

**LLC Ovostar Union  
and its subsidiaries  
Consolidated Financial  
Statements**

**For the years ended 31  
December 2010, 2009 and 2008**

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## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 4-5 is made with a view of distinguishing the respective responsibilities of the management and those of the independent auditors in relation to the consolidated financial statements of LLC Ovostar Union and subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of the Group as at 31 December 2010, 2009 and 2008 and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

The consolidated financial statements for the years ended 31 December 2010, 2009 and 2008 were authorised for issue on 21 April 2011 by:



Yuriy Doroshev  
Chief Financial Officer



**INDEPENDENT AUDITORS' REPORT  
TO THE SHAREHOLDERS OF LLC OVOSTAR UNION AND ITS SUBSIDIARIES**



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**Independent auditor's report**

To the attention of Shareholders and Directors of LLC Ovostar Union

We have audited consolidated financial statements of LLC Ovostar Union and its subsidiaries (the Group hereinafter), which comprise the consolidated statement of financial position as at 31 December 2010, 2009 and 2008 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management 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 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 and fair presentation of the consolidated financial statements 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 Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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.



*Basis for Qualified Opinion*

In the adoption of IFRS 1 "First-time Adoption of International Financial Reporting Standards", the Group assumed the carrying amount of property, plant and equipment formed in accordance with the previous conceptual framework as their deemed cost. At the date of transition to IFRS, property, plant and equipment with the carrying amount of USD 7 686 thousand were accounted for in accordance with the property, plant and equipment valuation model, which is inconsistent with IAS 16 "Property, plant and equipment". In our opinion, during the preparation of these consolidated financial statements, the Group should have assumed the fair value of property, plant and equipment as their deemed cost. The effect of these deviations from the requirements of International Financial Reporting Standards on the carrying amount of property, plant and equipment and the amount of net profits, income taxes and retained earnings for the year ended 31 December 2010, 2009 and 2008 was not identified.

*Qualified Opinion*

In our opinion, except for the effects on the consolidated financial statements of the matter referred to in the Basis for Qualified Opinion paragraph, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2010, 2009 and 2008, and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Other Emphasis of Matter*

We would like to draw your attention to the fact that the consolidated financial statements prepared to reflect the Group's consolidated financial position, financial performance and cash flows as if the restructuring completed prior to 31 December 2010 occurred on 1 January 2008 may not reflect the Group's consolidated financial position, financial performance and cash flows for the year ended 31 December 2010, 2009 and 2008, which would be achieved if the restructuring described in Note 1 actually occurred on 1 January 2008. Our opinion is not qualified in respect of this matter.

Managing Partner

"BAKER TILLY UKRAINE" LLP

21 April 2011

Kiev, Ukraine

Registration # 1687



Alexander Pochkun



LLC OVOSTAR UNION AND ITS SUBSIDIARIES  
Consolidated Financial Statements

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
For the years ended 31 December 2010, 2009 and 2008  
(in USD thousand, unless otherwise stated)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Revenue	6	37 033	32 345	36 703
Net change in fair value of Biological assets	17	1 137	(4 043)	5 318
Cost of sales	7	(28 133)	(20 136)	(26 241)
<b>Gross profit</b>		<b>10 037</b>	<b>8 166</b>	<b>15 780</b>
Other operating income	11	5 612	2 139	5 912
Selling and distribution costs	8	(3 184)	(3 691)	(5 353)
Administrative expenses	9	(1 870)	(2 190)	(2 893)
Other operating expenses	13	(1 091)	(811)	(1 275)
<b>Operating profit</b>		<b>9 504</b>	<b>3 613</b>	<b>12 171</b>
Finance costs	14	(876)	(1 633)	(7 898)
Finance income	15	642	440	1 328
<b>Profit before tax</b>		<b>9 270</b>	<b>2 420</b>	<b>5 601</b>
Income tax expense	16	(107)	118	(275)
<b>Profit for the year</b>		<b>9 163</b>	<b>2 538</b>	<b>5 326</b>
<b>Other comprehensive income</b>				
Exchange differences on translation of foreign operations		(159)	(696)	(9 259)
<b>Other comprehensive income for the year, net of tax</b>		<b>(159)</b>	<b>(696)</b>	<b>(9 259)</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>9 004</b>	<b>1 842</b>	<b>(3 933)</b>
Profit attributable to:				
Owners of the parent		9 731	2 695	5 150
Non-controlling interests		(568)	(157)	176
		<b>9 163</b>	<b>2 538</b>	<b>5 326</b>
Other comprehensive income attributable to:				
Owners of the parent		(151)	(586)	(6 873)
Non-controlling interests		(8)	(110)	(2 386)
		<b>(159)</b>	<b>(696)</b>	<b>(9 259)</b>

