year in which AVANGARDCO IPL embarked on its aggressive conquest of export markets that continues to date.

Another milestone worth mentioning is the approval of Ukraine in January 2013 as a third country eligible to sell shell eggs for processing and egg products to the European Union.

As the largest market for both shell egg and egg product exports, the EU is highly attractive. And it's not only volume. The EU potentially offers the highest profit margins to low-cost producers such, as Ukraine.

Suffice it to say that AVANGARDCO IPL is the only Ukrainian egg producer and processor prequalified to sell its products to the EU. Just as in the case with other export geographies, the Company will certainly take the lead in promoting trade with the EU and in doing so will promote Ukraine as a high-quality, safe and reliable supplier.

Strong market fundamentals: Ukrainian market

SHELL EGGS

Ukraine's domestic market for shell eggs and egg products demonstrated strong performance. While demand growth in the market was only marginal (2.14%), as measured by production volume, critical transformations continued on the supply side promoting greater stability and predictability of market dynamics.

Households continued to give up market share to industry. By 2012, their shares reversed as compared to what they had been in 2001. Now industry claims 63% of the market vs. 37% still retained by households.

This trend is expected to continue and by 2015 the market share of Ukraine's organised egg farming industry is predicted to reach 67%.

Consolidation also advanced within the industry itself as small-sized and unviable operators continued to give up market turf to large and medium-sized industry players. For a sense of scale, more than 40% of all industrial producers have left the market over the past eight years.

Both industry expansion and industry consolidation reduce market volatility and smooth out seasonal fluctuations.

Household production is highly seasonal while industry production is not. That's because homebred hens only lay eggs when it's warm while industrial layers, bred in artificial climate conditions, keep up remarkably consistent laying performance throughout the year. This explains the seasonal dip in the egg price curve that occurs each year between March and August.

That is the main reason for the consolidation unfolding within the industry. Small-sized Industrial players increasingly go out of business not as much because their business models are flawed. They simply fail to tide over the seasonal price trough because in egg farming you can not just shut down your farms to prevent overproduction.

A laying farm in full lay is like a large oceanic vessel sailing at full speed. To bring it to a full stop, you will need as much time as it took you to reach that speed. All you can do, as a small enterprise egg farm, is keep producing at the same rate and take any price you are offered, as your best choice of strategy, in the hope of weathering the storm and staying afloat amid heavy losses. Not many survive though.

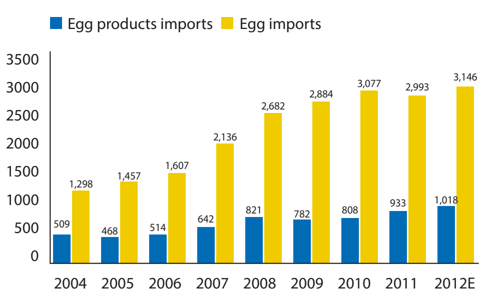
To survive, you'd need at least some elements of a full-blown counter-cyclical strategy, such as the one used by AVANGARDCO IPL. But very few have the scale or capacity in egg storage or processing or access to foreign markets that enable AVANGARDCO IPL to stay profitable, not just survive.

The good news is that, as the relative market share held by households becomes smaller, the curve becomes flatter with the downward pressure exerted on the shell egg price by household production growing weaker. At the same time, more market space becomes available to surviving industry players enabling them to grow their market shares, build up bargaining power and take concerted action to counter price volatility, with AVANGARDCO IPL at the lead as the flagship of Ukraine's egg farming industry.

Slowly but steadily, Ukraine's market is growing more mature as it evolves towards greater stability and predictability with price seasonality becoming less and less pronounced.

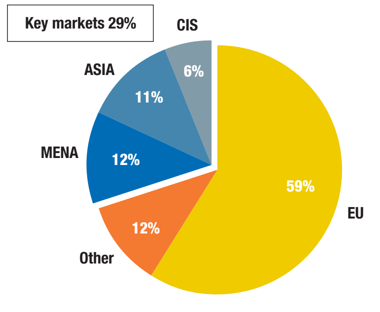
AVANGARDCO IPL deserves a lot of credit for Ukraine's egg market evolution which is due in no small measure to the Company's ingenious and comprehensive counter-cyclicality strategy supporting growth in Ukraine's egg farming and egg processing

World Imports of Eggs and Egg Products, US$ million



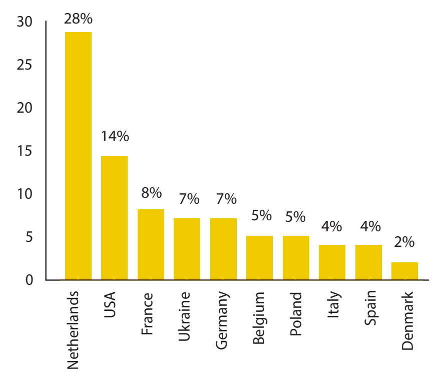
Source: International Trade Center, Pro-Consulting

Structure of World Imports of Eggs and Egg Products in 2012E



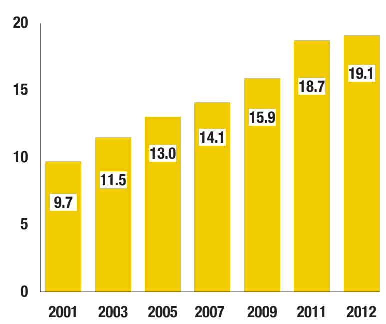
Source: International Trade Center, Pro-Consulting

Top Ten Exporters of Dried Egg Products by Value in 2012 (%)



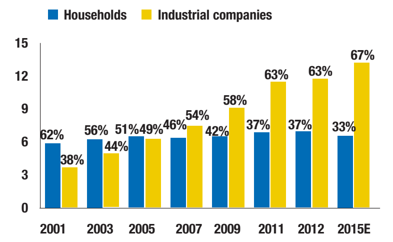
Source: International Trade Center, Pro-Consulting

Production of Shell Eggs in Ukraine, billion pcs



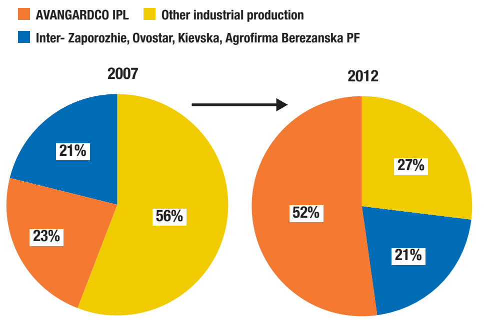
Source: SSCU

Industrial Companies vs. Households, billion pcs



Source: SSCU

Industry Consolidation, Share in Industrial Production of Eggs



Source: Pro-Consulting

industries and at the same time promoting Ukrainian exports of both shell eggs and egg products.

EGG PRODUCTS

While the commercial production of egg products in Ukraine has less than ten years of history, Ukrainian producers have managed to substantially increase production over the first decade of the industry's existence and enter foreign markets. The greatest challenge facing Ukrainian egg processors in the domestic market is to sell food processors on the benefits of using processed egg inputs rather than breaking their own eggs.

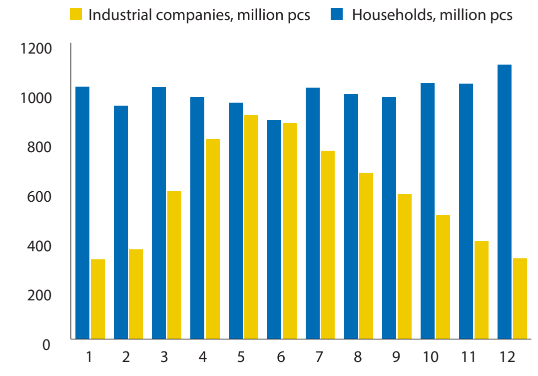
AVANGARDCO IPL as Ukraine's largest producer of egg products takes the lead in educating local food companies on the benefits of using high quality and safe egg inputs produced in controlled industrial environments.

While Ukraine's home market continues to evolve at its own pace, leading egg processors are aggressively conquering foreign markets, with AVANGARDCO IPL at the lead.

Ukrainian egg product exports skyrocketed in 2010 achieving a growth rate of 476.2% (according to Pro Consulting). The growth pace has since decelerated plateauing within double digits. As estimated by Pro Consulting, in 2012, Ukrainian egg product exports grew 2.9% .

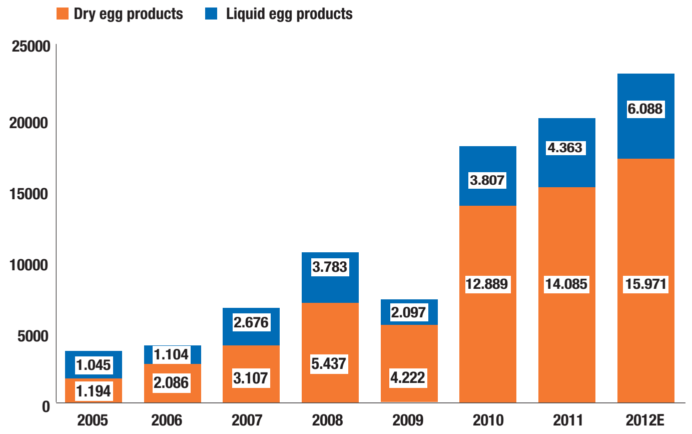
AVANGARDCO IPL holds a dominant share of Ukrainian dried egg exports of 97%. We continue making inroads into foreign markets consistently expanding our export geographies.

Seasonality of Eggs Production by Industrial Companies vs. Households in Ukraine in 2012



Source: SSCU

Production of Egg Products in Ukraine, tons



Source: SSCU, Pro-Consulting

Building value

Our mission is to promote public health by giving consumers access to affordable, healthy and safe animal proteins globally.

Protein is an important nutrient because it supplies amino acids, which are not found in either carbohydrates or fat. Amino acids are crucial for many of your body's functions as they help build muscle mass, promote cellular growth and repair, and form the enzymes that are vital to your body's metabolic processes.

While sources of protein include both vegetable and animal products certain critical nutrients are only to be found in animal proteins.

It is our mission at AVANGARDCO IPL to give consumers access to affordable, healthy and safe animal proteins globally, and we couldn't have possibly made a better choice of product than chicken eggs. We promote public health by giving consumers access to affordable, healthy and safe animal proteins globally.

Proteins Found in Eggs

Vitamin A

Vitamin A The "direct" form is only found in animal products. True, the vitamin A is found in orange and green vegetables in the form of beta carotene. But the body must first convert it to the usable form of Vitamin A. That conversion requires bile salts, which are produced by your liver when you consume fat.

Vitamin B12

B12 This is the nutrient naturally occurring only in animal products. There are eight different B vitamins and our body needs them all. It can take time for the implications of low B12 to show up, with anemia being the most common outcome of very low levels.

Vitamin D

Vitamin D This is another one found only in animal products. Cod liver oil is super high in it, as is shrimp, wild salmon, sardines, full-fat dairy products, and egg yolks. Yes you can get it from the sun, but most of us do not spend 15 minutes a day, flesh exposed, palms open. Furthermore, the darker your skin, the less D your body will produce.

Amino Acids

Full Set of Amino Acids You can get some of the components of protein (the amino acids) from legumes, seeds and grain, but only meat, fish and eggs contain complete proteins, meaning they have all the essential amino acids. The amino acids in animal products are also in a form that is very easy for most people to digest. Many people find grains and legumes (which contain digestive inhibitors) quite hard to digest.

In pursuit of its mission, AVANGARDCO IPL upholds the following values

Transparency

We conduct business in the spirit of transparency and accountability to our numerous stakeholders, both as a public company and as socially and environmentally responsible corporation.

Commitment

We conduct business in the spirit of commitment to do as we promise.

Quality

We conduct business with a focus on quality because while our other advantages may help attract clients, it is quality at the end of the day that helps us retain them

AVANGARDCO

Efficiency

We conduct efficient business because only efficient companies can survive amid scarcity of resources and continue to create value for customers and shareholders

Innovation

We conduct innovative business because only innovative companies can stay efficient in our dynamically changing modern world

Safety

We conduct business with a focus on safety to ensure both our operations and our products are safe, safe for the customers and safe for the environment.

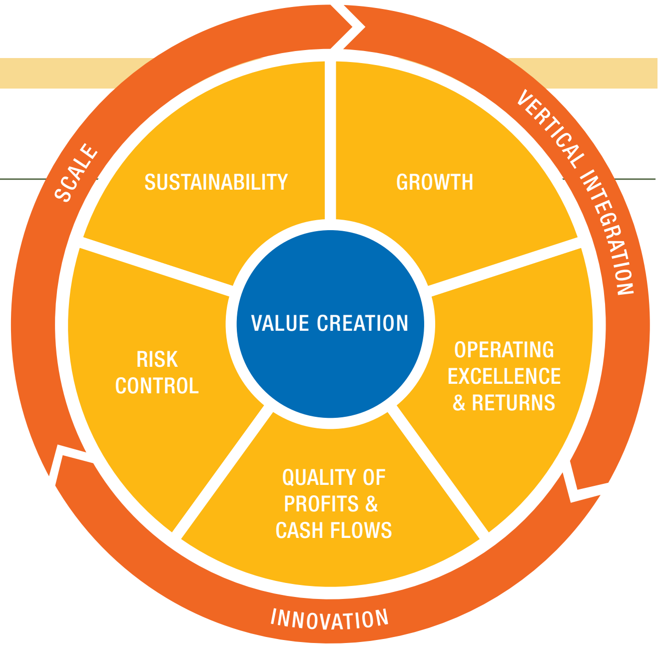
Sustainability

We conduct sustainable business because only the innovative, efficient, quality-driven and safe operation ensures that we can continue to create value for customers and shareholders

Building value

Our strategy

Our Company has a clear and consistent growth strategy based on the expansion of our business to double its production capacity by 2014. The Company also seeks to maximise revenue and margin through development of new channels of sales globally and value chain control. With favourable demand dynamics expected to benefit the industry over the medium to long term this strategy and cost-competitive business positions the Company strongly to create value and generate attractive returns for shareholders well into the future.



STRATEGIC OBJECTIVES

Our business is run around five core strategic objectives. Achievement of our strategy and objectives is measured by a mixture of financial and non-financial performance indicators, we are constantly improving them each year and will definitely focus our efforts on developments in this area in 2013.

1. GROWTH

Organic growth
Expansion of production capacity investing available capital to world class production complexes Avis, Chornobaivske and Imperovo to deliver better returns to shareholders.
Export opportunities
Encreasing global market share we focus on sales expansion to Middle East and North Africa and Asian markets.
New sales channels development in Ukraine
Focus on expansion of sales through retail supermarket chains.

2. OPERATIONAL EXCELLENCE AND RETURNS

Value chain control allows Company to minimise costs and increase profitability.
Consumer brand "Kvochka" development
Development of own brand in the consumer market allows the Company to increase the share of sales with higher margin.
Changing our product mix in sales by increasing share of egg products, that have higher margins and longer storage durability.
Capital allocation (or Capex efficiency)
Investing in world-class equipment and innovative technology improve our asset efficiency, increase production quality and profitability.
Net working capital control
Focus on decrease of non-strategic inventories. Management of capital structure to achieve efficiency, flexibility and access to debt at attractive cost.

3. QUALITY OF PROFITS AND CASH FLOWS (COUNTERCYCLICALITY)

All these measures helps to maintain stable, controllable profit margins and predictable, bankable cash flows.
Control on cyclical demand and supply of eggs
Allows the Company to maintain constant production volume and price investing in storage and processing facilities and regulating (diversifying) sales between local and international markets.
Smoothing grain price volatility
Forward contracts and supplier credit policy help to control production costs and avoid volatility during the year.

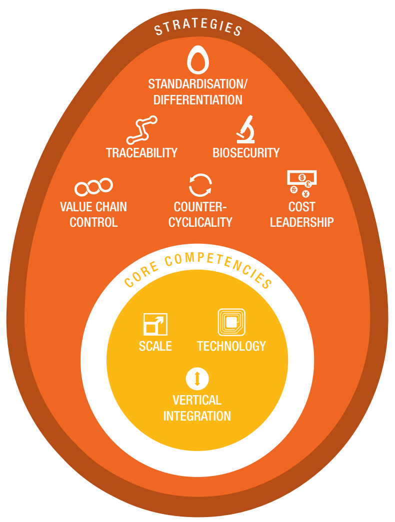
4. RISK CONTROL

Biosecurity
Mitigating risk of disease through innovative technology and high standards of procedures.
Traceability acts as the best available measure of food safety.
It deserves a lot of advantages in obtaining access to the EU market, as well as Asia and Africa where food safety is a huge problem.

5. SUSTAINABILITY

Shareholders and communities
Build long term, transparent and mutually beneficial relationships with all stakeholder groups. Focus on improving corporate governance and quality of shareholder communications, increasing transparency.
Environmental impact
Ensure mitigation of impacts upon the receiving environment.

From Core Competencies to Strategies



Our core competencies

In pursuit of our mission, we capitalise on several core competencies that we consider crucial to the success of our strategy. Scale, Vertical Integration and Innovation form the bedrock of our solid competitive position on which our strategies build.

Scale

Already the largest producer in Ukraine and Eurasia, AVANGARDCO IPL has achieved unrivalled scale which enables it to develop long-term relationships with major clients, both foreign and domestic.

In the case of AVANGARDCO IPL, scale is not only about volume. It is also about coverage. With egg farms in most parts of Ukraine, we are able to serve network clients nationwide, in particular, retail chains.

Our business with retail chains has grown at a breath-taking pace. From 2% of total sales 2009, sales through retail chains skyrocketed to 35% in 2012. This is a sign of acceptance, a sign of appreciation. Major Ukrainian retail chains appreciate AVANGARDCO IPL for its unique ability to:

- seamlessly supply eggs to all stores in a chain, however large;
- maintain consistent quality and freshness;
- meet demand peaks and weather demand troughs;
- help chains shape their egg merchandising and branding policy;
- supply the affordable eggs segment which chains often use as a loss leader to encourage more trade.

Our unrivalled scale and security of supply also enable us to successfully promote business to foreign markets. We already export to 32 markets and continue to aggressively expand our export geographies.

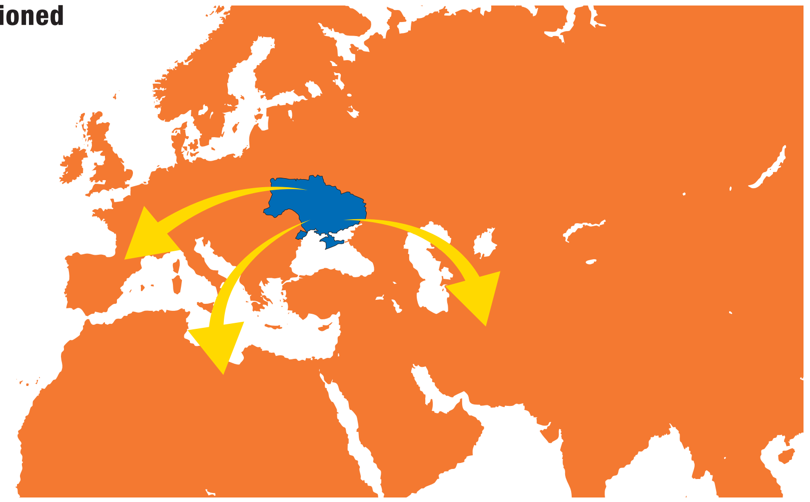
Our extensive coverage helps us reach clients both in our home market and overseas through the strategic choice of sites for our new production facilities. In particular, Avis and Chornobaivske, our brand-new heavyweight farms, designed to hold 5.2 million layers and 6 million layers respectively, sit in very convenient locations from an export logistics perspective.

Chornobaivske, Kherson Province, is close to the Black Sea coast, which facilitates exports by sea. Avis, Khmelnitsky Province, is situated in close vicinity to Imperovo Foods, our egg processing plant, which sits next door to the European Union, a mere 100 kilometres away from the EU border. Avis is capable of sustaining a seamless supply of eggs laid in EU-compliant enriched cages to Imperovo Foods to be processed there into high-quality EU-compliant egg powder.

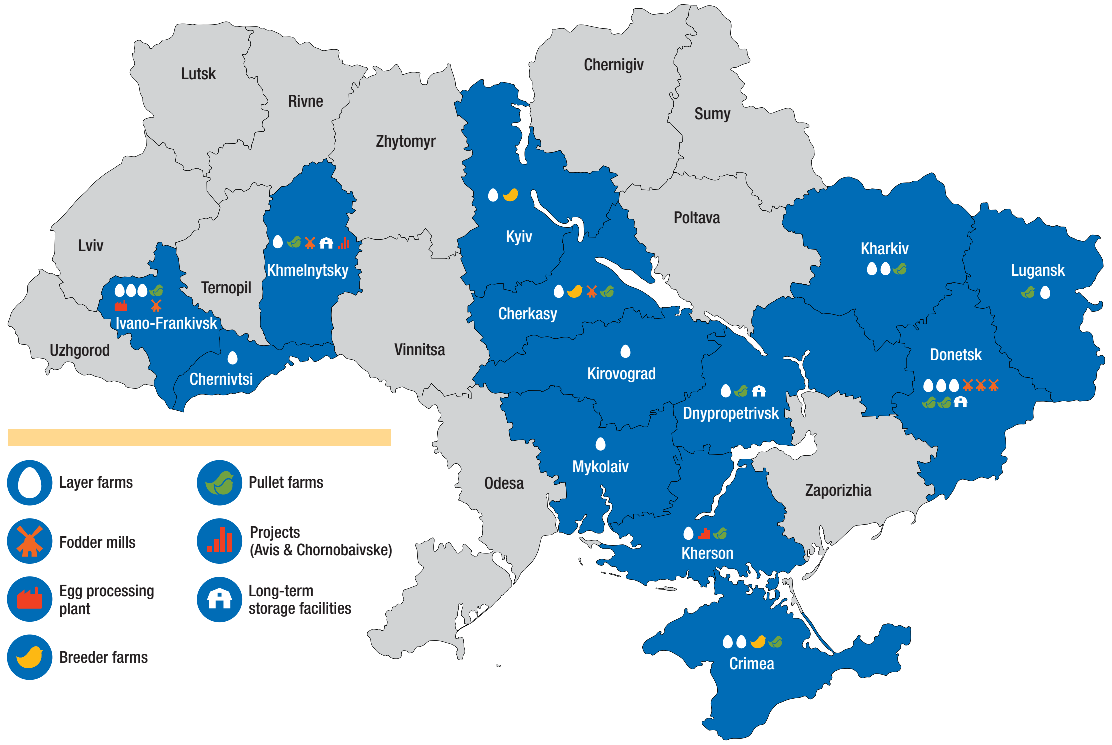
As this report went to print, the European Union announced the long-awaited decision to approve Ukraine as a supplier of shell eggs for processing and dried egg products, and AVANGARDCO IPL is so far the only Ukrainian egg producer that has successfully completed all the necessary audits to sell to the EU.