Borys Bielikov  
Chief Executive Officer



Yuriy Doroshev  
Chief Financial Officer



**LLC OVOSTAR UNION AND ITS SUBSIDIARIES**  
**Consolidated Financial Statements**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 31 December 2010, 2009 and 2008

(in USD thousand, unless otherwise stated)

	Notes	As at 31 December 2010	As at 31 December 2009	As at 31 December 2008	As at 31 December 2007
<b>Assets</b>					
<b>Non-current assets</b>					
Non-current biological assets	17	6 121	1 468	894	612
Property, plant and equipment	18	11 629	12 210	13 873	17 936
Intangible assets	19	2	16	2	4
Other investments	20	-	3 288	2 083	3 114
Other non-current assets	21	1 149	1 359	1 364	467
Deferred tax assets	16	29	132	57	-
		<u>18 930</u>	<u>18 473</u>	<u>18 273</u>	<u>22 133</u>
<b>Current assets</b>					
Inventories	23	8 990	5 591	4 097	5 937
Current biological assets	17	5 026	5 950	7 946	5 345
Trade and other receivables	24	7 174	9 277	12 250	6 624
Prepayments		326	568	215	57
Short-term deposits	26	-	1 370	-	11 248
Cash and cash equivalents	26	358	577	335	281
		<u>21 874</u>	<u>23 333</u>	<u>24 843</u>	<u>29 492</u>
<b>Total assets</b>		<b>40 804</b>	<b>41 806</b>	<b>43 116</b>	<b>51 625</b>
<b>Equity and liabilities</b>					
<b>Equity</b>					
Issued capital	27	45	18	18	18
Foreign currency translation reserve		(7 610)	(7 459)	(6 873)	-
Merger reserve		-	11 551	12 099	10 889
Retained earnings		36 637	22 970	20 099	17 857
<b>Equity attributable to owners of the parent</b>		<b>29 072</b>	<b>27 080</b>	<b>25 343</b>	<b>28 764</b>
Non-controlling interests		2 353	2 929	3 196	5 406
<b>Total equity</b>		<b>31 425</b>	<b>30 009</b>	<b>28 539</b>	<b>34 170</b>
<b>Non-current liabilities</b>					
Interest-bearing loans and other non-current financial liabilities	22	230	2 194	3 560	3 555
Deferred tax liabilities	16	5	79	206	-
		<u>235</u>	<u>2 273</u>	<u>3 766</u>	<u>3 555</u>
<b>Current liabilities</b>					
Trade and other payables	28	4 448	3 378	4 078	4 815
Advances received		524	130	120	6
Interest-bearing loans and borrowings	22	4 150	5 894	6 453	8 865
Income tax payable		-	2	6	24
Provisions	29	22	120	154	190
		<u>9 144</u>	<u>9 524</u>	<u>10 811</u>	<u>13 900</u>
<b>Total liabilities</b>		<b>9 379</b>	<b>11 797</b>	<b>14 577</b>	<b>17 455</b>
<b>Total equity and liabilities</b>		<b>40 804</b>	<b>41 806</b>	<b>43 116</b>	<b>51 625</b>

Borys Bielikov  
 Chief Executive Officer

Yuriy Doroshev  
 Chief Financial Officer

Notes on pages 10 – 48 form an integral part of these consolidated financial statements

**LLC OVOSTAR UNION AND ITS SUBSIDIARIES**  
**Consolidated Financial Statements**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the years ended 31 December 2010, 2009 and 2008**  
**(in USD thousand, unless otherwise stated)**

	Issued capital	Foreign currency translation reserve	Merger reserve	Retained earnings	Total	Non-controlling interests	Total equity
<b>As at 31 December 2007</b>	<b>18</b>	<b>-</b>	<b>10 889</b>	<b>17 857</b>	<b>28 764</b>	<b>5 406</b>	<b>34 170</b>
Profit for the period	-	-	-	5 150	5 150	176	5 326
Other comprehensive income	-	(6 873)	-	-	(6 873)	(2 386)	(9 259)
Total comprehensive income	-	(6 873)	-	5 150	(1 723)	(2 210)	(3 933)
Dividends	-	-	-	(2 908)	(2 908)	-	(2 908)
Other equity movements	-	-	1 210	-	1 210	-	1 210
<b>As at 31 December 2008</b>	<b>18</b>	<b>(6 873)</b>	<b>12 099</b>	<b>20 099</b>	<b>25 343</b>	<b>3 196</b>	<b>28 539</b>
Profit for the period	-	-	-	2 695	2 695	(157)	2 538
Other comprehensive income	-	(586)	-	-	(586)	(110)	(696)
Total comprehensive income	-	(586)	-	2 695	2 109	(267)	1 842
Other equity movements	-	-	(548)	176	(372)	-	(372)
<b>As at 31 December 2009</b>	<b>18</b>	<b>(7 459)</b>	<b>11 551</b>	<b>22 970</b>	<b>27 080</b>	<b>2 929</b>	<b>30 009</b>
Profit for the period	-	-	-	9 731	9 731	(568)	9 163
Other comprehensive income	-	(151)	-	-	(151)	(8)	(159)
Total comprehensive income	-	(151)	-	9 731	9 580	(576)	9 004
Issue of share capital	27	-	-	-	27	-	27
Loss from restructuration (Note 20)	-	-	-	(3 306)	(3 306)	-	(3 306)
Other equity movements	-	-	(11 551)	7 242	(4 309)	-	(4 309)
<b>As at 31 December 2010</b>	<b>45</b>	<b>(7 610)</b>	<b>-</b>	<b>36 637</b>	<b>29 072</b>	<b>2 353</b>	<b>31 425</b>