Apart from substantial economies that only size can yield, scale and coverage provide broad access to our products by both home and foreign consumers, which is an integral part of our mission.

Well Positioned to Export



Geographical coverage in Ukraine



Vertical integration

Vertical integration lies at the heart of our business model. It shapes all our processes, drives our strategy and helps guard against most types of risk.

Vertical integration is very easy to define. It is the degree to which a firm owns its upstream suppliers and its downstream buyers.

The egg farming industry incorporates several critical processes that make up a very unique value chain. Unlike most industries, it all begins not with the production of inputs or raw materials. It begins with the production of the very productive assets that produce the final product, e.g. laying hens, a feature you will only see in livestock farming.

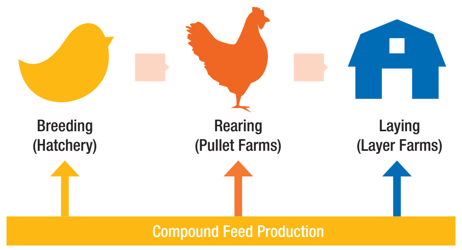
Hatcheries take in hatching eggs from which future layers hatch. At the age of one day, the chicks move to a pullet farm where they spend their adolescence and reach productive age, at which point they move into laying farms.

Often, when describing vertically integrated companies, the term ecosystem is used, which fits AVANGARDCO IPL most naturally.

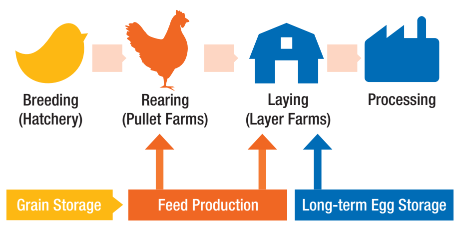
Our Ecosystem embraces all the above components and extends further downstream into deep egg processing adding value at each of the links in the chain.

And yet, that is not the complete picture of AVANGARDCO IPL Ecosystem. The new complexes, Avis and Chornobaivske, once fully operational, will add an important element Biogas Plants that will process chicken manure into clean energy.

The Egg Farming Value Chain



AVANGARDCO IPL Ecosystem



Innovation

At AVANGARDCO IPL we identify innovation as a core competency because it adds enormous value and enables us to manage our operations on such a large scale and successfully mitigate risk exposures.

While we make a very extensive use of systems, we view innovation more broadly. In the first place, innovation is about process engineering, know-hows and performance metrics. Systems only help automate the processes that innovation defines and describes.

Our technology zoo is populated by four species of systems:

1. **Specialist vendor systems**
2. **ERP**
3. **MIS**
4. **Communications**

All our systems are tightly integrated and operate cohesively as a holistic control environment.

1. SPECIALIST VENDOR SYSTEMS

Most of our operating processes heavily rely on specialist systems that vendors supply along with their equipment or turn-key solutions which we use extensively. The comprehensive scope of technology that they provide fully conforms to our approach to defining innovation, as their equipment and systems come with loads of guidance and on-going counselling to help us control operations, determine and apply Key Performance Indicators (KPI's). Given the scale of our operations, our major vendors keep a very close eye on our performance because their reputed brands are at stake as much as ours.

Hyline International UK is our exclusive supplier of breeders. Hyline is a US corporation. We do business with their UK headquarters that covers Europe. Their crosses (breeds) of laying hens, such as the famous W36, have been recognised as the world's best. Hyline International claims global leadership in such important aspects of performance as laying capacity, feed conversion rate, flock survival, immunity to disease and many more. Hyline continue their pioneering research into hen genetics to improve layer breeding across all KPI's that are important to large-scale egg producers, such as AVANGARDCO IPL.

Jamesway is the provider of our hatchery systems. Headquartered in Cambridge, Ontario, Canada, Jamesway is the undisputed global leader in the incubation industry for over 100 years. With the help of Jamesway, the inventor of multi-stage incubation, we have set up the cradle of our business, the hatcheries;

FACCO (Italy) and **Salmet** (Germany) are leading European suppliers of turn-key solutions for poultry farms with over 50 years of experience in the industry. FACCO and Salmet are helping build Avis and Chornobayevske, our new poultry complexes, which are set to become Eurasia's largest poultry farms once fully operational.

MOBA is a leading supplier of egg grading and packing solutions, based in the Netherlands. We have acquired MOBA's largest graders. Four of these machines have been installed at Avis and Chornobaivske (two per site), at our heavyweight supermodern poultry complexes.

SANOVO is the provider of our state-of-the-art egg processing systems, a global industy leader based in Denmark. Sanovo helped us build our egg processing plant, Imperovo Foods back in 2007 .

2. ERP

Our ERP system is based on the 1S platform. The version that we use has been adapted for agriculture. It enables us to monitor and manage our operations at farm level and groupwide 24/7/365. On top of that, the system has been substantially customised in-house and extended to enable broad industry-specific functionalities and support our Management Information System (MIS).

3. MIS

Our MIS represents a comprehensive multi-modular IT solution, largely in-house developed, that successfully integrates our ERP with vendor software and other auxiliary systems to form a holistic business intelligence and control environment. A central piece of our MIS is the E-Flow System that builds real-time process flows management can access from their desktops or iPads.

4. COMMUNICATIONS

Our communications environment is so advanced that it enables management to contact almost any company employee in almost no time and not only talk to them but also see them via video link wherever either participant of the conversation may be.

Our video-conferencing system is based on CISCO Telepresence. From our central control room equipped with a TV wall, management can host video conferences by patching in up to 20 participants via video link and another 100 by audio link.

We have also installed closed-circuit television (CCTV) systems to monitor critical operating processes at our new facilities.

We strongly rely on our solid IT force for integrating the various systems that we use and keeping them up-to-date with the cutting edge of modern technology to meet management's evolving information requirements.

Value chain control

Due to Vertical Integration, AVANGARDCO IPL is in control of value creation from layer breeding to egg processing.

Each link in our vertically integrated value chain is a profit centre. Each adds value, earns its share of margin and could potentially operate as a viable business on its own. There are sound companies out there that only do breeding or rearing or egg production or processing or feed milling.

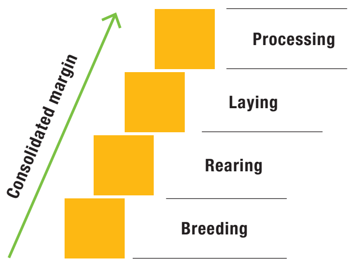
AVANGARDCO IPL adds up the individual margins earned by each of its business segments and reports a consolidated margin, which effectively represents a margin earned by an entire industry.

Our margin is lot higher than most other producers in our industry report, and that is explained in no small part by the effects of vertical integration. For vertically integrated companies, such high margin rates are quite common. This statement holds particularly true of vertically integrated farming companies from Ukraine that leverage the country's extensive agricultural potential and vertical integration to achieve outstanding margin performance.

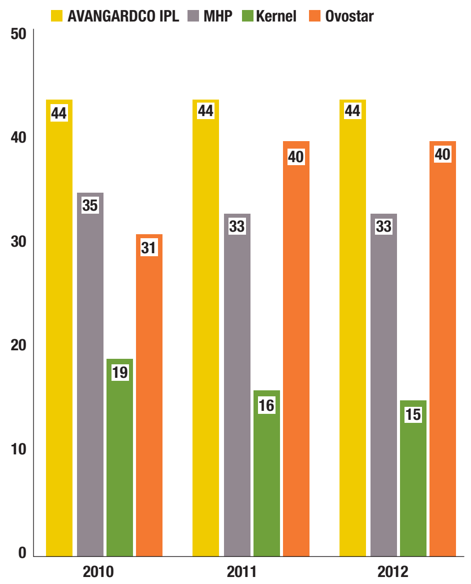
The individual components that make up the consolidated margin of AVANGARDCO IPL operate as safety cushions that help the Company withstand pressures and shocks.

Each summer claims several egg producers, when prices nosedive making it extremely hard to break even, let alone make a profit. AVANGARDCO IPL stands tall amid those raging waves and weathers the storm due to its unrivalled shock-absorbing ability achieved through vertical integration.

Value Chain Effect



AVANGARDCO IPL vs. Vertically Integrated Ukranian Agricultural Stocks (EBITDA margins)



Source: Bloomberg

Biosecurity

Avenue of Contagion	Target	Safeguard
Wild birds	Hens	Digital scarecrows
Manure	Hens & Eggs	Timely removal, fully automated at newer farms, and environmentally responsible disposal
Rodents	Hens & Eggs	Stone and gravel perimeter
Flying insects	Hens & Eggs	Insecticidal mesh screens
Airborne bacteria	Hens & Eggs	Germicidal ultraviolet lamps
Humans	Hens & Eggs	Fewer workers at new farms, workers and visitors must take a shower or wear protective suits while in a henhouse; workers banned from keeping poultry at home
Feed	Hens & Eggs	Feed sourced in-house, labs at feed mills and farms testing inputs and outputs
Water	Hens	Drinking water controlled for contaminants
Temperature	Eggs	Eggs put in refrigerated storage once laid for low temperature to inhibit germ proliferation on the shell
Breaking at processing plant	Eggs	Eggs broken in sterile conditions at our breaker plant and pasteurised
Flock movements	Hens	All hen movements in-house between hatcheries, pullet and layer farms as part of regular flock replacement

The AVANGARDCO IPL strategy is aimed at maximizing its shareholder value.

Without a doubt, biological risks represent the most critical type of risks affecting all segments of livestock farming including egg production.

At AVANGARDCO IPL, we have put in place a robust framework of biological security safeguards that successfully protect both our hens and our products from most biohazards.

Biohazards arise whenever biological assets, such as hens, or inputs, such as feed, or finished products, such as eggs, come into contact with pests or other contaminants.

Through Vertical Integration, AVANGARDCO IPL ensures that all critical input and output flows, as well as all key flock movements occur within the Group, thus minimising or altogether eliminating contact with wild birds, rodents, flying insects, airborne bacteria and humans using reliable safeguards.

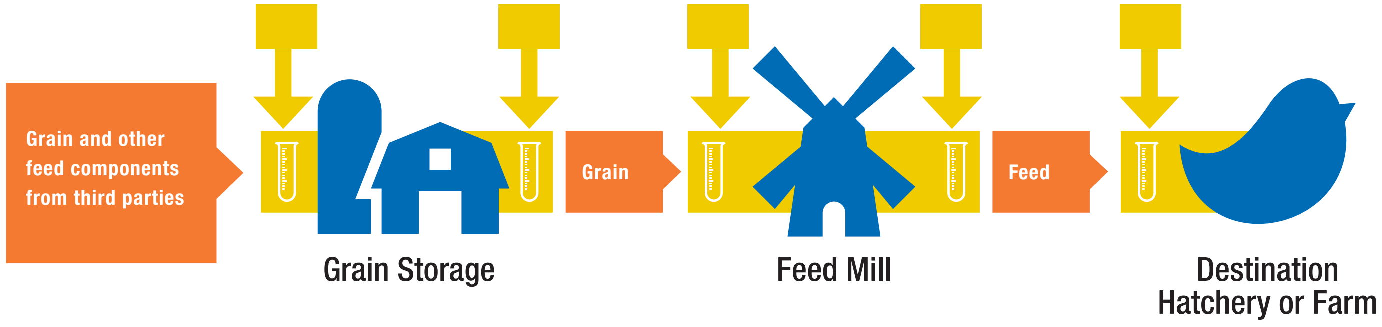
Another avenue of contagion is through feed. We source feed from our own feed mills. And last but not least, our onsite labs test all our input and output flows for disease agents.

Another step undertaken by AVANGARDCO IPL to prevent its flock from diseases is that all farms are quite some distance apart from one another and our robust IT system would alert management at once and remedial action would be taken immediately.

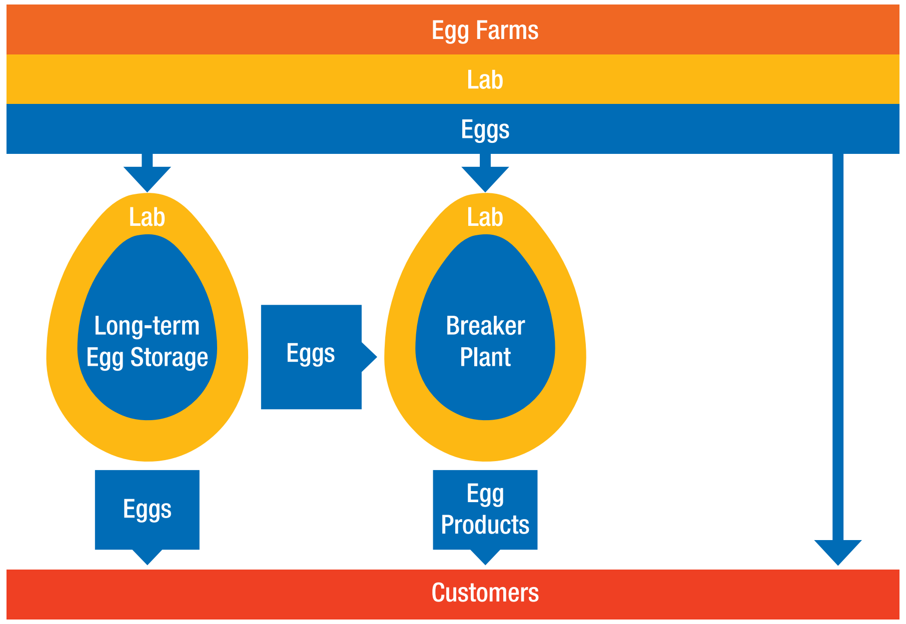
As one of our core competencies, Biosecurity heavily relies on two of AVANGARDCO IPL's bedrock strengths – Vertical Integration and Technology.

Vertical Integration helps us achieve a very high degree of control over all input and output flows, and flock movements. Technology enables us to collect and timely process the massive amount of testing data generated by our numerous laboratories on an on-going basis. Once collected, the data is fed straight into our centralised system and becomes available for analysis in real time, thus enabling us to proactively identify and timely follow up on the slightest suspicion of a biohazard.

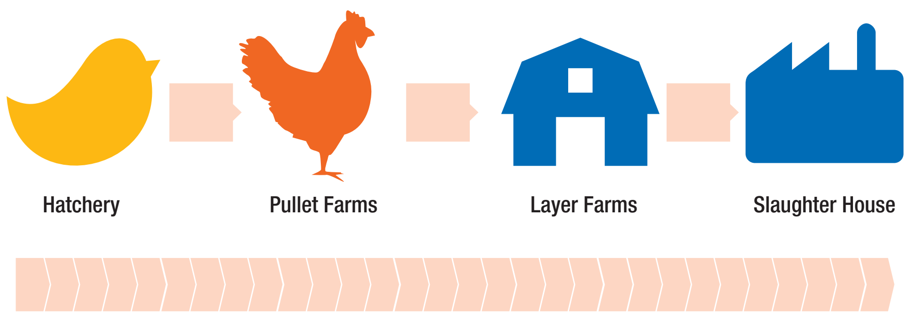
Input Flows



Output Flow



Flock Movements



Traceability

Traceability characterises AVANGARDCO IPL's unique ability to trace its products, shell eggs and egg products, all the way to breeder birds and sources of raw inputs, in particular, the forage grain that goes into the production of feed that we use at all our farms and hatcheries.

The importance of traceability could hardly be overestimated. More often than not, it acts as the best available measure of food safety.

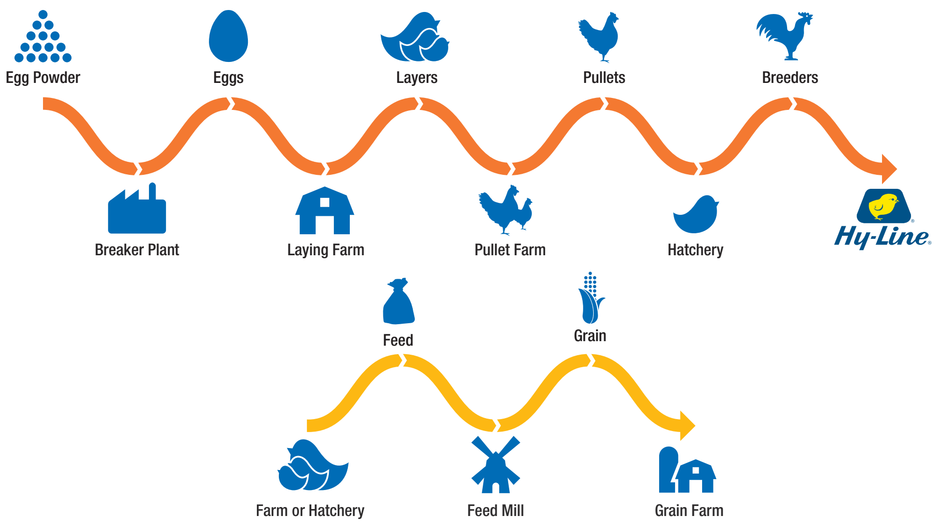
Traceability deserves a lot of credit for AVANGARDCO IPL's success in obtaining access to the EU market. Traceability is the single most important competitive advantage that can help AVANGARDCO IPL conquer markets in Asia and Africa where food safety is such a huge problem.

Traceability is the product of AVANGARDCO IPL's two primary strengths – Technology and Vertical Integration. Vertical Integration allows for traceability because all the important steps in the product flow find themselves within AVANGARDCO IPL.

Breeders give birth to pullets at AVANGARDCO IPL's own hatcheries, then the pullets move to AVANGARDCO IPL's own pullet farms for rearing, then when the pullets become layers they move to AVANGARDCO IPL's own layer farms where they lay eggs, some of which are turned to powder at AVANGARDCO IPL's own processing plant.

All breeders, pullets and layers eat feed produced at AVANGARDCO IPL's own feed mills.

Innovation is indispensable because without it traceability information would not be collected and made available to clients and other stakeholders



Countercyclicality

There's inherent cyclicality to the egg market due to seasonality on both sides – demand and supply. In Ukraine's home market the demand for shell eggs reaches its peak during the autumn and winter months, followed by a decrease in demand during late spring and until the beginning of July. There is also a natural increase in shell egg production during the spring and early summer, particularly among household producers in Ukraine.

Supply is also affected by seasonality because the flock needs to be replaced regularly, and laying capacity varies with flock age. Producers have to prepare in advance for demand fluctuations by accurately forecasting demand.

SEASONALITY OF DEMAND

The consequences of failure to predict demand accurately can be quite disastrous, especially, if actual sales fall short of production. Eggs are a perishable product with a maximum life of 28 days. Sales may decline sharply after a peak period, e.g. Easter, and if an egg farmer ends up with unsold eggs, they will perish and the farmer will have to take a loss.

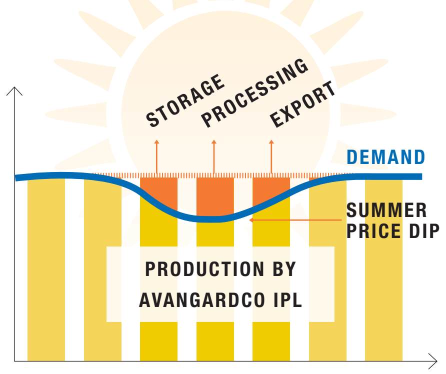
Unlike most other producers, AVANGARDCO IPL has effective safeguards against overproduction.

Safeguard 1: Storage. AVANGARDCO IPL owns three specialised warehouses where eggs can be stored for up to 180 days in refrigerated conditions

Safeguard 2: Export. In low season, AVANGARDCO IPL can direct more eggs towards exports

Safeguard 3: Processing. While egg processing is a segment in its own right it is also very crucial to the success of AVANGARDCO IPL's fresh egg business. Egg powder possesses a very important advantage, a much longer shelf

Countering Demand Seasonality



life. It can be stored for anywhere between 6 months and 2 years.

While other producers may be forced to reduce output dramatically or sell below cost during low season, AVANGARDCO IPL can produce at the same level using those 3 safeguards as safety valves against overheating.

Importantly, we use those safeguards only in extreme circumstances, not in the normal course of business. First and foremost, we rely on our cyclogrammes, tools for planning and executing regular flock replacements. We plan new flock deployments with due regard to demand seasonality thus ensuring that the natural decline in laying capacity that occurs as layers get older takes place during the summer low season.

SEASONALITY OF SUPPLY

AVANGARDCO IPL's seasonality measures are also helping the organised industry survive in its competitive struggle against households that continue to account for over 40% of Ukraine's entire market. It is households that are responsible for rocking the market back and forth causing egg prices to fluctuate wildly. Households make the summer low season that is already tough on industrial producers still tougher. Homebred hens only lay eggs when it's warm. That's why households are most active as egg producers from the late spring to the early autumn. At an enterprise farm, hens maintain the same lay throughout the year.

Seasonality of supply is even trickier. If you are a standalone egg farm operator (without vertical integration), planning your own output is a difficult challenge replete with uncertainties.

AVANGARDCO IPL has full vertical integration with hatchery, pullet and layer operations within the group which implies it is largely unaffected by flock replacement risk. We can conclude that AVANGARDCO IPL is in control of production not only of eggs but also of the layers that lay them.

There is another important dimension of seasonality that affects supply in the market. The most important cost driver in egg production is the cost of feed

AVANGARDCO IPL has come up with a smart strategy to counter this type of seasonality. It buys grain forward for the next twelve months. Then again it's Scale and Vertical Integration that make it possible. Suffice it to say that Ukraine's grain market has no trade in derivatives, crop insurance schemes, in other words a farmer can't sell their grain forward. Availability of credit is very limited, and loans are prohibitively expensive.

Grain farmers also lack storage capacity. AVANGARDCO IPL comes up to such grain farmers and buys their future crop forward. The Company effectively buys into their next harvest by making prepayments to those farmers to enable them to sow and harvest. Because AVANGARDCO IPL has Scale it has the cash resources to undertake a massive procurement exercise on a competitive bidding basis and contract enough grain to last it through to the next harvest. In exchange for that, AVANGARDCO IPL gets the farmers' commitment to deliver fixed quantities at a fixed price, which comes at a discount against the going spot price. Because AVANGARDCO IPL has Vertical Integration it owns feed mills and grain elevators at which to store the grain being purchased. The grain purchased in the course of this exercise is then used throughout the year to supply AVANGARDCO IPL's feed mills.