Borys Bielikov  
 Chief Executive Officer



Yuriy Doroshev  
 Chief Financial Officer



Notes on pages 10 - 48 form an integral part of these consolidated financial statements

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the years ended 31 December 2010, 2009 and 2008  
(in USD thousand, unless otherwise stated)

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
<b>Operating activities</b>			
<b>Profit before tax</b>	<b>9 270</b>	<b>2 420</b>	<b>5 601</b>
<b>Non-cash adjustment to reconcile profit before tax to net cash flows</b>			
Depreciation of property, plant and equipment and amortisation of intangible assets	2 056	2 083	2 802
Net change in fair value of Biological assets	(1 137)	4 043	(5 318)
Gain on disposal of property, plant and equipment	(218)	-	-
Finance income	(642)	(440)	(1 328)
Finance costs	876	1 633	7 898
Shortages and losses from damage of valuables	58	130	201
Movements in provisions	(98)	(34)	(36)
Other operating income	-	(236)	-
<b>Working capital adjustments:</b>			
(Increase)/Decrease in trade and other receivables less receivables for securities sold but not yet settled	(2 067)	2 153	(2 356)
(Increase)/Decrease in prepayments to suppliers	242	(353)	(158)
(Increase)/Decrease in inventories	(3 399)	(1 494)	1 840
(Increase)/Decrease in biological assets	(2 592)	(2 621)	2 435
(Increase)/Decrease in short-term deposits	1 370	(1 370)	11 248
Increase/(Decrease) in trade and other payables and Advances received	1 536	(754)	(629)
	<b>5 255</b>	<b>5 160</b>	<b>22 200</b>
Interest received	73	80	1 328
Income tax paid	(78)	(88)	(78)
<b>Net cash flows from/(used in) operating activities</b>	<b>5 250</b>	<b>5 152</b>	<b>23 450</b>
<b>Investing activities</b>			
Proceeds from sale of property, plant and equipment	1 363	-	-
Purchase of property, plant and equipment	(2 231)	(754)	(4 196)
Purchase of intangible assets	(66)	(15)	(1)
Proceeds from repayment of loan to Beneficial Owner	393	562	-
Outflow from long-term loan issued to the Beneficial Owner	-	-	(4 175)
Outflow from current loans issued	(146)	-	-
Proceeds from repayment of current loans issued	-	660	1 206
Acquisition of other investments	-	(1 261)	(56)
<b>Net cash flows from/(used in) investing activities</b>	<b>(687)</b>	<b>(808)</b>	<b>(7 222)</b>
<b>Financing activities</b>			
Proceeds from borrowings	7 365	7 285	11 532
Repayment of borrowings	(11 073)	(9 210)	(13 939)
Interest paid	(948)	(1 481)	(1 903)
Dividends paid to equity holders of the parent	-	-	(2 908)
<b>Net cash flows from/(used in) financing activities</b>	<b>(4 656)</b>	<b>(3 406)</b>	<b>(7 218)</b>
Net increase/(decrease) in cash and cash equivalents	(93)	938	9 010
Net foreign exchange difference	(126)	(696)	(8 956)
Cash and cash equivalents at 1 January	577	335	281
<b>Cash and cash equivalents at 31 December</b>	<b>358</b>	<b>577</b>	<b>335</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**1. Corporate information**

Principal activities of Limited Liability Company "Ovostar Union" (referred to herein as the "Company") and its subsidiaries (together – the "Group") include egg production, distribution and egg products manufacturing. The holding company of the Group was registered under the name Limited Liability Company "BoryspiolAgro Trade" in accordance with the laws of Ukraine as a limited liability company on 28 July 1999. It was renamed to Limited Liability Company "Ovostar Union" on 27 December 2010. The registered office and principal place of business of the Company is 34 Petropavlivska Street, 34, Kyiv, Ukraine. Its principal activity is the holding of ownership interests in its subsidiaries and strategic management. The Group operates through a number of subsidiaries in Ukraine (the list of the subsidiaries is disclosed below) and has a concentration of its business in Ukraine, where its production facilities are located. All subsidiaries companies are registered under the laws of Ukraine.