As a result, AVANGARDCO IPL has been able to purchase grain at lower prices than competition that continue to buy as they go. AVANGARDCO IPL's cost of production highly stable and predictable and so is its margin.

Cost leadership

Cost Leadership is based our core competencies, such as Scale, Innovation, Vertical Integration, and strongly supported by our Seasonality Adjusted Strategy.

Scale helps us to achieve our massive economies of scale.

Vertical Integration enables us to keep costs down by practicing cost reduction over the entire value chain of egg production that it embraces. Vertical Integration ensures that most cost drivers, which would otherwise have been external to the Company, fall within our control span.

Innovation enables AVANGARDCO IPL to operate much larger farms e.g. Avis and Chornobaivske while reducing labour costs and other overheads through higher efficiency.

Seasonality adjusted strategy protects AVANGARDCO IPL from both demand and supply seasonality thus enabling it to stay profitable even when egg prices hit bottom.

And it goes without saying that AVANGARDCO IPL's cost leadership is greatly supported by the fact that forage grain in Ukraine is cheap and available in plentiful supply.

A letter from the CEO

AVANGARDCO IPL acquired Ukraine's largest chains as clients and moved into the higher value-added segment of convenience 10-egg branded trays. We maintained our leadership in Ukraine's egg processing industry with a market share of 88% of the country's total sales. We continue our focus on the Middle East and MENA while exploring new markets.

Dear Shareholders

2012 was another busy year for AVANGARDCO IPL. Sales and earnings continued to grow in line with our aggressive capacity expansion. I am proud to state that both our operations and our investment programme performed according to plan.

We further increased our share of Ukraine's industrial egg production reaching 52% of the total, grew domestic sales and continued making inroads into foreign markets.

As the flagship of Ukraine's egg farming and processing industry, we continued making considerable efforts to promote growth in our domestic market and enhance its development by pursuing strategies aimed at countering seasonality, increasing the share of organised industry in total egg production and supporting healthy industry consolidation.

An insightful measure of success of our home market strategies is the spectacular growth we have achieved in our sales to retail chains.

We have grown from 2% of sales that chains contributed to our top line in 2009 to 35%, as of 2012. We were the first to offer affordable unpackaged eggs on supermarket shelves, thus creating a whole new segment and adding a new staple to the range of commodities chains and, in particular, discounters.

Having gained a firm foothold in the segment and acquired Ukraine's largest chains as clients, we moved further downstream into the higher value-added segment of convenience 10-egg trays, in which we have been able to deploy and successfully pursue a vibrant branding strategy.

Our umbrella brand of Kvochka has soared to prominence on the shelves of many national retail chains with 40% of all Kvochka sales made through ATB, Ukraine's largest national chain of discounters and 36% through Silpo, a member of Fozzy Group, Ukraine's largest chain store operator.

Kvochka has spun off two sub-brands, Kvochka Domashnya (Homelaid) and Kvochka Organic, to appeal to consumers' dynamically evolving preferences that become ever more sophisticated.

While enabling us to charge a premium price for premium quality, Kvochka-branded eggs lead the segment in price competitiveness. Only private labels are cheaper on supermarket shelves. We continue investing in our brands in pursuit of further expansion of this progressively successful segment.

Throughout 2012, AVANGARDCO IPL also maintained its undisputed leadership of Ukraine's egg processing industry reaching a market share of 88% of the country's total. The growth of our domestic sales of egg products is in synchronisation with the progress of Ukraine's food processing industry.

We continue educating our food processors on the benefits of using high-quality egg powder to help improve the quality of their products and open up new markets whose food safety standards only allow the sale of processed foods made using processed egg inputs.

We are proud to do progressively successful business with the flagships of Ukraine's food processing industry and global brands with operations in Ukraine, such as Nestle.

Another strategic pillar of our business model is our rapidly expanding export operations. In 2012, we continued our aggressive conquest of foreign markets by leveraging our high quality and cost leadership to win over market space.

We export both shell eggs and egg products and expand our coverage with every passing year. In 2012, we were already selling to 32 markets all over the globe.

While we continue to focus on the Middle East and North Africa region (MENA) as our primary target market, we keep on exploring new markets.

The span of geographic coverage of our shell egg exports is constrained by delivery time because eggs must arrive at their end consumers fresh. However, we keep pushing that frontier farther and farther. In 2012, we reached as far as Angola, which is in the middle of Sub-Saharan Africa – a staggering 12 thousand kilometres away from Ukraine.

In fact, we have reached much farther than that with our dried eggs, as far as Indonesia South Korea and Thailand, which only emphasises the crucial competitive advantage that egg products posses, a much longer shelf life as compared to shell eggs.

In 2012, we stayed on schedule in the implementation of our massive investment programme and successfully launched the first phase of new capacity at the new farms of Avis and Chornobaivske. An important milestone was the successful installation and launching at both Avis and Chornobaivske of four top-of-the-line MOBA graders that have enabled us to upgrade to fully automated egg grading, a critical process that helps achieve and maintain consistent quality.

In 2012, we kept up our strong financial performance with sales totalling US$629.3 million and EBITDA reaching US$279.8 million while staying at its sustainable margin level of 44% of sales. And last but not least, we continued operating with very low leverage, with a gross debt of 1.3 times LTM EBITDA.

AVANGARDCO IPL continues to benefit from strong market fundamentals while pursuing ambitious growth plans, relying on solid operating resources and posting consistently improving financial results.

Iryna Marchenko
Cheif Executive Officer
AVANGARDCO IPL

Operating and financial review

Operating performance

Our performance remained strong throughout 2012. To support growth in sales and EBITDA, we continued to expand and streamline our operations. As the Company's massive investment programme unfolds, we continue to populate our new facilities with pullets and layers. By year-end 2012, AVANGARDCO IPL's total flock reached 27.5 million hens having grown nearly 10% as compared to the year before.

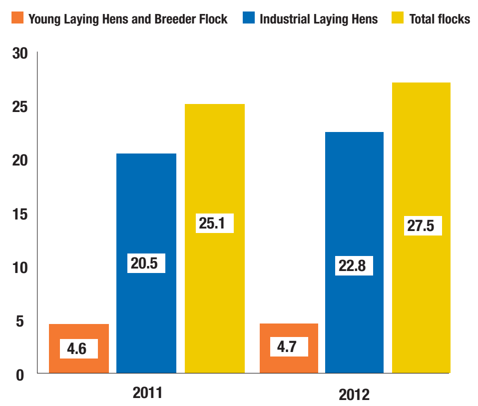
As the scale of our operations continues to expand, so does our output. Total egg production grew from 6.0bn eggs in 2011 to 6.3bn in 2012. Our production volume will continue to rise as we gradually commission new capacities and increase the layer flock at Avis and Chornobaivske.

Our processing volume did not change significantly and we processed 1.1 billion, which translated into 14.1 thousand tons of dried egg products in 2012.

Imperovo Foods, our breaker plant, has reached full capacity utilisation. However, as the market for egg inputs continues to grow, both domestically and internationally, we seek to expand our processing operations to fully benefit from this growth.

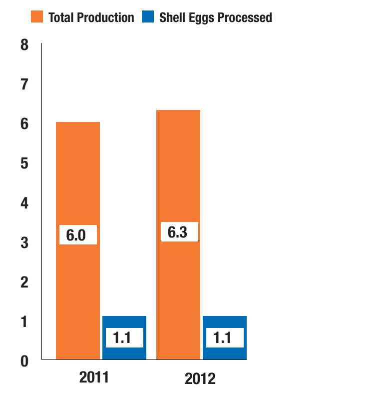
A threefold expansion of processing capacity is therefore a crucial component of AVANGARDCO IPL's on-going investment programme. Within a year, we will increase our daily processing volume from the current level of 3 million eggs per day to 6 million (H12013) and on to 10 million (YE2013). The new capacity will reach full utilisation towards the end of 2014. Importantly enough, this expansion programme will not require us to shut down or suspend the plant.

Total Flock, million hens at YE2012



Source: AVANGARDCO IPL's data

Production of Shell Eggs and Egg Products in Egg Equivalent, billion eggs



Source: AVANGARDCO IPL's data

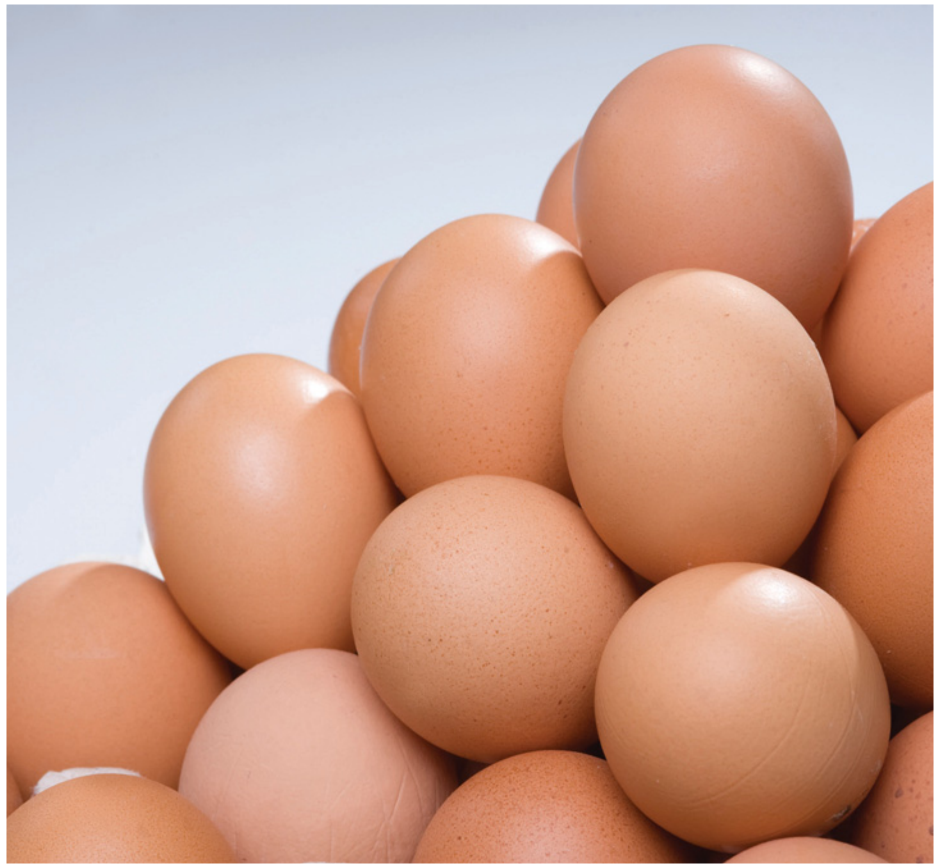
Company sales

In 2012, our sales grew 14%, from US$553.3 million in 2011 to US$629.3 million in 2012. In volume terms, our shell eggs sales grew 6.1% – from 4.9 billion eggs in 2011 to 5.2 billion in 2012. Our average selling price grew 9.4% over the same period.

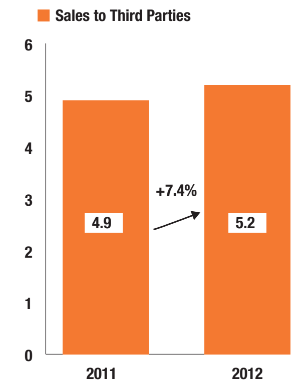
In 2012, AVANGARDCO IPL retained its undisputed leadership of Ukraine's egg farming industry holding first place in flock size, egg production, processing, domestic and exports sales

AVANGARDCO IPL continued to build up its total flock reaching 57% of Ukraine's industry total. We expect further growth in our flock size as we scale up operations under our ambitious investment programme.

In 2012, our share of industrial production edged up from 51% to 52% of the total for the industry.

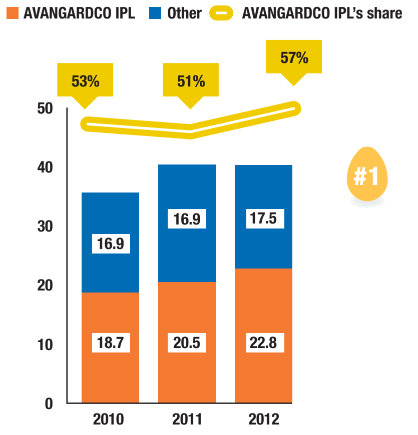


Shell Egg Sales in Volume Terms, billion eggs



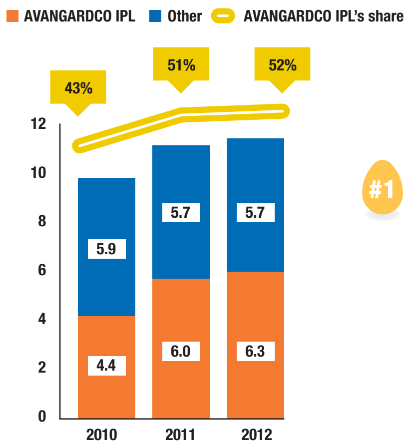
Source: AVANGARDCO IPL's data

Total Flock, million hens



Source: Pro-Consulting, AVANGARDCO IPL's data

Industrial Production of Shell Eggs, billion eggs



Source: Pro-Consulting, AVANGARDCO IPL's data

Company sales of shell eggs in Ukraine

In 2012, we continued to solidify our dominant position in Ukraine's domestic market by leveraging our core strengths and successfully pursuing our unbeatable strategies for enduring success.

Our overarching strategy in the domestic shell egg market is Diversification of sales channels. In the past three years, we have completely reengineered our domestic operations by dramatically increasing sales through modern retail chains while substantially reducing traditional distribution through middlemen.

Our business with retail chains skyrocketed from 2% of sales in 2009% to 35% in 2012.

We started out by introducing unpackaged eggs to supermarket shelves to enable customers to buy exactly as many eggs as they needed, and then in 2011, we moved up a gear and added a new segment to our supermarket sales by entering the convinient-segment, which in Ukraine, is dominated by trays of 10 eggs. Unlike the mass-market segment, the new branded segment allows us to charge a higher price for meeting consumers' progressivily evolving preferences.

Since the launch of our umbrella brand Kvochka, we have pursued further expansion of our branded egg sales by launching sub-brands to achieve closer affinity to customer expectations.

The Kvochka family of brands currently includes three varieties - Kvochka, Kvochka Domashnya (Home-Laid) and Kvochka Organic that belong under different price segments.

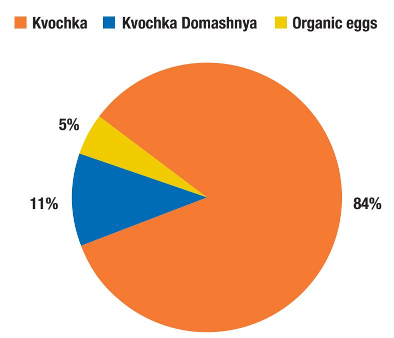
Our brands allow us to practice Differentiation and charge a good price for premium quality. That said, Kvochka-branded eggs are selling at a price, which is 9% higher than that of our economy thirty-egg offering. At the same time, we leverage our Cost Leadership and charge a price on headline Kvochka eggs, which is 5% lower than peers. Only private labels are cheaper of the shelf.

The headline Kvochka brand claims 84% of our total sales of branded 10-egg trays, Kvochka Domashnya (Home-Laid) accounts for 11% and the share of Kvochka Organic is 5% of the total.

The Kvochka brand has already entered most of Ukraine's major retail chains. For example, the share of ATB, Ukraine's largest discounter, in total Kvochka sales is a large as 40%, while Silpo, member of Fozzy Group, Ukraine's largest retail chain operator, sold 36% of all Kvochka-branded eggs in 2012. We are seeking further diversification by promoting business to a greater number of retail chains.

We started out by promoting Kvochka-branded eggs to national retail chains, and since September 2012 we have been aggressively acquiring shelf pace at regional chains and convenience stores. As of year-end 2012, we were selling Kvochka eggs through 2,200 retail outlets including 1200 chain store and 1,000 convenience stores.

Sales of Branded Shell Eggs, 2012



КВОЧКА

КВОЧКА Домашні

ORGANIC EGGS

Source: AVANGARDCO IPL's data

Kvochka Sales by Key Accounts, 2012

Supermarket	%
ATB	40
Silpo	36
Pakko	8
Velyka Kyshenya	3
Eko	3
Karavan	2
Metro	1
Eksoabsiya	1
Krai	1
Megamarket	1
Auchan	1
Perekrestok	1
Traditional trade	2

Source: AVANGARDCO IPL's data

Company sales of egg products in Ukraine

Already a dominant player among Ukraine's egg processors, AVANGARDCO IPL further increased its market share in 2012 claiming 88% of the country's production of dried eggs.

Growth in Ukraine's domestic market for dried eggs is driven by the evolution of the country's food processing industry and is a good measure of its maturity.

As food processors aspire to meet European and international standards to increase domestic sales and tap foreign markets, they progressively embark on the use of processed egg inputs.

We pursue a dual strategy in our home market for dried eggs. As the largest egg processor in Ukraine, we feel responsible for educating food processors on the benefits of high-quality egg products encouraging them to switch to their use. At the same time, we are promoting business to the Ukrainian subsidiaries of global brands advertising high-quality and cheaper dried eggs produced in Ukraine as a competitive substitute for imported egg inputs.

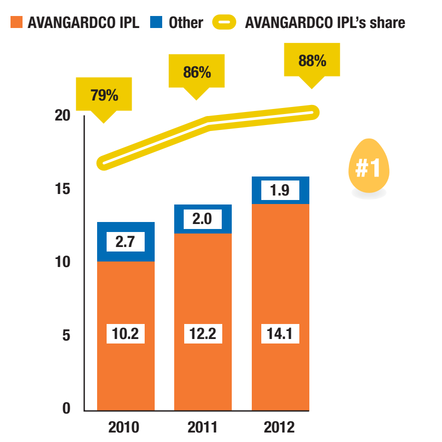
We are extremely proud to have acquired Nestle as a client and we remain committed to the goal of promoting Ukraine's domestic egg processing industry to international brands as they enter Ukraine.

We are equally honoured to do business with leading Ukrainian brands, such as Roshen, Konti, AVK. and contribute to their domestic and international growth.

And last but not least, our egg-processing segment is a critical component of AVANGARDCO IPL's unique Counter-Cyclicality strategy aimed at countering seasonality in Ukraine's egg market by venting off excessive supply down the processing channel to alleviate downward pressure on the price.

Growth in Ukraine's domestic market for dried eggs is driven by the evolution of the country's food processing industry and is a good measure of its maturity.

Industrial Production of Dried Egg Products, thousand tons



Source: Pro-Consulting, AVANGARDCO IPL's data

Export sales

Throughout 2012, we continued our victorious conquest of foreign markets.

We have gained a solid foothold in the Middle East and North Africa (MENA) region, which we identify as our anchor market for shell eggs.

The MENA market is highly dependent on imported eggs and egg products. A challenge for the region, an opportunity for AVANGARDCO IPL.

We are quite conscious of the uncertainties affecting our trade with the MENA region and have taken extensive precautions to eliminate credit risk by requiring full prepayment and delivery risk by selling Ex-Works. True, our single largest market is Iraq with a share of 59% of our exports. But it's important to note that most of this volume comes from trade with Iraqi Kurdistan, a province in the northeast of the country with its capital in Arbil, its own legislature and executive government that has enjoyed a broad autonomy from Baghdad since 1970.

MENA is positively the most attractive target market as a clear net importer of eggs.

It should be pointed out that as we actively enter new markets the share of Iraq in our total exports is consistently and rapidly shrinking. In 2012 its share shrank from 70% to 59% of the total.

In 2012, our conquest of new markets substantially accelerated. In the period of 2009-2011 we were selling to 20 markets. In 2012, we exported to twelve new markets for a total of 32.

We pride ourselves on our success in challenging the geographical boundaries of shell egg sales, constrained by delivery time rather than distance. In 2012, we reached as far as Angola (Sub-Saharan Africa), a staggering 12 thousand kilometres away from Ukraine.

We also continued expanding our egg product export geographies reaching more markets in South East Asia by adding Taiwan and Thailand.

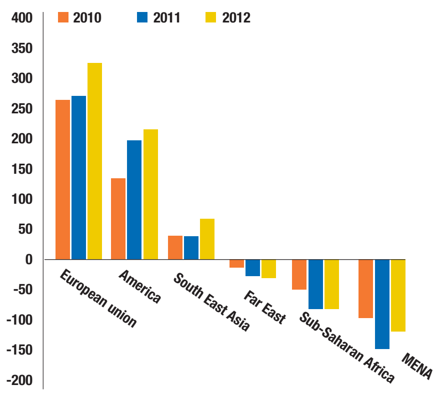
There is one more ace up our sleeve that beats all else. As a fully vertically integrated egg producer and processor, AVANGARDCO IPL offers full traceability of our products, from as far upstream as the grain that goes into the production of compound fodder that we use to feed our entire flock and as far downstream as our breaker plant. We label each and every batch of our eggs or egg products with farm or plant IDs and we keep track of the ancestry of each and every one of our layers because they hatch at our own hatcheries and grow up at our own rearing farms.

In terms of outbreaks of disease, bird flu to name but one, and other biohazards, South East Asia has been the most severely affected part of the world in the last couple of decades. Suffice it to say that over 90% of all confirmed bird flu cases in humans have been registered in that region. This explains why biosecurity and traceability represent such huge concerns there. Then again, a challenge for the market and an opportunity for the company

In terms of future plans of growing our exports, we will stay focused on the Middle East and North Africa Market while promoting egg product sales to South East Asia and keeping and eye on the European Union.

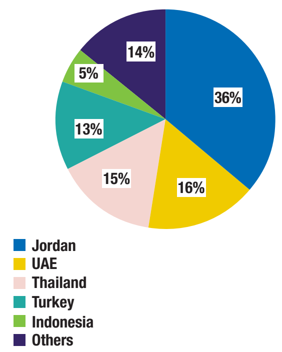
Pursuant to the EU Regulation No. 88/2013 of 31 January 2013, Ukraine has received permission for export of eggs and egg products into the EU. Upon the completion of various formalities, this development is expected to open up new opportunities for export sales in the future. At present, the Ministry of Agrarian Policy and Food of Ukraine is preparing a list of Ukrainian entities producing meat, meat products, eggs and egg products to be approved and registered by the EU authorities for such export sales. Several facilities belonging to AVANGARDCO IPL has passed all audits for eligibility by relevant authorities.

Trade Balance of the most Active Regions in the Egg Trade, US$ millions



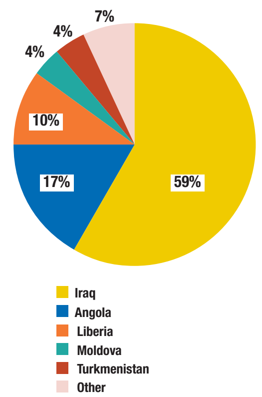
Source: Pro-Consulting, International Trade Center

Eggs Powder Top-5 Exports Markets in 2012, %



Source: AVANGARDCO IPL's data

Eggs Top-5 Exports Markets in 2012, %



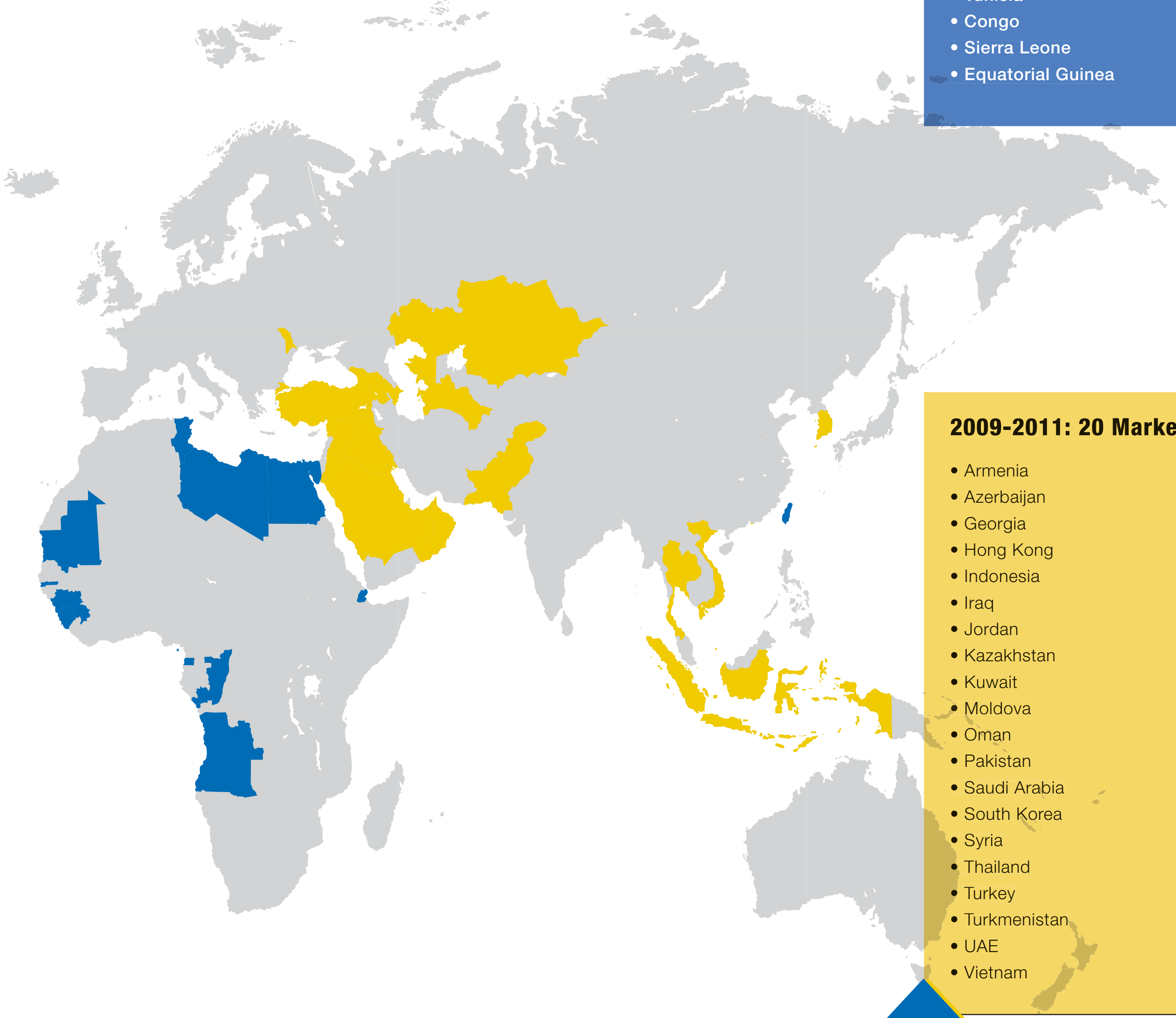
Source: AVANGARDCO IPL's data

Export sales

We consider the EU market to be an important export market for egg products in the long-term, despite the fact that it is strongly protected by various trade barriers. Brand value matters a lot when trading with Europeans, and we will start by making efforts to promote our brand recognition and acceptance while cautiously reconnoitering this new and potentially highly lucrative market.

2012: 12 Markets

- Angola
- Egypt
- Gambia
- Liberia
- Libya
- Mauritania
- Republic of Djibouti
- Taiwan
- Tunisia
- Congo
- Sierra Leone
- Equatorial Guinea



2009-2011: 20 Markets

- Armenia
- Azerbaijan
- Georgia
- Hong Kong
- Indonesia
- Iraq
- Jordan
- Kazakhstan
- Kuwait
- Moldova
- Oman
- Pakistan
- Saudi Arabia
- South Korea
- Syria
- Thailand
- Turkey
- Turkmenistan
- UAE
- Vietnam

2009-2012: 32 Markets

Financial performance

Our total sales grew from US$553 million in 2011 to US$ 629 million in 2012, largely driven by our two core segments, shell eggs (+18%) and egg products (+8%).

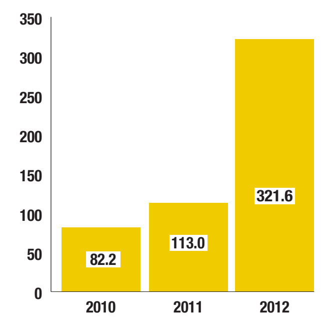
Such positive sales growth dynamics and our continued efforts aimed at keeping up profitability enabled us to maintain our EBITDA margin at its sustainable level of 44% sales and reach a total EBITDA of nearly US$280 million.

Our CAPEX programme is dedicated to the construction of two large-scale egg farms, Avis and Chornobaivske and expansion of our breaker plant, Imperovo Foods.

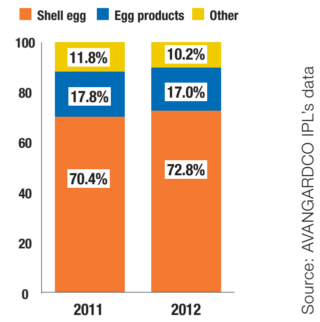
Sales Revenue

	Shell egg	Poultry	Animal feed	Egg products	Other activities	Total
Sales revenue	**608,880**	**65,837**	**219,757**	**106,644**	**6861**	**1,007,979**
Intra group elimination	(150,572)	(41,105)	(183,221)	–	-3775	(378,673)
Revenue from external buyers	**458,308**	**24,732**	**36,536**	**106,644**	**3,086**	**629,306**
Income from revaluation of biological assets at fair value	19633	6558	–	–	–	26,191
Other operating income/ (expenses)	-1902	563	-2580	395	5,297	1773
Income from government grants and incentives	301	4	–	–	–	305
Operating profits / (loss)	**229,932**	**2,902**	**(4,471)**	**49,666**	**13545**	**264,484**

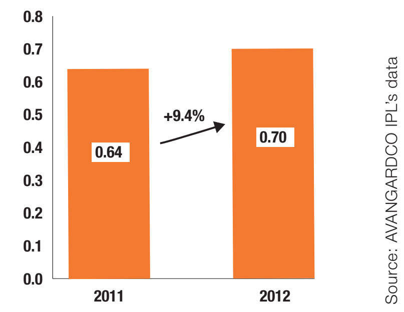
Capital Expenditures US$ millions (as indicated in cashflow statements)



Sales Revenue Structure, %



Average Selling Price of Eggs, UAN per egg (net of VAT)

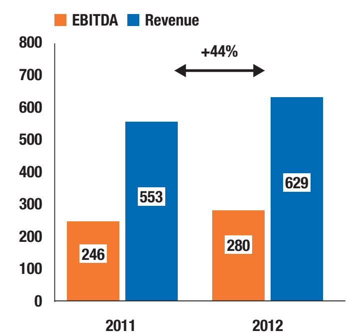


Debt Structure

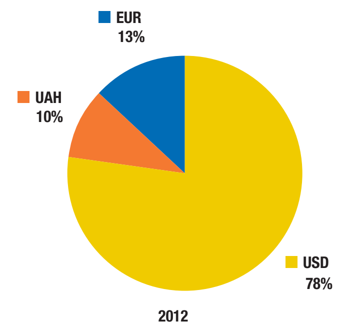
$`000	2011	2012	% change
Total Debt	**318,114**	**352,232**	**+11%**
Long-term	240,038	232,841	+8%
Short-term	78,076	119,391	+17%
Cash and cash equivalents	**237,814**	**204,298**	**-14%**
Net Debt	**80,284**	**148,238**	**+85%**
EBITDA	**245,834**	**279,768**	**+14%**
Net debt/EBITDA	0,3	0,5	
Total debt/EBITDA	1,3	1,3	

The bulk of our debt is a Eurobond of US$195 million maturing in 2015. We continue operating with low leverage in full compliance with the covenants we have assumed as part of our bond issue.

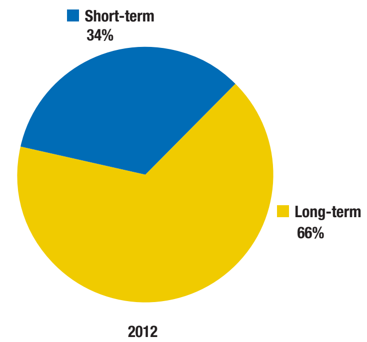
Key Financial Indicators, US$ millions



Debt Portfolio Structure by Currency



Debt Portfolio Structure, US$ millions



Investment programme

In 2012, AVANGARDCO IPL continued implementing its ambitious investment programme that will be largely completed towards the end of 2013.

The core element of this programme is the construction of two large-scale full-cycle egg farms, Avis and Chornobaivske.

Once fully operational, the two heavyweights will become Eurasia's largest egg farms with a total flock size of 7.9 million hens at Avis (5.2 million layers and 2.6 million pullets) vs. 8.4 million at Chornobaivske (6 million layers and 2.4 million pullets).

Each of the twin farms will incorporate the full chain of vertical integration covered by AVANGARDCO IPL's business model, except for one element, hatcheries, in which the company is already self-sufficient. Each will incorporate a pullet farm, a layer farm, a feed mill with its own grain silo, an egg grading section, a slaughterhouse and, last but not least, a biogas plant which will turn waste to clean energy.

Contrary to the popular view that greater concentration necessarily implies greater risk, in the case of AVANGARDCO IPL's new farms quite the opposite holds true. At Avis and Chornobaivske the risk of disease is comparatively smaller because all input and output flows and most flock movements occur within the tightly controlled perimeter, thus minimising or fully eliminating exposure to wild birds and rodents. Our modern henhouses are airtight and use artificial ventilation to prevent contact with flying insects and airborne bacteria.

Feed is also produced within the perimeter and rigorously checked for pests and contaminants. Our advanced cage housing systems fully eliminate contact with the soil while allowing more space per hen due to the use of so-called enriched cages.

And last but not least, contact with humans is brought to a minimum through technology. Each new henhouse holds ca 250 thousand birds and requires as few as two operators.

A critical design feature of this large-scale capacity expansion is its stepwise implementation. For one thing, it much easier to embrace growth delivered gradually; and there's sufficient time available to seamlessly integrate new capacity into our asset base. For another, stepwise implementation provides reality checks to help determine the optimal size of your expansion.

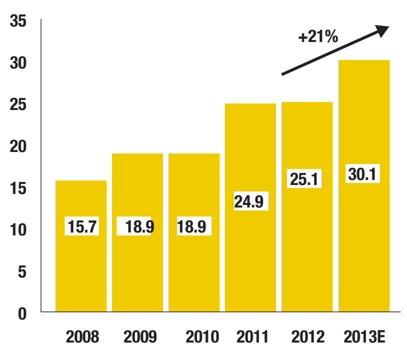
We are often asked: what makes you think you will be able to sell this massive additional output that will come from Avis and Chornobaivske. The fact is we are already selling it, and quite successfully too.

Both new farms are already operational within their originally designed proportions. As at 2012, we populated Avis with a total flock of 5.8 million birds (4.2 million layers and 1.6 million pullets) and deployed 3.6 million at Chornobaivske (2 million layers and 1.6 million pullets).

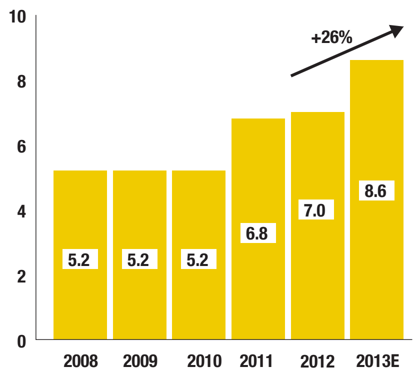
Sales from the new farms contributed prominently to our top line and earnings in 2012, which proves that our investment programme is already successful and warrants further expansion contemplated under stage 2 at Avis and stages 2 and 3 at Chornobaivskse.

The biogas plants, designed as part of the new complexes to recycle manure into clean energy, once on stream, will substantially improve the economics of both Avis and Chornobaivske and dramatically reduce their environmental footprint.

Capacity, million layers



Capacity in Shell Eggs Production, in billion eggs



Avis: Key Facts

REARING SITE
- Stage 1 launched, henhouses with a holding capacity of 1.581 million pullets commissioned
- Stage 1 fully populated
- Stage 2 to be commissioned in 1H2013 adding 1.054 million pullets

LAYING SITE
- Stage 1 launched, henhouses with a holding capacity of 3.196 million layers commissioned
- Stage 1 fully populated
- Stage 2 will be commissioned in 2H2013 adding 2.000 million layers
- Line 1 of Stage 2 commissioned in October 2012 adding 1,005 layers

FEED MILL
- Total designed capacity of 500 thousand tons/year including a soybean extrusion section and a grain elevator with a capacity of 56 thousand tons
- Full set of equipment delivered
- Assembly in progress
- Grain elevator construction completed
- First delivery of grain taken by the elevator in October 2012
- Commissioning of the feed mill scheduled for April 2013

BIOGAS PLANT
- Stage 1 with a capacity of 4 MWe to be commissioned by December 2013
- Stage 2 with a capacity of 4 MWe capacity to be commissioned by December 2014
- Contract signed with the equipment supplier, MT Energie (Germany)

Key Facts: Chornobaivske

REARING SITE

- Stage 1 launched, henhouses with a holding capacity of1.608 million pullets commissioned
- Stage 1 fully populated
- Stage 2 to be commissioned in 1H2013 adding 802 thousand pullets

LAYING SITE

- Stage 1 of 2.007 million hens capacity has been commissioned
- Stage 2 to be commissioned in 1H2013 adding 1.003 million layers
- Stage 3 to be commissioned in 2H2013 adding 2.967million layers

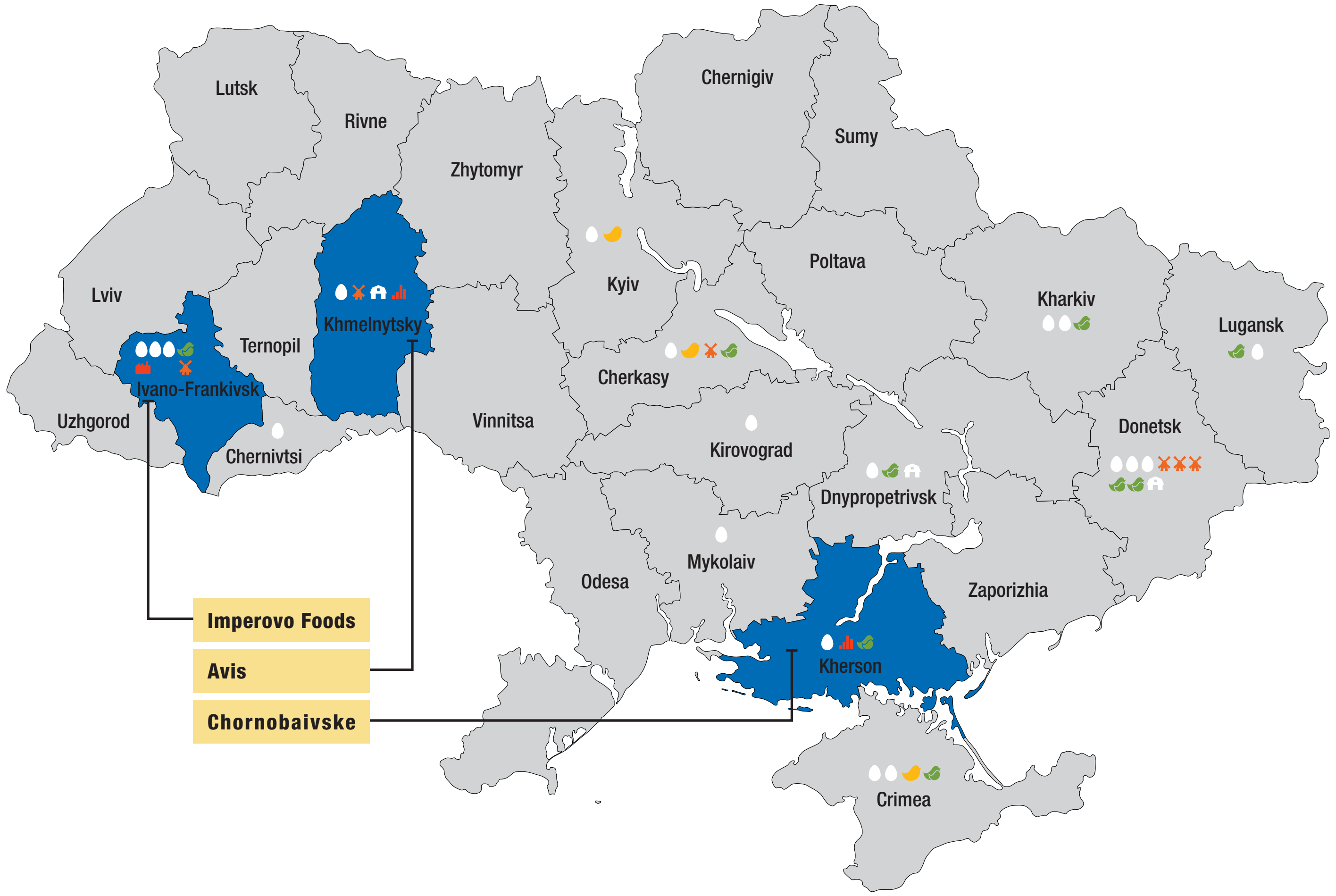
FEED MILL

- Total capacity of 500 thousand tons/ year with 30 tons/hour in the production of full-fat soybean meal and a grain elevator with a capacity of 56 thousand tons
- Equipment prepaid in full
- Equipment delivery to commence in February 2013
- Construction work started in December 2012
- Commissioning of feed mill scheduled for 2H2013

BIOGAS PLANT

- Stage 1 with a capacity of 3 MWe to be commissioned by December 2013
- Stage 2 with a capacity of 6 MWe capacity to be commissioned by December 2014
- Contract signed with the equipment supplier, Bigadan A/S (Denmark)

New facilities



Another critical advantage of the new farms lies in the careful choice of locations. As the engines of our future export growth, both new farms sit at the crossroads of major export thoroughfares. Chornobaivske is based in Kherson Province within easy reach of Ukraine's largest Black Sea ports. Avis sits near the EU border and in close vicinity to our breaker plant, Imperovo Foods.

Another major expansion exercise is unfolding at Imperevo Foods, our egg processing plant. Our target is to triple its current breaking capacity from the current 3 million eggs per day to 10 million.

This upgrade will also be delivered in stages. At the first stage we will grow from 3 million eggs per day to 6 million, and then from 6 million to 10 million eggs per day.

As we demonstrated earlier, the market fundamentals and growth dynamics in both the shell and dried egg markets remain strong and we feel confident about our ability to find a market for our increased output of both fresh and processed eggs. Stepwise implementation, as our overarching approach to any expansion, provides us with useful reality checks proving that the market only welcomes our growth.

Principal risks and risk management

We have implemented a comprehensive risk management framework that enables us to successfully mitigate all critical risks affecting the business of the company.

We use both proactive risk management tools, aimed at precluding or dramatically reducing the probability of emergence of certain risks, and reactive risk mitigants to offset the consequences of risks whose emergence or scale is either unpredictable or difficult to quantify.

Proactive and reactive risk mitigants often complement each other with the former acting as our first line of defence, and the latter serving as our second.

Proactive risk mitigants are checks and balances embedded in the very design of our critical business processes. They enable us to proactively identify and mitigate potential risks before they arise. Some of our preventive defences are so solid that they almost completely eliminate the risks that they target. However, when dealing with risk, 'almost' is not enough.

Admittedly, proactive risk management has its own limitations to the extent that it heavily relies on assumptions and predictions about risk. Predictions, however well founded, seldom hit the bull's eye, which implies we need a plan B, and we have one.

Our plan B is our set of reactive mitigants that stay on stand-by mode in normal circumstances and only kick into life only whenever our proactive defences fail or falter, as illustrated in the example of the risk of overproduction during low season.

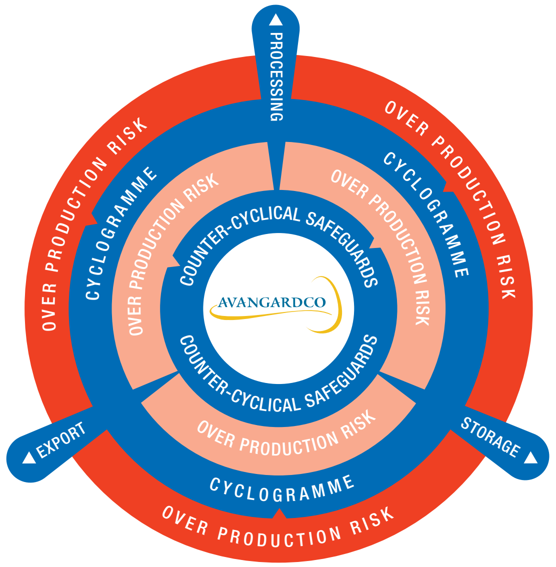
Ukraine's egg market is characterised by pronounced seasonality. Between May and August, households keep their own hens switch from buying their eggs to producing them within the household because homebred hens only lay eggs in warm weather. This causes demand to drop and puts downward pressure on the price. Industrial producers struggle to reduce output to avoid losses.