The Group is controlled by the Beneficial Owners – Mr. Borys Bielikov and Mr. Vitalii Veresenko (hereinafter, the "Beneficial Owners").

The Group was formed in December 2010, through a number of transactions resulting in the transfer to the Company of controlling ownership interest in the subsidiaries from entities which were under common control at the time of the reorganization and Beneficial Owners, which is further described in Note 27. As the Group has been formed through the reorganisation of entities under common control, these consolidated financial statements have been presented as if the transfers of the ownership interests in subsidiaries had occurred on the beginning of the earliest period presented (1 January 2008) through the application of the pooling of interest method as at that date.

The Group's included the following subsidiaries as at 31 December 2010, 2009, 2008 and 2007:

Name of the company	Business activities	Ownership			
		As at 31 December 2010	As at 31 December 2009	As at 31 December 2008	As at 31 December 2007
Limited Liability Company "Ovostar"	Egg-derivatives production and distribution	98%	98%	98%	98%
Open Joint Stock Company "Poultry Farm Ukraine"	Production of shell eggs, assets holding	92%	92%	92%	92%
Open Joint Stock Company "Krushynskyy Poultry Complex"	Trading company	76%	76%	76%	76%
Closed Joint Stock Company "Malynove"	Production of shell eggs, assets holding	94%	94%	94%	94%
Limited Liability Company "Yasensvit"	Breeder farms, production of hatching eggs, farms for growing young laying flock and for laying flock, production and distribution of shell eggs, animal feed production	98%	98%	98%	98%
Limited Liability Company "Skybynsky Fodder Plant"	In the process of liquidation	99%	99%	99%	99%

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements for the year ended 31 December 2010, 2009 and 2008 were authorised for issue on 21 April 2011.

### **2.1. Basis of preparation**

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The companies of the Group maintain their accounting records under Ukrainian Accounting Standards ("UAS"). UAS principles and procedures may differ from those generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared from the Group entities' UAS records, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

The Group adopted IFRS as its reporting framework as at 1 January 2008 and this is the first set of consolidated financial statements of the Group in accordance of IFRS. IFRS 1 "First-time Adoption of International Financial Reporting Standards" requires a first-time adopter to disclose reconciliations that give sufficient detail to enable users to understand the material adjustments to the balance sheet and requires specific reconciliations of equity reported under previous GAAP to its equity under IFRS. No reconciliation is presented in the notes to the consolidated financial statements because no consolidated financial statements have been prepared by the Group in the past.

As discussed above, the Group was formed through the reorganization of entities under common control using the pooling of interest method. Assets and liabilities were recognised using the carrying value of the predecessor companies.

The Group applied an IFRS 1 exemption which allows the Group not to apply purchase accounting to the business combinations which occurred prior to the date of transition to IFRS. Accordingly, the Group calculated the deemed cost of goodwill arising on the acquisition of the subsidiaries at the date of transition to IFRS as the difference between the predecessor's interest in the net assets of the subsidiaries and the predecessor's cost of these subsidiaries.

Because the predecessor's interest in the net assets exceeded the cost of the subsidiaries, the difference was recorded as part of the equity attributable to equity holders of the parent as at 1 January 2008.

The consolidated financial statements have been prepared on a historical cost basis, except for biological assets, agricultural produce, and certain financial instruments that have been measured at fair value. The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand, except when otherwise indicated.

The financial statements are prepared on a going-concern basis, under which assets are sold and liabilities are repaid in the ordinary course of business. The accompanying consolidated financial statements do not include adjustments that would need to be made in case if the Group was unable to continue as a going concern.

### **2.2. Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2010.

The consolidated financial statements incorporate the financial statements of the Parent and entities controlled by the Parent (its subsidiaries). Control is achieved when the Parent has the power to govern the financial and operating policies of an entity, either directly or indirectly, so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date when control effectively commences.

All significant intercompany transactions, balances and unrealized gains/(losses) on transactions are eliminated on consolidated, except when the intragroup losses indicate an impairment that requires recognition in the consolidated financial statements.

Non-controlling interests represent the interest in subsidiaries not held by the Group. Non-controlling interests at the reporting date represent the minority shareholders' portion of the fair value of the identifiable

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of changes in net assets since the date of the combination. Non-controlling interests are presented within the shareholders' equity.

Any excess or deficit of the consideration paid over the net assets on the acquisition of non-controlling interests in subsidiaries is charged or credited to accumulated profits.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those adopted by the Group.

**3. Use of estimates and assumptions**

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, due to uncertainty about these estimates, actual results recorded in future periods may differ from such estimates.

These consolidated financial statements include management's estimates regarding the value of assets, liabilities, revenues, expenses, and recognized contractual obligations. These estimates mainly include:

**Impairment of property, plant and equipment**

In accordance with IAS 36 "Impairment of Assets" the Group reviews the carrying amount of non-current tangible assets (mainly property, plant and equipment) to identify signs of impairment of these assets.

The management regarded the global economic crisis as an indicator of impairment of non-current tangible assets. Accordingly, as at 31 December 2010 carrying amount and estimated recoverable amount of the Group's property, plant and equipment were revised.

The Company used a model of strategic planning in order to calculate the discounted cash flows (using the "value in use" method as defined in IAS 36) and, thus, assessed the recoverability of the carrying amount of property, plant and equipment. The model was based on budgets and forecasts approved by the management for the next 5 years.

Expected future cash flows reflect long-term production plans formed on the basis of past experience and market expectations. The plans take into account all relevant characteristics of poultry farming, including egg operations segment and egg products operations segment, safety of livestock, selling prices as well as main components of mixed fodder. Thus, the production capacity is the basis for forecasting the future production volume for each subsequent year and related production costs.

Levels of revenues and costs included in projected cash flows are based on current long-term production plans. When conducting impairment testing, recent levels of production volumes, selling prices and costs are taken into account, as well as the expected changes based on the current condition of operating activities and in accordance with the requirements of IAS 36. IAS 36 provides a number of restrictions on future cash flows, which may be recognized in respect of future restructuring and capital modernisation expenses.

Applicable annual discount rate for impairment of property, plant and equipment was equal to 24%.

Below are the key assumptions that formed the basis for forecasting future cash flows in the models:

- prices for main components of mixed fodder based on internal forecasts of the Group's management and market overviews;
- production data (egg operations segment and egg products operations segment, safety of livestock) based on internal forecasts of the Group's management and market overviews
- selling prices and costs for eggs and egg products are based on forecasts of the Group's management and market expectations.

Review of impairment led to the conclusion that the allowance for impairment of property, plant and equipment is not needed.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Management believes that calculations of the recoverable amount are the most sensitive to changes in such assumptions as the price of poultry meat, price of chicken fodder and production data. Management believes that any reasonably possible change in key assumptions on which the recoverable amount of the Company is based (such as a 2% change in the discount rate or 2% change in prices) will not cause the excess of carrying amount of the Group over its recoverable amount.

Application of IAS 36 requires extensive judgments by the management regarding estimates and assumptions related to future cash flows and discount rate. Given the nature of the current global economic environment, such assumptions and estimates have a high degree of uncertainty. Therefore, other similar assumptions may lead to significantly different results.

### **Fair value of biological assets**

Estimation of fair value of biological assets is based on the discounted cash flow model. The fair value of biological assets might be affected by the fact that the actual future cash flows will differ from the current forecast, which typically occurs as a result of significant changes in any factors or assumptions used in the calculations.

Among such factors are:

- differences between actual prices and price assumptions used in estimating net realizable value of eggs;
- changes in productivity of laying hens;
- unforeseen operational problems inherent in the branch specificity;
- age of hens at the end of reporting period;
- changes in production costs, costs of processing and sale of products, discount and inflation rates and exchange rates that could adversely affect the fair value of biological assets.

The key assumptions concerning biological assets based on discounted cash flow approach are presented as the following:

- cost planning at each stage of chicken farming will remain constant in future periods;
- egg production volume will not be significantly changed;
- discount rate for determining the present value of future cash flows expected from the biological assets was set at 27.44% (2009, 2008: 12.1%).

Management determined that calculations of the recoverable amount are the most sensitive to changes in such assumptions as the volume of egg production, cost planning and prices of eggs and poultry meat. Management believes that any reasonably possible change in key assumptions will not cause any significant change in the fair value of biological assets.

Although some of these assumptions are obtained from published market data, a majority of these assumptions are estimated based on the Group's historical and projected results.

### **Allowances for doubtful debts**

The Group forms allowances for doubtful debts to cover any potential losses arising in case of buyer's insolvency. In assessing the adequacy of the allowance for doubtful debts the management takes into account overall current economy conditions, terms of balances of outstanding receivables, the Group's experience to write off liabilities, customers' solvency and changes in the conditions of payment. Changes in the economy, industry or financial position of individual buyers may cause adjustment to the amount of allowance for doubtful debts reflected in the consolidated financial statements.