We proactively address this risk through careful flock replacement planning by ensuring that during low season we operate the smallest possible layer flock with minimum laying productivity, which may at times require us to suspend new flock deployment until the market rebounds.

Our flock replacement schedules, also known as cyclogrammes, are highly accurate because all the critical components of this planning routine, e.g. hatcheries, pullet and layer operations, find themselves within AVANGARDCO IPL due to vertical integration.

Yet, we only wish we could completely eliminate the risk in question through flock replacement planning. Just as in dealing with other risks, we use a second line of defence to react to overproduction risk once it manifests itself and takes shape.

In this example, it is the three safeguards described above as part of our Counter-Cyclicality policy that act as our second line of defence. Should we ever overproduce, we can always redirect any excessive volume down the export channel, put eggs into long-term storage or send more eggs through processing.



In terms of risk classification, we use classical models and identify the following classes of risk:

• Risk of sovereign default
• Risk of expropriation

- AVANGARDCO IPL is based in Ukraine we are exposed to Ukraine's sovereign risks as much as other Ukrainian companies.
- We do not consider severe manifestations of sovereign risk, e.g. sovereign default or expropriation to be highly probable

• Severe loss of GDP
• Currency depreciation/ appreciation

- Imposition of price controls is not highly probable with market forces doing a good job keeping egg prices low.
- Export barriers would be counterintuitive.
- Chances of tax benefits being lifted appear slim because they are sectorwide

• Imposition of regulatory restrictions
• Abolition of preferences sovereign

- Imposition of price controls is not highly probable with market forces doing a good job keeping egg prices low.
- Export barriers would be counterintuitive.
- Chances of tax benefits being lifted appear slim because they are sectorwide

• Decline in demand
• Cost inflation
• Maket share loss

- Seasonal drop in demand countered with anti-cyclical policies.
- Cost inflation kept in check through forward grain buying.
- Loss of market share highly improbable due to market dominance based on hard-to-match strengths

• Risk of industrial action
• Turnover risk
• Severance risk

- Workers not unionised
- Collective bargaining agreements in place at operating companies
- Turnover low among key personnel
- Severance arrangements in line with legislation, not onerous

• Biohazards
• Overproduction
• Interruption in input/output flows Blackouts, etc.

- Biosecurity standards rigorously enforced
- Overproduction kept in check through countercyclical policies
- Interruptions in input/outflow flows highly unlikely due to vertical integration

• Credit risk
• Rollover risk

- Credit risk kept in check by requiring full prepayment on export sales and extending limited credit to domestic key accounts
- Rollover risk moderate with a lion's share of the debt portfolio (the AVANGARDCO IPL bond) benchmarked to LIBOR

Certain classes of risk lie largely within our control span, some largely without.

Depending on relative strength of control, we apply the right risk mitigation action to an individual risk or risk class

Strength of Control		
Weak	**Medium**	**Strong**
Political	Market	Operational
Economic	Financial	
Regulatory	Labour	

COUNTERVAIL

We take this risk mitigation action when dealing with risks clearly outside our control span and/or those, which are difficult to quantify. A good example is the risk of Ukraine's currency depreciation. While most analysts agree it is imminent, predictions range quite wildly as to its timing or extent.

The best action to take under these circumstances is to seek to offset any exposure to FX risk through hedging. In default of a market for hedging instruments in Ukraine, we use natural hedging to ensure that our revenues in foreign currency sufficiently cover our foreign currency outlays.

MINIMISE

We seek to minimise the impact from risks, over which we have at least some control. We do so by reducing the chances of their emergence or by minimising their consequences. A good example is our exposure to grain price fluctuations. While we are certainly affected by grain price dynamics as an egg producer to the extent that grain is our largest cost driver, we have worked hard to minimise that exposure by buying grain forward to lock in its cost to us for the next twelve months.

ELIMINATE

When dealing with risks identified as being largely within our control span, we seek to eliminate them to the extent possible. Such risks mostly affect our operations and the most salient of our operational risks is, without a doubt, the risk of breach of our biosecurity safeguards. We have built solid biosecurity defences around our flock and products and can cautiously claim that we have eliminated the risk of disease penetrating the flock through contact with rodents or wild birds while minimising the risk of contagion through contact with humans. We do it cautiously not because we doubt whether it is true. We do so to demonstrate that even if we consider a certain risk as eliminated we continue to keep it on our radar screen because risks tend to evolve and mutate and so must our defences.

We consider risk management to be an integral part of our strategic management. Our core competencies and strategies, while supporting our goals, are also helping identify, assess and effectively mitigate any risks that stand in the way.

Risk management is a shared responsibility of all our key functions. We encourage all team members to approach their individual jobs with a risk-conscious mind, to identify, report and address any risks that fall within their remit.

Sustainable development

Our stakeholders

As a public company, an industry leader and a socially responsible business, we are keenly aware of our extensive accountabilities to a wide range of stakeholders that have a legitimate interest in the business of AVANGARDCO IPL.

Lenders

- We are proud to do mutually beneficial business with our lenders, e.g. banks and bondholders
- We timely meet all our debt obligations and demonstrate solid creditworthiness

Suppliers

- We treat our suppliers as partners
- We jointly conceive and deliver projects that leverage both partners' strengths and contribute to our shared growth

Shareholders

- We owe a duty of care to our Shareholders and strive to meet their expectations
- We continue to prove with our consistently excellent results of operations that AVANGARDCO IPL is a worthy investment

AVANGARDCO

Shareholders

- We owe a duty of care to our Shareholders and strive to meet their expectations
- We continue to prove with our consistently excellent results of operations that AVANGARDCO IPL is a worthy investment

Regulators

- We consistently comply with all applicable regulations in taxation, company law and, last but not least, environmental impact
- We act as a law-abiding and bona fide corporate entity

Communities

- We think globally about our Corporate Social Responsibility while acting locally to support the many communities in which we operate
- We promote healthy lifestyles by sponsoring sporting events

Customers

- We put our Customers first in anything we do.
- We continue to acquire new customers both domestically and globally while retaining and rewarding for loyalty our existing clients

Environmental impact

ANIMAL WELFARE
We house our birds in conventional and enriched cages and beg to differ with the popular view that cage-free housing necessarily improves animal welfare.

We consider that modern cage systems provide a more comfortable environment, better air quality and less exposure to disease.

MANURE
We dispose of manure in an environmentally sustainable manner through timely removal and safe disposal.

As part of our investment programme, we are building two large-scale biogas plants that will recycle chicken manure into green energy.

ODOUR
We counter the spreading of odour by using advanced manure removal and disposal methods.

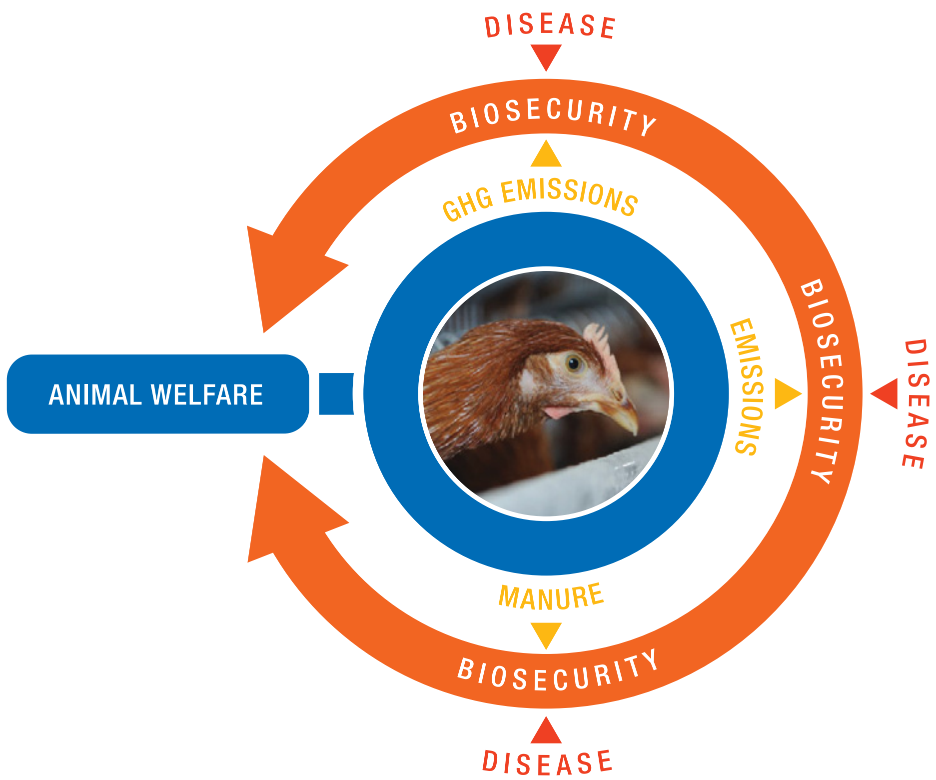
We are also converting to the use of airtight henhouses with automated air ventilation systems.

DISEASE
We use safeguards to prevent contact between our flock and disease agents, e.g. wild birds and rodents. Each production facility is surrounded by a disinfection barrier comprised of ditches filled with formalin, which neutralises bacteria on automobile tyres. The entrance passageways to the facilities at AVANGARDCO IPL are treated daily in order to neutralise bacteria on visitors' footwear. Each of the egg production facilities at AVANGARDCO IPL has restricted access and has a "shower in/shower out" policy for employees. Employees at the breeding and production facilities of AVANGARDCO IPL are prohibited from keeping birds at their households (and receive in-kind benefits as compensation). All employees undergo mandatory training prior to beginning their employment and receive regular updates and training on biosecurity measures.

Our Employees' knowledge of biosecurity procedures is monitored on a regular basis.

We control feed supply and minimise contact with humans. In addition, AVANGARDCO IPL attempts to control the risk of disease through the careful selection of breeding flock that it considers to be more resistant to disease and compliance with Hy-Line's recommendations on vaccinations. AVANGARDCO IPL also vaccinates all of its chickens at hatching against Newcastle Disease, Marek's Disease, bronchitis, Infectious Bursal Disease and other diseases in accordance with mandatory Ukrainian law.

Our robust biosecurity systems protect both our flock and our products from disease.



GHG EMISSIONS
At AVANGARDCO IPL, we are investing in biogas plants to recuperate and recycle our carbon emissions by converting them to clean energy.

At AVANGARDCO IPL, we conduct environmentally responsible business by recognising and proactively mitigating our impact on the environment. We vigilantly monitor our ecosystem and rigorously enforce applicable environmental regulations and stringent corporate policies in the area of biological security to make our business truly sustainable, *Sustainable by Nature*

Corporate social responsibility

HUMAN RESOURCES MANAGEMENT
We consider our staff to be our most valuable asset. We exercise extreme care in selecting our personnel, motivating and incentivising our employees towards high performance through management by objectives, rewarding top performers and providing our people with extensive professional development opportunities.

Our human resources management policy is aimed at attracting and retaining highly competent personnel at all levels.

We are committed to achieving a healthy balance between work and leisure by practicing flexible working hours. Apart from salaries and cash bonuses, we provide our employees with extensive fringe benefits, e.g. shuttle buses to work, corporate mobile phones and bonuses in kind (our products).

The Company has implemented a sound incentive framework for employees rewarding high performance with bonuses for achieving targets, loyalty and commitment to the Company development and other incentives.

A voluntary medical insurance program for different categories of employees was launched in 2012. The Company does not consider age, colour, ethnic origin, gender, political views, religious beliefs or sexual orientation a barrier to employment or promotion.

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

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

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

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

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

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

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

The Company has specialized laboratories staffed with highly skilled personnel.

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

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

The Company has already signed contracts with leading Germany producers to implement the project, MT Energie and Bigadan A/S.

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

Corporate Governance

Board of Directors

Nataliya Vasylyuk
Chairwoman of the Board

Nataliya Vasylyuk, Chairwoman of the Board. Mrs. Vasylyuk obtained a Finance and Accounting Diploma at the Ivano-Frankivsk National Technical University of Oil & Gas in 2005. She began her career in 2004 as sales and marketing director at Prykarpattya Financial Company LLC. From 2004 to 2007, Ms. Vasylyuk served as CFO at in LLC Stanislavska Trade Company. Natalya Vasylyuk joined the Company in 2007.

Oleg Bakhmatyuk
Board member

Oleg Bakhmatyuk, Board member. Mr. Bakhmatyuk graduated from the Economy and Law Institute in Chernovtsi, Chernivtsi region, with a Business Management degree. Mr. Bakhmatyuk graduated from the Institute of Economics and Law, Chernivtsi, Ukraine with a degree in business administration. He founded the Company in 2003. Oleg Bakhmatyuk owns several other companies involved in the food industry, transport, real estate and finance. In addition, Mr. Bakhmatyuk has held various management positions: he was director of LLC Prykarpattya Financial Company in 2004, president of LLC Stanislavska Trade Company in 2005 and deputy chairman of Naftogaz Ukrainy from 2005 to 2006.

Oleg Michael Pohotsky
Non-executive Director

Mr. Pohotsky holds an MBA from the Harvard University Graduate School of Business and a JD degree from the University of Miami. He also holds a BSChE degree from Clarkson University. Mr. Pohotsky has been the managing partner of Right Bank Partners and serves on the boards of two NYSE-listed closed end funds. Mr. Pohotsky also serves on the Board of Advisors of Kaufman & Co., a Boston-based boutique investment banking firm and in the Position of Senior Advisor to GovernanceMetrics International. Mr. Pohotsky serves as an independent director of the company since 2011.

Iryna Marchenko
Chief Executive Officer

Iryna Marchenko,Chief Executive Officer. Ms. Marchenko graduated from the Kyiv Municipal Management Academy in 2004 with an accounting and audit degree. She obtained an ACCA IFRS Diploma in 2008. Ms. Marchenko joined the Company in 2007 and served as CFO through 2012. In January 2013, she took over as Chief Executive Officer.

Oksana Prosolenko
Head of Business Development

Oksana Prosolenko, Head of Business Development. Ms. Prosolenko graduated from the Getman Kyiv National Economic University in 2008 with with a degree in economics. She was Head of Marketing and Analysis at the Ukrainian Union of Poultry Breeders Association from 2005 to 2006 and a senior marketing specialist at Borispol Agro-Trade bird breeding company. At AVANGARDCO IPL, Ms. Prosolenko served as Chief Marketing Officer between 2007 and 2009. In 2010, she was appointed Head of Business Development.

Committees

AUDIT, NOMINATION AND REMUNERATION COMMITTEES

The Directors are responsible for formulating, reviewing and approving the Company's and its subsidiaries' strategies, budgets, certain items of capital expenditure and senior personnel appointments. The Directors intend to establish audit, nomination and remuneration committees, as described below, and may form other committees as necessary in order to ensure effective governance.

The audit committee shall comprise not less than three Directors, at least one of whom will be an independent non-executive Director. The audit committee's responsibilities include, among other things, reviewing the Company's financial statements, accounting policies and internal controls and overseeing its relationship with its external auditors.

The nomination committee shall comprise not less than three Directors, two of whom will be independent non-executive Directors. The nomination committee's responsibilities include, among other things, reviewing the composition of the Company's Board of Directors and making recommendations to the Board with regard to any changes.

The remuneration committee shall comprise not less than three Directors, two of whom will be independent non-executive Directors. The remuneration committee's responsibilities include, among other things, determining the Company's policy on remuneration; however, no Director or manager will be entitled to vote on any decisions regarding his or her own remuneration.

Decisions of each of the said Committees are taken by a majority vote and, in the event of the equality of votes, the Chairman of the Committee has a casting vote.

Statement

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

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

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

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

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

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

Board of Directors report

The Board of Directors of AVANGARDCO IPL (the “Company”) presents to the members its annual report together with the audited consolidated financial statements of the Company and of its subsidiaries (together referred to as “the Group”) for the year ended 31 December 2012.

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
- processing of eggs and selling of egg products.

FINANCIAL RESULTS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 8 of the consolidated financial statements.

The profit for the year attributable to the owners of the Company amounted to US$ 225 448 thousand (2011: US$ 191 943 thousand) which the Board of Directors recommends to be transferred to the revenue reserve.

EXAMINATION OF THE DEVELOPMENT, POSITION AND PERFORMANCE OF THE ACTIVITIES OF THE GROUP

The financial performance of the Group for the year as presented in the consolidated statement of comprehensive income of the consolidated financial statements is considered satisfactory. The Group recorded a profit of US$ 228 233 thousand compared to a profit of US$ 196 294 thousand in the previous year. The Group’s total assets also increased to US$ 1 578 328 thousand from US$ 1 305 654 thousand mainly as a result of increase in profitability.

DIVIDENDS

The Board of Directors does not recommend the payment of a dividend for the year (2011: US$ nil).

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties faced by the Group are disclosed in notes 40 and 41 of the consolidated financial statements.

SHARE CAPITAL

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

BOARD OF DIRECTORS

The members of the Board of Directors at 31 December 2012 and at the date of this report are shown on page 1.

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

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

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

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

EVENTS AFTER THE REPORTING PERIOD

The events after the reporting period are presented in note 42 of the consolidated financial statements.

BRANCHES

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

RELATED PARTY BALANCES AND TRANSACTIONS

Discolosed in note 35 of the consolidated financial statements.

INDEPENDENT AUDITORS

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

By Order of the Board of Directors,

Nataliya Vasylyuk
Chairwoman of the Board

Nicosia, 17 February 2013

Independant auditors report

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of AvangarCo Investment Public Limited (the “Company”) on pages 7 to 72, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

BOARD OF DIRECTORS’ RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR’S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of AvangardCo Investments Public Limited and its subsidiaries as at 31 December 2012, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

REPORT ON OTHER LEGAL REQUIREMENTS

Pursuant to the requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009, we report the following:
We have obtained all the information and explanations we considered necessary for the purposes of our audit
In our opinion, proper books of account have been kept by the Company.
The Company’s consolidated financial statements are in agreement with the books of account.
In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
In our opinion, the information give in the report of the Board of Directors on pages 3 and 4 is consistent with the consolidated financial statements.

OTHER MATTER

This report including the opinion, has been prepared for and only for the Company’s members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other person to whose knowledge this report may come to.

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

KPMG Limited
Certified Public Accountants and Registered Auditors

Nicosia, 17 February 2013

Consolidated statement of financial position

Consolidated statement of financial position

AS AT 31 DECEMBER 2012 (in USD thousand, unless otherwise stated)

ASSETS	Note	31 December 2012	31 December 2011
Property, plant and equipment	5	920,072	512,697
Non-current biological assets	6	46,724	44,304
Deferred tax assets	19	1,966	1,922
Other non-current assets	7	391	93,041
Total non-current assets		**969,153**	**651,964**
Inventories	9	177,886	202,279
Current biological assets	6	56,889	58,916
Trade accounts receivable, net	10	55,551	51,437
Prepaid income tax	19	18	-
Prepayments and other current assets, net	11	11,966	26,946
Taxes recoverable and prepaid	8	102,567	76,298
Cash and cash equivalents	12	204,298	237,814
Total current assets		**609,175**	**653,690**
TOTAL ASSETS		**1,578,328**	**1,305,654**
EQUITY			
Share capital	13	836	836
Share premium	13	201,164	201,164
Reserve capital	13	115,858	115,858
Retained earnings		899,357	673,909
Effect of translation into presentation currency		(68,135)	(67,761)
Equity attributable to the owners of the Company		**1,149,080**	**924,006**
Non-controlling interest		**18,115**	**15,333**
Total equity		**1,167,195**	**939,339**
LIABILITIES			
Long-term loans	14	3,969	15,384
Long-term bond liabilities	15	195,779	194,563
Deferred tax liabilities	19	72	86
Deferred income	33.1	5,047	5,351
Long-term finance lease	22	1,283	3,830
Total non-current liabilities		**206,150**	**219,214**
Short-term bond liabilities	24	25,023	25,013
Current portion of non-current liabilities	18	32,114	26,565
Short-term loans	16	94,368	53,063
Trade payables	20	24,435	17,894
Other accounts payable	21	29,043	24,566
Total current liabilities		**204,983**	**147,101**
TOTAL LIABILITIES		**411,133**	**366,315**
TOTAL EQUITY AND LIABILITIES		**1,578,328**	**1,305,654**

On 17 February 2013 the Board of Directors of AvangardCo Investment Public Limited authorised these consolidated financial statements for issue.