### **Useful lives of property, plant and equipment**

The Group estimates useful lives of property, plant and equipment at least at the end of each financial year and, if expectations differ from previous estimates, changes are recorded as changes in accounting estimates in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". These

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

estimates can have a significant impact on the carrying amount of property, plant and equipment and depreciation expenses during the period.

### **Deferred tax assets**

Deferred tax assets are recognized for all unused tax losses to the extent that the inflow of taxable profit is possible, at the expense of which these losses may be implemented. Significant judgments are required from the management in determining the amount of deferred tax assets that can be recognized on the basis of the possible terms of receipt and the level of future taxable profit together with the future tax planning strategy.

## **4. Summary of significant accounting policies**

### **Recognition and measurement of financial instruments**

Financial assets and financial liabilities are recorded in the Group's consolidated statement of financial position when the Group becomes a contractual party regarding the corresponding financial instrument. The Group records the acquisition and sale of financial assets and financial liabilities at the settlement date.

Financial assets and liabilities are initially recognized at fair value plus, if a financial asset or financial liability is recognized not at fair value through profit or loss, incurred operating expenses directly related to the acquisition or issue of this financial asset or financial liability.

Fair value of investments that are actively traded in organized financial markets is calculated on the basis of current market value at the close of trading on the reporting date. Regarding investments in securities for which there is no active market, fair value is calculated using other methods of valuation of financial instruments. Such valuation methods include the use of information on recent market transactions between well informed, willing to commit such transaction, independent parties, or data about the current market value of another similar instrument, discounted cash flow analysis or other pricing models.

Accounting policy for subsequent revaluation of these items is disclosed below in the appropriate sections of accounting policy.

### **Financial assets**

Investments recognized in the accounting records and derecognized at the time of transaction, in case if investments are purchased or sold in accordance with the contract, terms of which require delivery of an instrument within the time specified in the relevant market, are initially measured at fair value less transaction costs directly attributable to the transaction, except for financial assets belonging to the category of assets at fair value through profit or loss that are initially recognized at fair value.

Financial assets are classified into the following categories: financial assets at fair value through profit or loss; held-to-maturity financial assets; available-for-sale financial assets; loans and receivables. Classification of financial assets depends on their nature and purpose of acquisition and takes place at the time of recognition in the accounting records.

### **Effective interest rate method**

The effective interest rate method is used to calculate the amortized cost of a financial asset and distribute interest income during the relevant period. The effective interest rate is the rate that enables discounting of estimated future cash receipts through the expected life of a financial asset or a shorter period, if applicable.

Revenues relating to debt instruments are recorded at the effective interest rate method, except for financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss - a financial asset is classified as at fair value through profit or loss if it is held for trading or designated at fair value through profit or loss.

A financial asset is classified as held-for-trading if it is:

- purchased originally for the purpose of sale / repayment within a short period of time; or

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

- a part of the portfolio of identified financial instruments that are managed together, and structure of which demonstrates the intention of profit earning in the short term; or
- a derivative that is not classified as a hedging instrument and is not effective for these purposes.

A financial asset that is not a financial asset held-for-trading may be classified as a financial asset at fair value through profit or loss at the time of recognition in the accounting records if:

- application of such classification eliminates or significantly reduces discrepancies in valuation or accounting, that otherwise might arise, or
- a financial asset is a part of a group of financial assets, financial liabilities or both groups, which are managed and controlled on the basis of fair value in accordance with a documented risk or investment management strategy, and information about this group is provided internally on that basis, or
- it exists in the framework of the contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits to classify the whole contract (asset or liability) as at fair value through profit or loss.

Financial assets at fair value through profit or loss are measured at fair value with arising gains or losses recognized in the consolidated statement of comprehensive income. Net gains or losses recognized in the income statement include dividends and interest received on the relevant financial asset. Fair value is determined in the manner set out in Note 33 "Fair values". During the period covered by these consolidated financial statements, the Group did not hold any investments of this category.

Held-to-maturity investments - investments held to maturity are measured at amortized cost using the effective interest rate method, less impairment, and income is recognized using the effective yield method. During the reporting periods presented in these financial statements, the Group had no investments of this category.

Loans and receivables - accounts receivable regarding principal activities, loans, borrowings and other receivables with fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are measured at amortized cost using the effective interest rate method less impairment and uncollectible debts. Interest income is recognized by applying the effective interest rate, except for short-term receivables for which the amount of such interest income is insignificant.

Available-for-sale financial assets - financial assets available for sale represent those non-derivative financial assets that are classified as available for sale or those that do not fall into any of the three previous categories. After initial recognition these assets are measured at fair value with revaluation result transferred directly in equity (in the allowance for unrealized profits) until they are sold; in this situation the accumulated gains and losses previously recognized in equity are recognized in the consolidated statement of comprehensive income. Interest received or paid on these investments is recorded as interest income or expenses using the effective interest rate. Dividends received on these investments are recorded in the consolidated statement of comprehensive income as a part of dividends received at the time of registration of a corresponding right or receipt of payment.

Unquoted investments available for sale are accounted for at cost if their fair value cannot be reliably measured.

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand and cash in bank accounts.

**Short-term deposits**

Short-term deposits include deposits with original maturities of more than three months.

**Impairment of financial assets**

Financial assets, except for financial assets at fair value through profit or loss, at each reporting date are assessed for signs indicating impairment. Impairment loss is recognized when there is objective evidence of

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

reduction of the estimated future cash flows on this asset as a result of one or more events that occurred after the financial asset was recorded in the accounting. For financial assets at amortized cost, the amount of impairment is calculated as the difference between the asset's carrying amount and present value of the expected future cash flows discounted using the effective interest rate.

Impairment loss directly reduces the carrying amount of all financial assets, except for accounts receivable on principal activities, carrying amount of which is reduced due to the allowance formed. If the accounts receivable on principal activities are uncollectible, they are written-off against the related allowance. Subsequently received reimbursements of amounts previously written-off are recorded in credit of the allowance account. Changes in the carrying amount of the allowance account are recorded in the profit and loss.

Except for equity instruments available for sale, if in a subsequent period the amount of impairment loss decreases and such decrease can be objectively related to an event occurring after the impairment was recognized, the impairment loss previously recognized is recovered by adjusting the items in the income statement. In this case, the carrying amount of financial investments at the date of recovery of impairment cannot exceed its amortized cost, which would be reflected in the case, if impairment was not recognized.

In respect of equity securities available for sale, any increase in fair value after recognition of impairment loss relates directly to equity.

### **Writing-off of financial assets**

The Group writes-off a financial asset only if rights for cash flows under the corresponding contract terminated the treaty or if a financial asset and corresponding risks and rewards are transferred to other organization. If the Group does not transfer or retain all the principal risks and rewards of ownership of the asset and continues to control the transferred asset, it shall record its share in the asset and related liability in the amount of possible payment of corresponding amounts. If the Group retains all the principal risks and rewards of ownership of the transferred financial asset, it shall continue to account for the financial asset, and reflect a secured loan on income earned.

### **Financial liabilities and equity instruments issued by the Group**

#### **Accounting as liabilities or equity**

Debt and equity financial instruments are classified as liabilities or equity based on the substance of the corresponding contractual obligations.

#### **Equity instruments**

Equity instrument is any contract confirming the right for a share in the company's assets remaining after deducting all its liabilities. Equity instruments issued by the Group are recorded in the amount of generated income, net of direct expenses for their issue.

#### **Liabilities under financial guarantee contracts**

Liabilities under financial guarantee contracts are initially measured at fair value and subsequently recorded at the higher of:

- cost of contractual obligations determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and
- cost, less, where applicable, accumulated depreciation reflected in accordance with the principles of revenue recognition set forth below.

#### **Financial liabilities**

Financial liabilities are classified as either financial liabilities at fair value through profit or loss, or as other financial liabilities.

Financial liabilities at fair value through profit or loss - Financial liabilities are classified as at fair value through profit or loss if they are held for trading or designated as at fair value through profit or loss.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

A financial liability is classified as held for trading if it is:

- assumed mainly to be repurchased within a short period of time; or
- a part of the portfolio of identified financial instruments that are managed together, and structure of which demonstrates the intention of profit earning in the short term; or
- a derivative that is not classified as a hedging instrument and is not effective for these purposes

A financial liability that is not a financial liability held-for-trading may be classified as a financial liability at fair value through profit or loss at the time of recognition in the accounting records if:

- application of such classification eliminates or significantly reduces discrepancies in valuation or accounting, that otherwise might arise, or
- a financial liability is a part of a group of financial assets, financial liabilities or both groups, which are managed and controlled on the basis of fair value in accordance with a documented risk or investment management strategy, and information about this group is provided internally on that basis, or
- it exists in the framework of the contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits to classify the whole contract (asset or liability) as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are measured at fair value with arising gains or losses recognized in the financial results. Net gains or losses recognized in the income statement include interest paid on a financial liability.

Other financial liabilities - other financial liabilities, including borrowings, are accounted for at fair value less transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method, with the recognition of interest expenses using the effective (actual) yield.

**Trade and other accounts payable**

Trade payables are recognized when the counterparty fulfils its contractual obligations and measured at amortized cost using the effective interest rate.