Nataliya Vasylyuk
Chairwoman

Iryna Marchenko
Director, CEO

Consolidated statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER 2012 (in USD thousand, unless otherwise stated)

		Year ended	
	Note	31 December 2012	31 December 2011
Revenue	25	629,306	553,310
Profit from revaluation of biological assets at fair value	6	26,191	23,697
Cost of sales	26, 27	(396,960)	(353,232)
GROSS PROFIT		**258,537**	**223,775**
General administrative expenses	28	(22,559)	(13,161)
Distribution expenses	29	(20,056)	(10,035)
Income from government grants and incentives	33.1	305	318
Income from special VAT treatment	33.2	46,484	38,037
Other operating income/(expenses), net	30	1,773	(7,430)
PROFIT FROM OPERATING ACTIVITIES	**24**	**264,484**	**231,504**
Finance income	32	680	1,492
Finance costs	31	(36,936)	(33,106)
Bargain purchase		-	191
PROFIT BEFORE TAX		**228,228**	**200,081**
Income tax credit/(expense)	19	5	(3,787)
PROFIT FOR THE YEAR		**228,233**	**196,294**
OTHER COMPREHENSIVE INCOME FOR THE YEAR			
Effect of translation into presentation currency		(377)	(3,174)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**227,856**	**193,120**
PROFIT FOR THE YEAR ATTRIBUTABLE TO			
Owners of the Company		225,448	191,943
Non-controlling interests		2,785	4,351
PROFIT FOR THE YEAR		**228,233**	**196,294**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO			
Owners of the Company		225,074	189,424
Non-controlling interests		2,782	3,696
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**227,856**	**193,120**
Earnings per share, USD (basic and diluted)	38	35	30

Consolidated statement of changes in equity

FOR THE YEAR ENDED 31 DECEMBER 2012 (in USD thousand, unless otherwise stated)

	Attributable to owners of the Company							
	Share capital	Capital contribution reserve (3)	Share premium (2)	Retained earnings	Foreign currency translation reserve	Total	Non-controlling interests	Total equity
AS AT 1 JANUARY 2011 (1)	**836**	**115,858**	**201,164**	**482,328**	**(64,587)**	**735,599**	**10,620**	**746,219**
Change in ownership interest								
Effect of acquisitions of non-controlling interest	-	-	-	(362)	-	(362)	362	**-**
Comprehensive income								
Profit for the year	-	-	-	191,943	-	191,943	4,351	**196,294**
Effect from translation into presentation currency	-	-	-	-	(3,174)	(3,174)	-	**(3,174)**
AS AT 31 DECEMBER 2011	**836**	**115,858**	**201,164**	**673,909**	**(67,761)**	**924,006**	**15,333**	**939,339**
AS AT 1 JANUARY 2012	**836**	**115,858**	**201,164**	**673,909**	**(67,761)**	**924,006**	**15,333**	**939,339**
Comprehensive income								
Profit for the year	-	-	-	225,448	-	225,448	2,785	**228,233**
Total other comprehensive income	-	-	-	-	(374)	(374)	(3)	**(377)**
Total comprehensive income	-	-	-	**225,448**	**(374)**	**225,074**	**2,782**	**227,856**
AS AT 31 DECEMBER 2012	**836**	**115,858**	**201,164**	**899,357**	**(68,135)**	**1,149,080**	**18,115**	**1,167,195**

(1) In accordance with the Cyprus Companies Law, Cap. 113, Section 55 (2) the share premium, reserve can only be used by the Company in (a) paying up unissued shares of the Company to be issued to members of the Company as fully paid bonus shares; (b) writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the Company; and (c) providing for the premium payable on redemption of any redeemable preference shares or of any debentures of the Company.

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

(3) In the year ended 31 December 2009, the beneficial owner made an Additional Capital Contribution the amount of UAH 925 122 311(US$ equivalent of US$ 115 858 thousand), in his capacity as an owner. This transaction was carried out under a debt for equity swap agreement resulting in a contibuton but no issue of shares.

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

Consolidated statement of cash flows

FOR THE YEAR ENDED 31 DECEMBER 2012 (in USD thousand, unless otherwise stated)

		Year ended	
	Note	31-Dec-12	31-Dec-11
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		228,228	200,081
Adjustments for:			
Depreciation of property, plant and equipment	5	15,284	14,330
Change in allowance for irrecoverable amounts	30	375	814
Other provisions		134	293
Loss on disposal of current assets		527	-
Loss on disposal of property, plant and equipment		28	233
Impairment of current assets		846	1,129
Other income		(2,054)	-
Effect of fair value adjustments on biological assets	6	(26,191)	(23,697)
Gains realised from accounts payable written-off	30	(861)	(26)
Amortization of deferred income on government grants	33	(302)	(306)
Loss from VAT government bonds sale		-	32
Discount on long-term bonds amortization		1,216	1,092
Bargain purchase	36	-	(191)
Interest income	32	(680)	(1,492)
Interest payable on loans	31	32,176	30,849
Operating profit before working capital changes		**248,726**	**223,141**
(Increase)/decrease in trade receivables		(4,082)	3,282
Decrease in prepayments and other current assets		14,573	14,061
Increase in taxes recoverable and prepaid		(26,269)	(20,291)
Decrease/(increase) in inventories		27,210	(17,120)
Increase in deferred income		(2)	(20)
Decrease in other non-current assets		(34)	-
Increase/(decrease) in trade payables		7,402	(5,297)
Decrease in biological assets		25,121	23,401
Decrease in finance leases		(2,553)	(802)
Increase/(decrease) in other accounts payable		(2,615)	(15,456)
Cash generated from operations		**287,477**	**204,899**
Interest paid		(9,946)	(12,256)
Income tax paid	19	(81)	(6,782)
Net cash generated from operating activities		**277,450**	**185,861**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments and receipts - property, plant and equipment	5	(321,635)	(113,021)
Payments for prepayments of property, plant and equipment		-	(32,613)
VAT government bonds sale		-	225
Acquisitions of subsidiary		-	(17,722)
Interest received		680	1,502
Net cash used in investing activities		**(320,955)**	**(161,629)**
CASH FLOWS FROM FINANCING ACTIVITIES			
New loans received		97,048	94,976
Repayment of loans		(61,603)	(38,056)
Interest paid for bonds issued		(25,335)	(25,183)
Proceeds from short-term bonds issued		-	(19)
Blocked deposit		6,380	(7,174)
Net cash generated from financing activities		**16,490**	**24,544**
Net (decrease)/increase in cash		**(27,015)**	**48,776**
Cash and cash equivalents at 1 January		**230,640**	**183,065**
Effect from translation into presentation currency		(121)	(1,201)
Cash and cash equivalents at 31 December	12	**203,504**	**230,640**

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2012 (in USD thousand, unless otherwise stated)

1. GENERAL INFORMATION

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

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

The consolidated financial statements of the Company as at and for the year ended 31 December 2012 comprise the Company and its subsidiaries (together referred to as the "Group").

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

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

The Group's activities cover all the links of the value chain: from production of combined feed, maintenance and breeding of chickens to production and sale of eggs and egg products. As at 31 December 2012 the production facilities of the Group include 32 poultry facilities (consisting of 19 egg laying farms, 10 hen rearing farms and 3 breeding farms), 6 feed mills, and 1 plant for manufacture of egg products. This vertically-integrated structure of the Group allows it to provide approximately 75% of its own fodder. The Group's activities cover almost all the territory of Ukraine.

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

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

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

Company name	Principal Activity	Country of registration	Ownership Interest (%) 31 December 2012	Ownership Interest (%) 31 December 2011
PJSC Avangard	Keeping of technical laying hen, production and selling of eggs	Ukraine	99.00%	99.00%
PJSC Chornobaivske		Ukraine	97.00%	97.00%
PJSC Agrofirma Avis		Ukraine	100.00%	100.00%
PJSC Kirovskiy		Ukraine	100.00%	100.00%
PJSC Ptakhohospodarstvo Chervonyi Prapor		Ukraine	98.00%	98.00%
SC Ptakhofabryka Lozuvatska of Avangardco Investments Public Limited		Ukraine	100.00%	100.00%
LLC Yuzhnaya - Holding		Ukraine	100.00%	100.00%
LLC Makarivska Ptakhofabryka		Ukraine	100.00%	100.00%
LLC PF Volnovaska		Ukraine	100.00%	100.00%
PJSC Cross-PF Zorya		Ukraine	89.00%	89.00%
PJSC Ptakhofabryka Pershe Travnya		Ukraine	93.00%	93.00%
PJSC Chernivetska Ptakhofabryka		Ukraine	98.00%	98.00%
ALLC Donetska Ptakhofabryka		Ukraine	100.00%	100.00%
LLC Areal-Snigurivka		Ukraine	100.00%	100.00%
LLC Torgivenlniy Budynok Bohodukhivska Ptakhofabryka		Ukraine	100.00%	100.00%
PPB LLC Ptytsecompleks		Ukraine	100.00%	100.00%
PSPC Interbusiness		Ukraine	100.00%	100.00%
SC Avangard-Agro of PJSC Avangard	Incubation (production and saleof day-old chick), farming of young poultry for sale, and poultry	Ukraine	99.00%	99.00%
SC Gorodenkivska Ptakhofabryka of PJSC Avangard		Ukraine	99.00%	99.00%
SC Rogatynska Ptakhofabryka of PJSC Avangard		Ukraine	99.00%	99.00%
SC Ptakhohospodarstvo Donetske of ALLC Donetska Ptakhofabryka		Ukraine	100.00%	100.00%
LLC Slovyany		Ukraine	90.00%	90.00%
SC Ptakhohospodarstvo Lozuvatske of Avangardco Investments Public Limited		Ukraine	100.00%	100.00%
SC Zorya of PJSC Cross-PF Zoraya		Ukraine	89.00%	89.00%
SC Ptakhofabryka Chervonyi Prapor Poultry, of PJSC Ptakhohospodarstvo ChervoniyPrapor		Ukraine	98.00%	98.00%
SC Ptakhohospodarstvo Yuzhnaya Holding of LLC Yuzhnaya Holding		Ukraine	100.00%	100.00%
SC Ptakhogopodarstvo Volnovaske of LLC PF Volnovaska		Ukraine	100.00%	100.00%
SC Ptakhohospodarstvo Chornobaivske of PJSC Chornobaivske	Production and selling of animal feed	Ukraine	97.00%	97.00%
LLC Rohatyn-Korm		Ukraine	99.00%	99.00%
PJSC Vuhlehirskyi Eksperementalnyi Kombikormovyi Zavod		Ukraine	80.00%	80.00%
PJSC Volnovaskyi Kombinat Khliboproduktiv		Ukraine	72.00%	72.00%
LLC Kamyanets-Podilsky KombikormoviyZavod		Ukraine	100.00%	100.00%
LLC Pershe Travnya Kombikormoviy Zavod		Ukraine	93.00%	93.00%
LLC Imperovo Foods	Processing of eggs and selling of egg products	Ukraine	99.00%	99.00%
LLC Agrarnyi Holding Avangard	Rendering services under guarantee agreements	Ukraine	100.00%	100.00%
LLC Imperovo LTD	Rental services	Ukraine	99.00%	99.00%

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2012 (in USD thousand, unless otherwise stated)

1. GENERAL INFORMATION (CONT.)

The parent company of the Group is AvangardCo Investments Public Limited, registered in Cyprus, with an issued share capital of 6 387 185 ordinary shares as at 31 December 2012 with nominal value of € 0,10 per share.

The shares were distributed as follows

	31-Dec-12		31-Dec-11	
Owner	**Number of shares**	**Ownership interest (%)**	**Number of shares**	**Ownership interest (%)**
Quickcom Limited	1	-	1	-
Omtron Limited	1,848,575	28.90%	1,848,575	28.90%
Tanchem Limited	926,280	14.50%	926,280	14.50%
Mobco Limited	1	-	1	-
BNY (Nominees) Limited	1,437,500	22.50%	1,437,500	22.50%
UkrLandFarming Plc	2,174,825	34.10%	2,174,825	34.10%
Other	3	-	3	-
	6,387,185	**100.00%**	**6,387,185**	**100.00%**

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

	Ownership interest (%) as at 31 December 2012	Ownership interest (%) as at 31 December 2011
Quickcom Limited	100%	100%
Omtron Limited	100%	100%
Tanchem Limited	100%	100%
Mobco Limited	100%	100%
UkrLandFarming Plc	100%	100%

2. BASIS OF PREPARATION

2.1 STATEMENT OF COMPLIANCE

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

2.2 BASIS OF MEASUREMENT

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

2.3 FUNCTIONAL AND PRESENTATION CURRENCY

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

2.4 GOING CONCERN BASIS

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

2.5 STANDARDS AND INTERPRETATIONS

Adoption of new and revised International Financial Reporting Standards and Interpretations

As from 1 January 2012, the Group adopted all changes to International Financial Reporting Standards (IFRSs) which are relevant to its operations. This adoption did not have a material effect on the consolidated financial statements of the Company.

The following Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for annual periods beginning on 1 January 2012. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these Standards early.

(i) Standards and Interpretations adopted by the EU

• IFRS 7 (Amendments) ''Financial Instruments: Disclosures'' ''Offsetting Financial Assets and Financial Liabilities'' (effective for annual periods beginning on or after 1 January 2013). (Impact that the standard will have on the entity's financial statements in the period of initial application)
• IFRS 10 ''Consolidated Financial Statements'' (effective for annual periods beginning on or after 1 January 2013). (Impact that the standard will have on the entity's financial statements in the period of initial application)
• IFRS 11 ''Joint Arrangements'' (effective for annual periods beginning on or after 1 January 2013). (Impact that the standard will have on the entity's financial statements in the period of initial application)

(i) Standards and Interpretations adopted by the EU (cont.)

• IFRS 12 ''Disclosure of Interests in Other Entities'' (effective for annual periods beginning on or after 1 January 2013). (Impact that the standard will have on the entity's financial statements in the period of initial application)
• IFRS 13 ''Fair Value Measurement'' (effective for annual periods beginning on or after 1 January 2013). (Impact that the standard will have on the entity's financial statements in the period of initial application)
• IAS 1 (Amendments) ''Presentation of items of other Comprehensive Income'' (effective for annual periods beginning on or after 1 July 2012). (Impact that the standard will have on the entity's financial statements in the period of initial application)
• IAS 19 (Amendments) ''Employee Benefits'' (effective for annual periods beginning on or after 1 January 2013). (Impact that the standard will have on the entity's financial statements in the period of initial application)
• IAS 27 (Revised) ''Separate Financial Statements'' (effective for annual periods beginning on or after 1 January 2013). (Impact that the standard will have on the entity's financial statements in the period of initial application)
• IAS 28 (Revised) ''Investments in Associates and Joint ventures'' (effective for annual periods beginning on or after 1 January 2013). (Impact that the standard will have on the entity's financial statements in the period of initial application)
• IAS 32 (Amendments) ''Offsetting Financial Assets and Financial Liabilities'' (effective for annual periods beginning on or after 1 January 2014). (Impact that the standard will have on the entity's financial statements in the period of initial application)

(ii) Standards and Interpretations not adopted by the EU

• Improvements to IFRSs 2009-2011 (effective for annual periods beginning on or after 1 January 2013). (Impact that the standard will have on the entity's financial statements in the period of initial application)
• IFRS 1 (Amendments): ''Government Loans'' (effective for annual periods beginning on or after 1 January 2013). (Impact that the standard will have on the entity's financial statements in the period of initial application)
• IFRS 7 (Amendments) ''Financial Instruments: Disclosures'' – ''Disclosures on transition to IFRS 9'' (effective for annual periods beginning on or after 1 January 2015). (Impact that the standard will have on the entity's financial statements in the period of initial application)
• IFRS 9 ''Financial Instruments'' (effective for annual periods beginning on or after 1 January

2015). (Impact that the standard will have on the entity's financial statements in the period of initial application)

• Transition Guidance - Amendments to IFRS 10, 11 and 12 (effective for annual periods beginning on or after 1 January 2013). (Impact that the standard will have on the entity's financial statements in the period of initial application)

• Investment Entities - Amendments to IFRS 10, 12 and IAS 27 (effective for annual periods beginning on or after 1 January 2014). (Impact that the standard will have on the entity's financial statements in the period of initial application)

The Board of Directors expects that the adoption of the above financial reporting standards in future periods, will not have a significant effect on the consolidated financial statements of the Company except for:

The adoption of IFRS 9 could change the classification and measurement of financial assets. The extent of the impact has not been determined.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

3.1 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the parent company AvangardCo Investments Public Limited and the financial statements of the companies controlled by the Company as at 31 December 2012.

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. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Loss of control

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

Combinations of businesses under common control

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

• The Group does not restate assets and liabilities to their fair values. Instead the Group incorporates the assets and liabilities at the amounts recorded in the books of the acquired company (the predecessor carrying values) adjusted only to achieve harmonisation of accounting policies.

• No goodwill arises in predecessor accounting. Predecessor accounting may lead to differences in consolidation, for example the consideration given may differ from the aggregate book value of the assets and liabilities (as of the date of the transaction) of the acquired entity. Such differences are included in equity in retained earnings.

• The consolidated financial statements incorporate the acquired entity's results as if both entities (acquirer and acquiree) had always been combined from the date that common control was achieved. Consequently, the consolidated financial statements reflect both entities' full year's results, even though the business combination may have occurred part of the way through the year. In addition, the corresponding amounts for the previous year also reflect the combined results of both entities, even though the transaction did not occur until the current year.

Acquisitions of business not under common control

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

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

Transactions eliminated by consolidation

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

Non-controlling interests(NCI)

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

Business combinations and goodwill

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

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

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

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

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

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

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

3.2 FOREIGN CURRENCY TRANSLATION

(a) Transactions and balances

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

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

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

Currency	31-Dec-12	Weighted average for the year ended 31 December 2012	31-Dec 2011	Weighted average for the year ended 31 December 2011
US dollar to Ukrainian Hryvnia	79,925	79,908	79,898	79,677

(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 that date;

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

(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 statement of comprehensive income as incurred.

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

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

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

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

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

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

Impairment
At each reporting period the Group evaluates whether any indicators of possible impairment of an asset exist. If the recoverable value of an asset or a group of assets within PPE is lower than their carrying (residual) value, the Group recognises such asset or group of assets as impaired, and accrues a provision for impairment of the amount of excess of the carrying value over the recoverable value of the asset. Impairment losses are recognised immediately in profit or loss.
Assets under construction
Assets under construction comprise costs directly related to construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Construction in progress is not depreciated. Depreciation of the construction in progress, on the same basis as for other property, plant and equipment items, commences when the assets are available for use, i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by the Management.

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

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

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

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

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

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

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

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

All acquisitions and sales of financial instruments which are to be carried out on a regular basis, set by regulations or marketing agreements (acquisitions and sales carried out under regular transaction procedures) are recognised at the date of transaction. Change in value of an asset which is measured at fair value between one date of committing to purchase the assets and settlement date, is recognised either in profit or loss (for assets classified at fair value through profit or loss), or in equity (for assets classified as available-for-sale).

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

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

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

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

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

Impairment of financial assets
At each reporting period the Group measures whether there is any objective evidence of impairment of financial assets or group of financial assets. A financial asset or group of financial assets is considered to be impaired

if and only if there is objective evidence of impairment as a result of one or more events which occurred after initial recognition of the asset and that loss event, had an impact on the estimated future cash flows from the financial asset or group of financial assets that can be reliably estimated.

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

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

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

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

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

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

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

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

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

(b) Derivatives
Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognized initially at fair value, directly attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition derivatives are measured at fair value and changes therein are accounted as follows: separable embedded derivatives' changes in fair value of derivatives are recognized immediately in profit or loss.

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

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

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

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

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

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

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

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

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

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

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

3.7 BIOLOGICAL ASSETS
The following groups of biological assets are distinguished by the Group:
• replacement poultry (non-current asset);
• commercial poultry (current asset);
• other biological assets (current asset);
(a) Non current assets - assets with useful life of more than a year. Age of livestock poultry is between 1 – 194 days old.
(b) Current assets - assets with useful life within one year. Age of livestock poultry is between 195 – 560 days old.

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

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

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

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

3.8 CASH AND CASH EQUIVALENTS
Cash and cash equivalents include cash at banks and in hand, cash in transit and issued letters of credit.

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

The expected recoverable amount of a cash-generating unit is the higher of the cash-generating unit's 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, the carrying value of an asset (or cash-generating unit) increases to the revised and estimated amount of its recoverable amount, where increased carrying value does not exceed the carrying value which could be determined only in the case where no impairment loss for an asset (or cash-generating unit) was recognised in the previous years. Reversal of the impairment loss is recognised as profit immediately.

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

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

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

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

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

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

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

3.11 INCOME TAX AND DEFERRED TAX

Current income tax

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

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

Deferred tax

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

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

- when 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, when 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, the 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:

- when 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 period 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 period 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 period.

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

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

3.12 REVENUE RECOGNITION

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

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

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

3.13 INTEREST INCOME/EXPENSE

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

3.14 LEASES

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

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

Group as a lessee

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

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

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

Group as a lessor

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

3.15 DISTRIBUTION OF DIVIDENDS

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

3.16 BORROWING COSTS

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

3.17 GOVERNMENT GRANTS

Recognition of government grants

The Group recognises government grants when received.

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

- All grants, compensating the expenses of the preceding periods, shall be recognised by the Group in full in the period of their receipt as other operating income;
- All grants, related to assets not depreciated, such as a land site, shall be correlated by the Group with the expenses to fulfill the obligations. Where a grant in the form of provision of a land site is conditional on construction of a building on the site, the Group divides the recognition of the grant as other operating income over the whole useful life of the building;
- All grants, related to the 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 grants are receivable. A contingent government grant, is recognised by the Group as income only after the fulfilment of respective conditions.

Return of the government grants

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

3.18 CONTINGENT ASSETS AND LIABILITIES

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

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

3.19 PROVISIONS

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

3.20 SHARE CAPITAL

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

3.21 OPERATING SEGMENTS

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

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

3.22 EVENTS AFTER THE REPORTING PERIOD

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

The estimates and underlying assumptions are reviewed on a continous basis. Revisions in accounting estimates are recognized in the period during which the estimate is revised, if the estimate affects only that period or in the period of the revision and future periods, if the revision affects the present as well as future periods.

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

4.1 BASIS OF CONSOLIDATION (TRANSACTIONS UNDER COMMON CONTROL)

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

4.2 USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

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

4.3 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

4.4 IMPAIRMENT OF RECEIVABLES

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

Group approach is used in calculating the impairment of receivables:

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

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

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

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

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

4.8 CONTINGENT LIABILITIES

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

4.9 IMPACT OF THE GLOBAL FINANCIAL AND ECONOMIC CRISIS

The ongoing global financial and economic liquidity crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to bank failures of banks and other corporations, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against. The volume of wholesale financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. Debtors and clients of the Group may be adversely affected by the financial and economic environment, lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating economic conditions for clients may also have an impact on Management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, Management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

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

5. Property, plant and equipment

Cost	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 2012	**3,465**	**173,848**	**22,042**	**91,371**	**5,306**	**2,460**	**264,936**	**563,428**
Acquisitions	-	17,383	1,071	47	854	448	406,874	426,677
Disposals	-	(4)	(52)	-	(33)	(17)	(3,731)	(3,837)
Foreign currency translation	(1)	(86)	(13)	(33)	(2)	(1)	(118)	(254)
Internal transfers	-	110,854	25,915	9,423	215	173	(146,580)	-
Reclassification	-	-	(582)	545	-	37	-	-
As at 31 December 2012	**3,464**	**301,995**	**48,381**	**101,353**	**6,340**	**3,100**	**521,381**	**986,014**
Accumulated depreciation								
As at 1 January 2012	**-**	**17,220**	**4,671**	**25,778**	**2,156**	**909**	**-**	**50,734**
Depreciation charge	-	5,399	1,959	6,727	715	484	-	15,284
Depreciation eliminated on disposal	-	-	(24)	-	(19)	(13)	-	(56)
Foreign currency translation	-	(7)	(2)	(10)	(1)	-	-	(20)
Reclassification	-	-	(163)	163	-	-	-	-
As at 31 December 2012	**-**	**22,612**	**6,441**	**32,658**	**2,851**	**1,380**	**-**	**65,942**
Net carrying value								
As at 31 December 2012	**3,464**	**279,383**	**41,940**	**68,695**	**3,489**	**1,720**	**521,381**	**920,072**
As at 1 January 2011	**3,477**	**157,864**	**14,801**	**87,435**	**4,355**	**1,412**	**163,570**	**432,914**
Acquisitions	-	1,071	728	99	1,021	759	119,373	123,051
Acquisitions of subsidiary	-	8,248	6,310	-	-	319	-	14,877
Disposals	-	(56)	(106)	(69)	(52)	(23)	(5,230)	(5,536)
Foreign currency translation	(12)	(577)	(89)	(319)	(18)	(5)	(858)	(1,878)
Internal transfers	-	7,317	377	4,225	-	-	(11,919)	-
Reclassification	-	(19)	21	-	-	(2)	-	-
As at 31 December 2011	**3,465**	**173,848**	**22,042**	**91,371**	**5,306**	**2,460**	**264,936**	**563,428**
Accumulated depreciation								
As at 1 January 2011	**-**	**12,181**	**3,236**	**18,933**	**1,632**	**696**	**-**	**36,678**
Depreciation charge	-	5,101	1,497	6,943	557	232	-	14,330
Depreciation eliminated on disposal	-	(5)	(48)	(11)	(26)	(16)	-	(106)
Foreign currency translation	-	(57)	(15)	(86)	(7)	(6)	-	(171)
Reclassification	-	-	-	-	-	-	-	-
As at 31 December 2011	**-**	**17,220**	**4,671**	**25,778**	**2,156**	**906**	**-**	**50,731**
Net carrying value								
As at 31 December 2011	**3,465**	**156,628**	**17,371**	**65,593**	**3,150**	**1,554**	**264,936**	**512,697**
As at 31 December 2010	**3,477**	**145,683**	**11,565**	**68,502**	**2,723**	**716**	**163,570**	**396,236**

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

	Carrying value of security as at	
	31 December 2012	**31 December 2011**
Buildings and structures	66,520	87,998
Machinery and equipment	5,914	6,406
Equipment for biological assets	10,054	10,724
Vehicles	265	407
Other equipment	293	333
Assets under construction-in-progress and uninstalled equipment	46,288	46,463
	129,334	**152,331**

As at 31 December 2012 and 31 December 2011 the net book value of property, plant and equipment which were acquired under finance leases amounted to USD 10 486 thousand and USD 11 109 thousand respectively. The residual amount of contractual commitments is presented in Note 22.

At each reporting period, the Group reviews the book values of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). As at 31 December 2012 and 31 December 2011 the recoverable amount was estimated at the lower of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate of 22%. As a result, no impairment indications were identified in neither 2012 nor 2011.

6. Biological assets

	31 December 2012	31 December 2011
Non-current biological assets		
Replacement poultry a), b)	**46,724**	**44,304**
	46,724	**44,304**
Current biological assets		
Commercial poultry a), b)	**56,886**	**58,913**
Other biological assets c)	**3**	**3**
	56,889	**58,916**
	103,613	**103,220**

a) Commercial poultry and replacement poultry were as follows:

	31 December 2012		31 December 2011	
	Number, thousand head	**Fair value**	**Number, thousand head**	**Fair value**
Loman	-	-	2,303	6,152
Hy-Line	27,020	100,843	22,833	97,065
Hisex	499	2,767	-	-
	27,519	**103,610**	**25,136**	**103,217**

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

As at 1 January 2011	**103,779**
Acquisitions	60,120
Increase in value as a result of increase in weight/number	41,374
Net change in fair value	23,697
Decrease in value resulting from assets disposal	(83,829)
Effect from translation into presentation currency	(364)
Decrease in value resulting from hens slaughtering	(41,488)
Other changes	(72)
As at 31 December 2011	**103,217**
As at 1 January 2012	**103,217**
Acquisitions	50,051
Increase in value as a result of increase in weight/number	60,292
Net change in fair value	26,191
Decrease in value resulting from assets disposal	(47,124)
Effect from translation into presentation currency	(35)
Decrease in value resulting from hens slaughtering	(88,815)
Other changes	(167)
As at 31 December 2012	**103,610**

Due to the absence of an active market for laying hen in Ukraine, to determine the fair value of biological assets, the Group uses the discounted net present value of future net cash flows expected from the biological assets. As a discount rate, the rate of 25.0% prevailing as at 31 December 2012 was applied (for the year ended 31 December 2011: 25.0%).

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

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

As at 31 December 2011 biological assets with a fair value of USD 4 487 thousand were pledged as a security for long-term and short-term loans (Note 17).

7. Other non-current assets

Other non-current assets as at 31 December 2012 and 31 December 2011 were as follows	31 December 2012	31 December 2011
Prepayments for property, plant and equipment	-	92,684
Other non-current assets	391	357
	391	**93,041**

Prepayments for property, plant and equipment mainly includes prepayments for equipment for biological assets.

8. Taxes recoverable and prepaid, NET

Taxes recoverable and prepaid as at 31 December 2012 and 31 December 2011 were as follows

	Note	31 December 2012	31 December 2011
VAT settlements	a)	102,455	76,181
Other taxes prepaid		112	117
		102,567	**76,298**

a) VAT settlements related to VAT, 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.

9. Inventories

Inventories as at 31 December 2012 and 31 December 2011 were as follows:

	31-Dec-12	31-Dec-11
Raw and basic materials	144,752	181,504
Work-in-progress	1,153	1,117
Agricultural produce	2,417	4,623
Finished goods	11,487	1,672
Package and packing materials	6,168	5,834
Goods for resale	8,707	3,632
Other inventories	3,202	3,897
	177,886	**202,279**

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

The Group produced shell eggs in the quantity of 6 287 065 555 (2011: 5 955 780 052 items) which have fair value amounted to USD 550 752 thousand (2011: USD 478 394 thousand).

In 2011 finished goods with carrying amount USD 135 thousand and in 2012 raw and basic materials with carrying amount 32 thousand (2011: USD 196 thousand) were pledged as a security for the Group's loans (Note 17).

10. Trade accounts receivable, net

Trade accounts reveivable as at 31 December 2012 and 31 December 2011 were as follows:

	31 December 2012	31 December 2011
Trade receivables-gross	55,768	51,686
Provision for doubtful debts	(217)	(249)
	55,551	**51,437**

As at 31 December 2012 an amount of USD 7 632 thousand or 13.7 % of the total carrying value of trade accounts receivable is due from the single most significant debtor (as at 31 December 2011–see note 40).

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

The exposure of the Group to credit risk and impairment losses in relation to trade accounts receivable is reported in note 40 of the consolidated financial statements.

11. Prepayments and other current assets, net

Prepayments and other current assets as at 31 December 2012 and 31 December 2011 were as follows:

	31 December 2012	31 December 2011
Prepayments	9,823	22,166
Provision for doubtful debts	(765)	(631)
Financial assistance issued	-	16
Other non-trade accounts receivable	2,908	5,395
	11,966	**26,946**

The exposure of the Group to credit risk and impairment losses in relation to other current assets is reported in note 40 of the consolidated financial statements.

12. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2012 and 31 December 2011 were as follows:

	31-Dec-12	31-Dec-11
Cash in banks	202,249	231,164
Cash in hand	49	116
Cash in transit	-	21
Cash equivalents (notes, deposites - repayment on demand)	-	6,000
Other bank accounts in foreign currency	2,000	513
Cash and cash equivalents	**204,298**	**237,814**
Less blocked deposit		
Other bank accounts in foreign currency	(794)	(7,174)
Cash and cash equivalents represented in consolidated statement of cash flows	**203,504**	**230,640**

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

The exposure of the Group to credit risk and impairment losses and to liquidity risk in relation to cash and cash equivalents is reported in note 40 of the consolidated financial statements.

13. Share capital

	31 December 2012		31 December 2011	
	Number of shares	Share capital, USD ths	Number of shares	Share capital, USD ths
Authorised				
Ordinary shares Euro 0,10 each	**6,500,000**	**-**	**6,500,000**	**-**
Issued and fully paid				
As at 1 January and 31 December	**6,387,185**	**836**	**6,387,185**	**836**

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

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

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

14. Long-term loans

Long-term loans as at 31 December 2012 and 31 December 2011 were as follows:

	Note	31 December 2012	31 December 2011
Long-term bank loans in national currency		4,290	5,613
Long-term bank loans in foreign currency		27,832	29,870
Total loans	a),b),c)	**32,122**	**35,483**
Other long-term loans		-	2,500
Commodity credit	d)	1,109	1,109
		33,231	**39,092**
Current portion of non-current liabilities for bank loans in national currency		(1,430)	(1,321)
Current portion of non-current liabilities for bank loans in foreign currency		(27,832)	(22,387)
		3,969	**15,384**

a) As at 31 December 2012 and 31 December 2011 the long-term bank loans by maturities were as follows:

	31 December 2012	31 December 2011
Less than one year (current portion) (Note 18)	29,262	23,708
Within 2 years	1,430	7,483
Within 2 to 3 years	1,430	4,292
	32,122	**35,483**

b) As at 31 December 2012 and 31 December 2011 the long-term bank loans by currencies were as follows:

	31 December 2012	31 December 2011
Long-term bank loans in UAH	4,290	5,613
Long-term bank loans in USD	27,832	29,870
	32,122	**35,483**

c) As at 31 December 2012 and 31 December 2011 the interest rates for long-term bank loans were as follows:

	31 December 2012	31 December 2011
Long-term bank loans denominated in UAH	14-21%	14-21%
Long-term bank loans denominated in USD	11%	11%

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

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

The exposure of the Group to interest rate risk and liquidity risk in relation to loans and borrowings is reported in note 40 of the consolidated financial statements.

15. Long-term bond liabilities

Long-term bond liabilities as at 31 December 2012 and 31 December 2011 were as follows:

	31 December 2012	31 December 2011
Par value	200,000	200,000
Discount on issued bonds	(4,221)	(5,437)
	195,779	**194,563**

	31 December 2012	31 December 2011
Coupon payable	3,462	3,462

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

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

The exposure of the Group to interest rate risk and liquidity risk in relation to long term-bond liabilities is reported in note 40 of the consolidated financial statements.

16. Short-term loans

Short-term loans as at 31 December 2012 and 31 December 2011 were as follows:

	Note	31 December 2012	31 December 2011
Short-term loans in national currency	a),b),c)	32	32
Short-term loans in foreign currency	a),b),c)	94,336	52,850
Interest free loans		-	181
		94,368	**53,063**

a) As at 31 December 2012 and 31 December 2011 the short-term bank loans by maturity were as follows:

	31 December 2012	31 December 2011
Less than 3 months	-	668
From 3 to 6 months	94,336	52,182
	94,336	**52,850**

b) As at 31 December 2012 and 31 December 2011 the short-term bank loans by currencies were as follows:

	31 December 2012	31 December 2011
Short-term bank loans in UAH	-	-
Short-term bank loans in USD	50,004	50,669
Short-term bank loans in EUR	44,332	2,181
	94,336	**52,850**

c) Short-term bank loans by currencies as at 31 December 2012 and 31 December 2011 were as follows:

	31 December 2012	31 December 2011
Short-term bank loans denominated in USD	10.25%	10%-17%
Short-term bank loans denominated in EUR	1.5%+EURIBOR-1.75%+EURIBOR	2.5%+EURIBOR-10%

The exposure of the Group to interest rate risk and liquidity risk in relation to short term borrowings is reported in note 40 of the consolidated financial statements.

17. Securities

Long-term loans (Note 14) and short-term loans (Note 16) as at 31 December 2012 and 31 December 2011 were secured on assets as follows:

	31 December 2012	31 December 2011
Buildings and structures	66,520	87,998
Machinery and equipment	5,914	6,406
Equipment for biological assets	10,054	10,724
Vehicles	265	407
Other equipment	293	333
Assets under construction-in-progress and uninstalled equipment	46,288	46,463
Property, plant and equipment, total	**129,334**	**152,331**
Biological assets	-	4,487
Inventories	32	331
	129,366	**157,149**

As at 31 December 2012 and 31 December 2011 shares of APP CJSC Chornobaivske 116 404 961 were pledged under long-term bank loans.

18. Current portion of non-current financial liabilities

The current portion of non-current financial liabilities as at 31 December 2012 and 31 December 2011 was as follows:

	Note	31 December 2012	31 December 2011
Trade and other payables			
Deferred income (current portion)	33, c)	304	304
Financial liabilities			
Current portion of finance lease liabilities	22	2,123	2,128
VAT included in current portion of finance lease liabilities	22	425	426
Current portion of non-current liabilities for bank loans in foreign currency	14, a)	27,832	22,387
Current portion of non-current liabilities for bank loans in national currency	14, a)	1,430	1,320
		32,114	**26,565**

The exposure of the Group to liquidity risk in relation to non-current financial liability is reported in note 40 of the consolidated financial statements.

19. Deferred tax assets and liabilities, income tax expense

The principal components of deferred tax assets and liabilities before netting off on a company basis as at 31 December 2012 and 31 December 2011 were as follows:

	31 December 2012	31 December 2011
Influence of temporary differences on deferred tax assets		
Property, plant and equipment, non-current assets	1,718	1,771
Provisions	181	70
Total deferred tax assets	1,899	1,841
Influence of temporary differences on deferred tax liabilities		
Deferred expenses	(5)	(5)
Total deferred tax liabilities	(5)	(5)
Net deferred tax assets	**1,894**	**1,836**
Total deferred tax assets	1,966	1,922
Total deferred tax liabilities	(72)	(86)
Net deferred tax assets	**1,894**	**1,836**

Principal components of income tax expense

As at 31 December 2012 the rate of income tax in Ukraine was equal to 21% (31 December 2011: 21%)

	31 December 2012	31 December 2011
Current income tax	(64)	(6,783)
Deferred tax asset	70	2,996
Effect of translation into presentation currency	(1)	-
Income tax expense/(cedit) for the year	**5**	**(3,787)**

Reconciliation of deferred tax liabilities

	31 December 2012	Year ended 31 December 2011
Balance as at 1 January	1,836	(1,110)
Deferred tax credit	70	2,996
Effect of translation into presentation currency	(12)	(50)
Balance as at 31 December	**1,894**	**1,836**

	31 December 2012	31 December 2011
Accounting profit before tax	228,228	200,081
Less accounting profit of the companies being fixed agricultural tax payers	(252,424)	(207,171)
	(24,196)	**(7,090)**
Accounting loss of the companies being income tax payers at the rate 10%	(26,786)	(25,184)
Accounting profit of the companies being income tax payers at the rate 21%	2,590	18,094
	(24,196)	**(7,090)**
Income tax, taxable at the rate of 10%	2,679	2,518
Income tax, taxable at the rate of 21%	(544)	(3,800)
Tax effect of allowances and income not subject to tax	(2,130)	(2,506)
Tax as per consolidated statement of comprehensive income - credit/(charge)	**5**	**(3,787)**

As at 1 January 2011	**7**
Income tax accrued for the period	(6 783)
Income tax paid for the period	6 798
Effect of translation into presentation currency	(22)
As at 31 December 2011 / 1 January 2012	-
Income tax accrued for the period	(64)
Income tax paid for the period	81
Effect of translation into presentation currency	1
As at 31 December 2012	**18**

The income tax payers in 2012 and 2011 were the following companies: LLC “Rohatyn-Korm”, OJSC “Vuhlelhirskyi Eksperrementalnyi Kombikrmovyi Zavod”, OJSC “Volhovatskiy Kombinat Khliboproduktiv”,LLC“Kamyanets-Podilsky Kombikormovyi Zavod”, LLC “Pershe Travnya Kombikormovyi Zavod”, LLC “ImperovoFoods”, LLC “Agrarnyi Holding Avangard”, AvangardCo Investments Public Limited and LLC “Imperovo LTD”. All other companies of the Group were payers of the fixed agricultural tax.

According to the Tax Code of Ukraine, the taxation for the fixed agricultural tax payers is based on the agricultural area, which is submitted to a manufacturer of agricultural products in the property or for use. This new Tax Code of Ukraine introduced gradual decrease in income tax rates over the future years (from 23% effective 1 April 2011 to 16% effective 1 January 2014), as well as certain changes to the rules of income tax assessment starting from 1 April 2011. The deferred income tax assets and liabilities as of 31 December 2012 were measured based on the tax rates expected to be applied to the period when the temporary differences are expected to reverse.

20. Trade payables

Trade payables as at 31 December 2012 and 31 December 2011 were as follows:

	Note	31 December 2012	31 December 2011
Trade payables		22,608	15,920
Short-term notes issued	a)	1,827	1,974
		24,435	17,894

a) As at 31 December 2012 and 31 December 2011 the short-term notes issued were represented by promissory, non interest-bearing, notes.
The exposure of the Group to liquidity risk in relation to trade payables is reported in note 40 of the consolidated financial statements.

21. Other accounts payable

Other accounts payable as at 31 December 2012 and 31 December 2011 were as follows:

	Note	31 December 2012	31 December 2011
Accrued expenses for future employee benefits		1,453	1,426
Other accrued expenses		282	175
Wages and salaries and related taxes liabilities		3,070	2,215
Other taxes and compulsory payments liabilities	a)	3,113	547
Accounts payable for property, plant and equipment		13,546	4,687
Advances received from customers	b)	1,856	1,971
Interest payable		722	717
Accrued coupon on bonds		4,013	5,918
Other payables		988	6,909
		29,043	**24,566**

a) Other taxes and compulsory payments liabilities mainly comprises of liabilities for VAT and community charges.
b) Advances received from customers consist of prepayments for the sale of agriculture products and finished goods from buyers.
The exposure of the Group to liquidity risk in relation to other accounts payable is reported in note 40 of the consolidated financial statements.

22. Finance lease liabilities

	Minimum lease payments	Future finance charges	Current value of minimum lease payments
As at 31 December 2012			
Less than one year	2,869	321	2,548
Between one and five years	1,356	73	1,283
Total	**4,225**	**394**	**3,831**

	Minimum lease payments	Future finance charges	Current value of minimum lease payments
As at 31 December 2011			
Within a year	3,100	546	2,554
Between one and five years	4,227	398	3,829
Total	**7,327**	**944**	**6,383**

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

	2012	2011
Short-term VAT payable	425	426
Long-term VAT payable	213	638
Total	**638**	**1 064**

Net carrying value of property, plant and equipment acquired via finance lease as at 31 December 2012 and 31 December 2011 was as follows:

	31 December 2012	31 December 2011
Equipment for biological assets	10,456	11,068
Vehicles	30	41
	10,486	**11,109**

Non-current assets under finance lease include equipment for biological assets, construction-in-progress and uninstalled equipment and vehicles with finance lease term of 3-4 years. Interest rate under finance lease agreements is LIBOR+8% per annum for the year ended 31 December 2012 and 31 December 2011. Finance lease agreements do not provide the possibility of changing the initial terms of agreements.

The exposure of the Group to interest rate risk and liquidity risk in relation to finance lease liabilities is reported in note 40 of the consolidated financial statements.

23. Short-term bond liabilities

Short-term bond liabilities as at 31 December 2012 and 31 December 2011 were as follows:

	31 December 2012	31 December 2011
Nominal value	25,023	25,032
Bonds repurchased	-	(19)
	25,023	**25,013**

	31 December 2012	31 December 2011
Bonds coupon payable	551	2,456

As at 31 December 2012 and 31 December 2011 current liabilities for bonds were presented as liabilities for A-type bonds with nominal value of USD 25 023 thousand and USD 25 013 thousand respectively, which was equivalent to UAH 200 000 thousand, issued by CJSC "Avangard" on 2 July 2008. Those bonds were issued in book-entry form in number of 200 000 items. The bonds issue were secured by SC "Zorya, LLC Cross-PF Zorya", LLC "Cross-PF Zorya",OJSC "Ptakhohospodarstvo Chervonyi Prapor", SC "Ptakhofabryka Lozuvatska", SC "Ptakhofabryka Chervonyi Prapor Poultry Farm, of OJSC Ptakhohospodarstvo Chervoniy Prapor", OJSC "Volnovaskyi Kombinat Khliboprodiktiv", OJSC "Vuhlehirskyi Eksperementalnyi Kombikormovyi Zavod", ALLC "Donetska Ptakhofabryka", LLC "PF Volnovaska", SC "Ptakhohospodarstvo Lozuvatskoe", SC "Gorodenkivska Ptakhofabryka of CJSC Avangard", SC "Rogatynska Ptakhofabryka of CJSC Avangard", SC "Avangard-Agro of CJSC Avangard", CJSC "Chernivetska Ptakhofabryka", CJSC "Agrofirma Avis", LLC "Kamyanets-Podilsky Kombikormoviy Zavod", OJSC "Kirovskiy", LLC "Slovyany", OJSC "Ptakhofabryka Pershe Travnya", SC "Ptakhohospodarstvo Yuzhnaya Holding of LLC Yuzhnaya Holding", LLC "Yuzhnaya Holding", LLC "Areal-Snigurivka". The Guarantors are fully responsible for the issuer's liabilities to bond holders.

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

The exposure of the Group to interest rate risk and liquidity risk in relation to short term bond liabilities is reported in note 40 of the consolidated financial statements.

24. Profit from operating activities

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

		Year ended	
	Note	31 December 2012	31 December 2011
Depreciation of property, plant and equipment	5	(15,284)	(14,330)
Loss on disposal of non current assets	30	(28)	(1,129)
Provisions for doubtful debts and amounts written off	30	(375)	(814)
Payroll and related expenses	34	(33,639)	(27,402)
Independent auditors' remuneration for the statutory audit of the annual accounts		**(355)**	**(348)**

25. Revenue

Sales revenue for the year ended 31 December 2012 and 31 December 2011 were as follows:

	31 December 2012	31 December 2011
Revenue from finished goods	627,615	552,129
Revenue from goods sold and services rendered	1,691	1,181
	629,306	**553,310**

For the year ended 31 December 2012 USD 49 156 thousand (2011: USD 45 876 thousand) or 7.8%

(2011: 8.3%) from the Group's revenue is referred to the sales transactions carried out with one of the Group's clients (for the year ended 31 December 2011 – note 40).

26. Cost of sales

Cost of sales for the year ended 31 December 2012 and 31December 2011 was as follows

	Note	31 December 2012	31 December 2011
Cost of finished goods sold	27	(395,004)	(351,962)
Cost of goods sold and services rendered		(1,956)	(1,270)
		(396,960)	**(353,232)**

27. Cost of sales by elements

The cost of finished goods sold (Note 26) for the year ended 31 December 2012 and 31 December 2011 as follows:

	Note	31 December 2012	31 December 2011
Raw materials		(324,260)	(287,362)
Payroll of production personnel and related taxes	34	(23,098)	(20,054)
Depreciation	5	(14,639)	(13,870)
Services provided by third parties		(32,824)	(30,503)
Other expenses		(182)	(173)
		(395,003)	**(351,962)**

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

28. General administrative expenses

General administrative expenses for the year ended 31 December 2012 and 31 December 2011 were as follows:

	Note	31 December 2012	31 December 2011
Salaries and wages of administrative personnel	34	(8,391)	(5,285)
Services provided by third parties		(12,538)	(6,078)
Depreciation	5	(104)	(91)
Repairs and maintenance costs		(81)	(69)
Tax expenses, except for income tax		(338)	(854)
Material usage		(605)	(491)
Other expenses		(502)	(293)
		(22,559)	**(13,161)**

29. Distribution expenses

Distribution expenses for the year ended 31 December 2012 and 31 December 2011 were as follows:

	Note	31 December 2012	31 December 2011
Salaries and wages of distribution personnel	34	(2,150)	(2,063)
Transport expenses		(9,853)	(5,989)
Depreciation	5	(541)	(368)
Services provided by third parties		(4,854)	(222)
Packing materials		(1,939)	(914)
Repairs and maintenance costs		(68)	(59)
Other expenses		(651)	(420)
		(20,056)	**(10,035)**

30. Other operating income/(expenses), NET

Other operating income/(expenses), net for the year ended 31 December 2012 and 31 December 2011 were as follows:

	Note	31 December 2012	31 December 2011
Loss from disposal of current assets		(527)	(505)
Loss from disposal of non current assets	24	(28)	(205)
Impairment of current assets		(846)	(1,129)
Income received from writing-off of accounts payable		861	26
Losses on exchange		(5,932)	(2,041)
Foreign currency sale income		11,722	174
Provision for doubtful debts and amounts written off	24	(375)	(814)
Fines, penalties recognized		(1,114)	(1,426)
Other income/(expenses)		(1,988)	(1,511)
		1,773	**(7,430)**

31. Finance cost

Finance cost for the year ended 31 December 2012 and 31 December 2011 was as follows:

	31 December 2012	31 December 2011
Interest payable on loans	(9,951)	(10,308)
Capitalised interest	3,259	4,833
Total finance expenses on loans	(6,692)	(5,475)
Finance expenses on finance lease	(546)	(651)
Finance expenses on bonds (interest)	(25,484)	(25,374)
Other finance expenses	(4,214)	(1,606)
	(36,936)	**(33,106)**

32. Finance income

Finance income for the year ended 31 December 2012 and 31 December 2011 includes the interest income from placement of deposits, amounted to USD 680 thousand and USD 1 492 thousand respectively

33. Government grants received

33.1 Income from government grants and incentives

Income from government grants and incentives received for the year ended 31 December 2012 and 31 December 2011 was as follows:

	Note	31 December 2012	31 December 2011
Partial compensation of interest for loans received by agro-industrial enterprises from financial institutions	a)	-	2
Amortization of deferred income on government grants	b)	302	306
Other grants	c)	3	10
		305	**318**

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

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

b) Partial compensation of complex agricultural equipment cost

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

c) Other grants

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

33.2 Income from special VAT treatment

Income from special VAT treatment received for the year ended 31 December 2012 and 31 December 2011 amounted to USD 46 484 thousand and USD 38 037 thousand respectively.

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

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

34. Payroll and related taxes

	Note	31 December 2012	31 December 2011
Salary		(21,095)	(17,184)
Contributions to state funds		(12,544)	(10,218)
	24	**(33,639)**	**(27,402)**

		Year ended	
	Note	31 December 2012	31 December 2011
Payroll of production personnel and related taxes	27	(23,098)	(20,054)
Salaries and wages of administrative personnel	28	(8,391)	(5,285)
Salaries and wages of distribution personnel	29	(2,150)	(2,063)
		(33,639)	**(27,402)**

	Year ended	
	31 December 2012	31 December 2011
Average number of employees, persons	5,575	5,287

35. 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. The remaining 22.5% of the shares are widely owned.

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

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

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

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

Salary costs of key management personnel for the year ended 31 December 2012 and 31 December 2011 were as follows:

	31 December 2012	31 December 2011
Salary	1,951	1,322
Contributions to state funds	564	444
	2,515	**1,766**

35. Related party balances and transactions (cont.)

Outstanding amounts of the Group for transactions with related parties as at 31 December 2012 and 31 December 2011 were as follows:

	Outstanding balances with related parties as at	
	31 December 2012	31 December 2011
Prepayments and other current assets, net		
C. Companies in which the Group's owners have an equity interest;	1	-
D. Companies in which activities are significantly influenced by the Group's owners	47	242
	48	**242**
Trade accounts receivable:		
C. Companies in which the Group's owners have an equity interest;	2	-
D. Companies in which activities are significantly influenced by the Group's owners	10	722
	12	**722**
Cash and cash equivalents:		
D. Companies in which activities are significantly influenced by the Group's owners	12,103	11,557
	12,103	**11,557**
Long-term loans		
B. Companies having the same top management;	-	2,500
	-	**2,500**
Short-term loans		
D. Companies in which activities are significantly influenced by the Group's owners	32	65
	32	**65**
Trade accounts payable:		
C. Companies in which the Group's owners have an equity interest;	2	-
D. Companies in which activities are significantly influenced by the Group's owners	12	1,293
	14	**1,293**
Other current liabilities :		
C. Companies in which the Group's owners have an equity interest;	5	-
D. Companies in which activities are significantly influenced by the Group's owners	16	293
	21	**293**

The Group's transactions with related parties for the year ended 31 December 2012 and 31 December 2011 were as follows

	Transactions with related parties for the year ended	
	31 December 2012	31 December 2011
Sales revenue:		
C. Companies in which the Group's owners have an equity interest;	14	364
D. Companies in which activities are significantly influenced by the Group's owners	254	2,099
	268	**2,463**
General administrative expenses:		
C. Companies in which the Group's owners have an equity interest;	(88)	(73)
D. Companies in which activities are significantly influenced by the Group's owners	(228)	(60)
	(316)	**(133)**
Distribution expenses:		
C. Companies in which the Group's owners have an equity interest;	(19)	(23)
D. Companies in which activities are significantly influenced by the Group's owners	(198)	(90)
	(217)	**(113)**
Other operating income/(expenses), net:		
C. Companies in which the Group's owners have an equity interest;	(63)	6
D. Companies in which activities are significantly influenced by the Group's owners	(47)	(11)
	(110)	**(5)**
Finance income:		
D. Companies in which activities are significantly influenced by the Group's owners	289	1
	289	**1**
Finance cost:		
D. Companies in which activities are significantly influenced by the Group's owners	-	(283)
	-	**(283)**

Transportation, slaughtering and rent services were provided to the Group by related parties for the amount of USD 948 thousand in 2012. All those services were provided on market terms.

36. Acquisition of subsidiaries

On 30 September 2011 the Group acquired from a related party the 100% interest in LLC Imperovo Ltd. The transaction was accounted for under the purchase method of accounting. The bargain purchased resulted from this transaction was due to negotiation strategy exercised by management. The Group's effective ownership interest in LLC Imperovo Ltd upon the acquisition and for 2011 was equal to 99.0%.

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

	Fair value	Book value
Property, plant and equipment	14,877	14,617
Prepayments and other current assets	7	6
Taxes recoverable and prepaid	2,923	2,923
Trade receivables	167	167
Total assets	**17,974**	**17,713**
Deferred tax liabilities	(60)	-
Other current liabilities and accrued expenses	(1)	(1)
Total liabilities	**(61)**	**(1)**
Net assets acquired	17,913	17,712
Non-controlling interest	-	
Fair value of acquired net assets	17,913	
Bargain purchase	(191)	
Consideration for acquisition	**17,722**	
Cash and cash equivalents acquired	-	
Net cash outflow arising on the acquisition	**(17,722)**	

The amount of revenue and profit before tax of LLC Imperovo LTD included in the results of the Group since acquisition are USD 0 thousand and USD (444) thousand respectively. If the Group had acquired LLC Imperovo LTD on 1 January 2011 the revenue of the Group would have amounted to USD 553 618 thousand, and Group's profit would have been USD 169 603 thousand and earnings for the year per share would have been equal to USD 31 thousand.

37. Operating segments

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

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

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

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

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

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

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

	Shell egg	Poultry	Animal feed	Egg products	Other activities	Adjustments and elimination	Total
Sales revenue	482,325	83,319	162,042	99,013	7,358	-	834,057
Intra-group elimination	(93,060)	(56,484)	(126,733)	(514)	(3,956)	-	(280,747)
Revenue from external buyers	**389,265**	**26,835**	**35,309**	**98,499**	**3,402**	**-**	**553,310**
Income from revaluation of biological assets at fair value	12,445	11,253	-	-	-	-	23,698
Other operating expenses	(4,167)	(493)	(750)	(1,042)	(979)	-	(7,431)
Income from government grants and incentives	312	7	-	-	-	-	319
OPERATING PROFIT/(LOSS)	**235,593**	**(11,092)**	**20,270**	**(7,187)**	**(6,081)**	**-**	**231,503**
Finance income	684	17	13	24	754	-	1,492
Finance cost,	(6,706)	(177)	(2,179)	(2,606)	(21,437)	-	(33,105)
including:							-
Interest payable on loans	(533)	(176)	(2,179)	(2,580)	(7)	-	(5,475)
Income tax expense	-	-	(4,164)	345	32	-	(3,787)
NET PROFIT/(LOSS) FOR THE YEAR	**229,571**	**(11,252)**	**13,940**	**(9,424)**	**(27,191)**	**-**	**195**
TOTAL ASSETS	**1,252,500**	**71,802**	**258,128**	**285,455**	**225,349**	**(787,581)**	**1,305,654**
Capitalised expenses	120,555	61	2,153	36	247	-	123,052
Depreciation	12,371	1,026	172	595	166	-	14,330
TOTAL LIABILITIES	**567,779**	**11,383**	**249,465**	**114,047**	**304,583**	**(880,943)**	**366,314**

The Group was using transfer pricing method in the years 2010 and 2011 for forming prices and calculating results of egg products segment. If such practice was not applied, operating profit from the segment shell egg would have been be equal to USD 146 413 thousand for the year 2010 and USD 191 037 thousand for the year 2011. Accordingly operating profit from the segment egg products would be equal to USD 35 612 thousand in the year 2010 and USD 37 369 thousand in the year 2011.

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

	Revenue from external customers		Non-current assets	
	For the year ended		As at	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Ukraine	501,540	447,717	967,187	650,042
Middle East and North Africa	86,543	58,303	-	-
Far East	17,626	46,031	-	-
Central and West Africa	21,276	-	-	-
Rest of the World	2,321	1,259	-	-
Total	**629,306**	**553,310**	**967,187**	**650,042**

38. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2012 and 31 December 2011 was based on profit attributable to the owners of the Company, and a weighted average number of ordinary shares as follows:

	Year ended	
	31 December 2012	31 December 2011
Profit attributable to the owners of the Company: (in USD thousands)		
Profit attributable to the owners of the Company	225,448	191,943
Weighted average number of shares: (in thousands)		
Weighted average number of ordinary shares at 31 December	6,387,185	6,387,185

Earnings per share is the profit for the year after taxation divided by the weighted average number of shares in issue for each year. The number of shares for the year ended 31 December 2007 has been restated to reflect the 10 for 1 share split on 31 December 2008.

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

39. Contingent and contractual liabilities

Economic environment

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

Taxation

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

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

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

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

In December 2010, the Tax Code of Ukraine was officially published. In its entirety, the Tax Code of Ukraine became effective on 1 January 2011, while some of its provisions took effect later. Apart from changes in CIT rates from 1 April 2011 and planned abandonment of VAT refunds for agricultural industry from 1 January 2018, respectively, the Tax Code also changes various other taxation rules. As at the date that these financial statements were authorized for issue, additional clarifications and guidance on application of the new tax rules were not published, and certain revisions were proposed for consideration of Ukrainian Parliament.

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

Pension and other liabilities

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

As at 31 December 2012 and 31 December 2011 the Group had no liabilities for any supplementary pension payments, health care, insurance or other benefits after retirement to their working or former employees.

Legal matters

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

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

Commitments under exclusive distribution agreement (poultry)

On 28 November 2009 the Group signed new exclusive distribution agreement according 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 be calculated as at the reporting period.

40. Financial risk management

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

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

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

- information on finance income and expenses is disclosed in Notes 31, 32 (all finance income and expenses are recognised as a part of profit or loss for the year, other than interest capitalised which is allocated to the cost of the relevant asset);
- information on cash is disclosed in Note 12;
- information on trade and other accounts receivable is disclosed in Notes 10, 11;
- information on trade and other accounts payable is disclosed in Notes 20, 21;
- information on significant terms of borrowings and loans granting is disclosed in Notes 14, 16, 18;
- information on timing and terms of effective contracts for finance lease is disclosed in Note 22;
- information on significant conditions of issued bonds is disclosed in Note 15, 23.

a) Credit risk

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

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 2012 and 31 December 2011 was presented as follows:

Financial assets	31 December 2012	31 December 2011
Cash and cash equivalents	204,298	237,814
Trade accounts receivable	55,768	51,686
Total	**260,066**	**289,500**

The Group's exposure to credit risk regarding trade accounts receivable is primarily dependent on specific characteristics of each client. The Group's policy for credit risk management provides systematic work with debtors, which includes: analysis of solvency, determination of maximum amount of risk related to one customer or a group of customers and control over timeliness of debt repayment. The majority of Group's clients are longstanding clients, there were no significant losses during the year ended 31 December 2012 and 2011 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 2012 USD 49 156 thousand or 7.8% from the Group's revenue is referred to the sales transactions carried out with one of the Group's clients. As at 31 December 2012 USD 7 632 thousand or 13.7% of the total carrying value of trade accounts receivable is due from the single most significant debtor.

For the year ended 31 December 2011 USD 45 876 thousand or 8.3% from the Group's revenue is referred to the sales transactions carried out with one of the Group's clients. As at 31 December 2011
USD 6 328 thousand or 12.3 % of the total carrying value of trade accounts receivable is due from the single most significant debtor.

Trade receivables as at 31 December 2012 and 31 December 2011 by dates of origin were presented as follows:

31 December 2012	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	52,554	2,215	590	71	84	37	-	**55,551**

31 December 2011	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	50,417	212	36	84	77	-	611	**51,437**

The amounts in column 0-30 days represent the amounts not past due nor impaired.
The amounts due from related parties are not generally provided where there is no reason to doubt the solvency of the debtor.
Related parties tend to be given longer credit terms and the older amounts generally relate to these related parties.

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:

31 December 2012	Contractual cash flows	Less than 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
Bank loans	(133,877)	-	(130,634)	(3,244)	-
Finance lease (including VAT)	(4,225)	-	(2,869)	(1,356)	-
Current liabilities for bonds	(27,194)	-	(27,194)	-	-
Long-term bond liabilities	(260,000)	-	(20,000)	(240,000)	
Trade accounts payable	(24,435)	(24,435)	-	-	-
	(450,126)	**(24,435)**	**(181,018)**	**(244,674)**	**-**

31 December 2011	Contractual cash flows	Less than 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
Bank loans	(94,490)	(696)	(81,770)	(12,024)	-
Finance lease (including VAT)	(7,327)	-	(3,100)	(4,227)	-
Current liabilities for bonds	(29,100)	-	(29,100)	-	-
Long-term bond liabilities	(280,000)	-	(20,000)	(260,000)	-
Trade accounts payable	(17,894)	(17,894)	-	-	-
	(428,811)	**(18,590)**	**(133,970)**	**(276,251)**	**-**

c) Market risk

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

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

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

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

Exposure to foreign currency risk

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

(in conversion to USD thousand)	USD	EUR	TOTAL
Long-term bond liabilities	195,779	-	**195,779**
Short-term bank loans (including overdrafts)	50,004	44,332	**94,336**
Trade accounts payable	264	517	**781**
Accounts payable for property, plant and equipment	15	6,995	**7,010**
Other accounts payable	-	69	**69**
Trade accounts receivable	(6,371)	-	**(6,371)**
Other accounts receivable	-	(160)	**(160)**
Accrued coupon on bonds	3,462	-	**3,462**
Total carrying amount exposed to currency risk	**243,153**	**51,753**	**294,906**

40. Financial risk management

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

(in conversion to USD thousand)	USD	EUR	TOTAL
Long-term bond liabilities	194,563	-	**194,563**
Short-term bank loans (including overdrafts)	50,669	2,181	**52,850**
Trade accounts payable	517	105	**622**
Accounts payable for property, plant and equipment	-	3,969	**3,969**
Trade accounts receivable	(46,638)	-	**(46,638)**
Accrued coupon bond	3,462	-	**3,462**
Total carrying amount exposed to currency risk	**202,573**	**6,255**	**208,828**

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	Effect on equity
31 December 2012			
USD	15%	(36,473)	(36,473)
EUR	10%	(5,175)	(5,175)
31 December 2011	**Increase in currency rate against UAH**	**Effect on profit before tax**	**Effect on equity**
USD	15%	(30,386)	(30,386)
EUR	10%	(626)	(626)

d) Interest rate risk

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

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

Structure of interest rate risk

As at 31 December 2012 and 31 December 2011 the structure of interest financial instruments of the Group, grouped according to the types of interest rates, was presented as follows:

	31 December 2012	31 December 2011
Instruments with fixed interest rate		
Financial assets	-	-
Financial liabilities	(304,069)	(309,550)
Instruments with variable interest rate		
Financial assets	-	-
Financial liabilities	(48,163)	(8,564)

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

As at 31 December 2012 and 31 December 2011 the Group's sensitivity to changes of LIBOR or EURIBOR by 5% was presented as follows:

Effect in USD thousand:	Increase/(decrease) of floating rate	Effect on profit before tax
31 December 2012		
LIBOR	5%	(1)
LIBOR	-5%	1
EURIBOR	5%	(8)
EURIBOR	-5%	8
31 December 2011		
LIBOR	5%	(1)
LIBOR	-5%	1
EURIBOR	5%	(2)
EURIBOR	-5%	2

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

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

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 2012 and 31 December 2011, 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.

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

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

Capital management

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

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

To manage capital, the Group's management, above all, uses 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.

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

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

As at 31 December 2012 and 31 December 2011 the Group's financial leverage coefficient made up ¬11.2% and 7.9% respectively.

	Carrying value	
	31 December 2012	31 December 2011
Short-term loans	94,368	53,063
Long-term loans	3,969	15,384
Current portion of long-term loans	29,262	23,708
Long-term finance lease (including VAT)	3,831	6,383
Long-term bond liabilities	195,779	194,563
Short-term bond liabilities	25,023	25,013
Total amount of borrowing costs	**352,232**	**318,114**
Cash and cash equivalents	204,298	237,814
Financial assistance issued	-	16
Net debt	**147,934**	**80,284**
Share capital	836	836
Share premium	201,164	201,164
Capital contribution reserve	115,858	115,858
Retained earnings	899,357	673,909
Effect of translation into presentation currency	(68,135)	(67,761)
Non-controlling interests	18,115	15,333
Total equity	**1,167,195**	**939,339**
Total amount of equity and net debt	**1,315,129**	**1,019,623**
Financial leverage coefficient	**11.2%**	**7.9%**

For the year ended 31 December 2012 and 31 December 2011 ratio of net debt to EBITDA amounted to:

	Year ended	
	31 December 2012	31 December 2011
PROFIT FOR THE YEAR	**228,233**	**196 294**
Income tax (expenses)/income	(5)	3,787
Finance income	(680)	(1,492)
Finance expenses	36,936	33,106
Bargain purchase gain	-	(191)
EBIT (earnings before interest and income tax)	**264,484**	**231,504**
Depreciation	15,284	14,330
EBITDA (earnings before interest, income tax, depreciation and amortisation)	**279,768**	**245,834**
Net debt at the year end	147,934	80,284
Net debt at the year end / EBITDA	**0.53**	**0.33**

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

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

41. 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 2012. Despite signs of stabilisation, major concerns remain over the performance of the Ukrainian economy at a macro level. The economy has remained very energy intensive and is still insufficiently diversified, with exports remaining centred on metallurgical products. Consequently, the economy remains vulnerable to fluctuations in steel prices and to shocks resulting from Russia's control over the supply of gas. In terms of business environment, high taxes, legal uncertainties and bureaucratic impediments have conspired to create a difficult business environment in which to operate. In addition, the lack of an enduring political consensus on reforms has created uncertainty over the modernisation of the economy.

42. Events after the reporting period
There were no material events after the reporting period which affect the consolidated financial statements as at 31 December 2012.

The consolidated financial statements were approved and authorized for issue by the Board of Directors on
17 February 2013.

Design & Concept Credits
Stream
thisisstream.com
Stock photo credits
shutterstock.com, Getty Images
Corporate photo credits
AVANGARDCO IPL

Contacts

COMPANY SECRETARY
Gliage Investments Limited
3 Anexartisias & Kyriakou Matsi
3040 Limassol
Cyprus

REGISTERED OFFICE
3 Anexartisias & Kyriakou Matsi
3040 Limassol
Cyprus

LEGAL ADVISORS
Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London EC4Y 1HS
United Kigdom

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

INDEPENDENT AUDITORS:
KPMG Limited
14, Esperidon Str.
1087 Nicosia Cyprus

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

POSTAL ADDRESS IN UKRAINE:
121 V Prospect Peremohy
03115, Kyiv
Ukraine

UKRAINIAN OFFICE:
Tel.: +38 044 393 40 50
Fax: +38 044 393 40 54
secretar@avangardco.ua

PR CONTACT:
Lidia Slivotska
Mob.: +38 067 447 97 42
l.slivotska@avangardco.ua

IR CONTACTS:
+38 044 393 40 50
ir@avangardco.ua

PR/ IR ADVISOR:
F T I Consulting
London office
Larisa Millings
+44 (0) 20 7269 7153
+44 (0) 7715 853 705
Larisa.Millings@fticonsulting.com

AVANGARDCO

121 V Prospect Peremohy
03115, Kiev
Ukraine

T +38 044 393 40 50
F +38 044 393 40 54
E ir@avangard.co.ua
W avangard.co.ua