**Loans and borrowings**

Loans and borrowings are initially recognized at fair value less costs incurred in the transaction. Subsequently, loans and borrowings are stated at amortized cost; any difference between proceeds (net of transaction costs) and the amount of repayment is reflected in the income statement over the period for which loans and borrowings are issued using the effective interest rate method. Loans and borrowings are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the obligation to at least one year after the date of balance-sheet preparation.

**Writing-off of financial liabilities**

The Group writes-off financial liabilities only when they are repaid, cancelled or expire.

**Foreign currency transactions**

Transactions in currencies other than the functional currency are initially recorded at exchange rates set on the dates of these transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates applicable at the reporting date. All realized and unrealized gains and losses resulting from exchange rate differences are included in profit or loss for the period.

Relevant exchange rates are presented as follows:

	<b>As at 31 December 2010</b>	<b>As at 31 December 2009</b>	<b>As at 31 December 2008</b>	<b>As at 31 December 2007</b>
USD	7.962	7.985	7.700	5.050
EUR	10.573	11.449	10.855	7.420

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****Biological assets**

Biological assets represented by the commercial herd and herd replacements are recorded at fair value less estimated selling and distribution expenses. Estimate of fair value of biological assets of the Group is based on discounted cash flow models, according to which the fair value of biological assets is calculated using present value of the expected net cash flows from biological assets discounted at the appropriate rate.

The Group recognizes a biological asset only where it controls an asset as a result of past events; it is probable that the economic benefits from the asset will flow to the Group, fair value or cost of an asset can be estimated with reasonable certainty.

Profit or loss arising on initial recognition of biological assets at fair value less estimated selling and distribution expenses are included in the consolidated income statement as incurred.

Agricultural products collected from a biological asset are measured at fair value less estimated selling and distribution expenses. Profit or loss arising on initial recognition of agricultural products at fair value, less estimated selling and distribution expenses, is recognized in the consolidated statement of comprehensive income.

**Inventories**

Inventories consist mainly of finished products and goods for sale. Inventories are stated at the lower of cost and net realizable value. Cost of goods includes the cost of acquisition and, where appropriate, costs incurred in bringing inventories to their present condition and location. Cost is calculated using the FIFO method. Net realizable value is calculated based on the estimated selling price less all estimated costs of production completion and sale.

**Property, plant and equipment**

Property, plant and equipment are recorded at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost of an asset of property, plant and equipment includes (a) the purchase price, including non-recoverable import duties and taxes, net of trade and other discounts; (b) any costs directly related to the delivery of an asset to the location and condition, which provide its functioning in accordance with the intentions of the Group's management; (c) initial assessment of the costs of dismantling and removal of an asset of property, plant and equipment and restoration of the occupied territory; this obligation is assumed by the Company either upon the acquisition of the asset, or as a result of its operation for a certain period of time for the purposes not related to the production of inventories during this period. Cost of assets created in-house includes cost of materials, direct labour costs and an appropriate proportion of production overheads.

Construction in progress includes costs directly related to the construction of property, plant and equipment, including distribution of variable overheads associated with the construction. Construction in progress is not depreciated. These assets are depreciated from the moment when they are used in economic activity, on the same basis as depreciation on other assets.

Capitalized costs include principal expenses for modernization and replacement of parts of assets, which prolong their useful lives or improve their ability to generate income. Cost of repairs and maintenance of property, plant and equipment that do not meet the above criteria for capitalization are recognized in profit or loss in the period in which they were incurred.

Depreciable amount is the cost of an asset of property, plant and equipment, or any other amount, replacing the cost, less its residual value. The residual value of an asset is the estimated amount that the company would receive to date from the sale of an asset of property, plant and equipment, less estimated costs of disposal if the asset reached the age and condition, in which, presumably, it will be at the end of its useful life. Assets under finance lease are depreciated over the shorter of estimated useful life on the same basis as own assets or over the period of the relevant lease.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Depreciation is provided to write-off the depreciable amount over the useful life of an asset and is calculated using the straight-line method. Useful lives of the groups of property, plant and equipment are as follows:

Buildings	10 - 30 years
Plant and equipment	5 - 10 years
Vehicles	3 - 10 years
Furniture and fittings	3 - 5 years
Construction in progress and uninstalled equipment	No depreciation

The residual value, useful life and depreciation method are reviewed at the end of each financial year. Impact of any changes arising from estimates made in prior periods is recorded as a change in an accounting estimate.

Gains or losses arising from disposal or liquidation of an asset of property, plant and equipment, are defined as the difference between sales proceeds and carrying amount of an asset and recognized in profit or loss.

**Impairment of property, plant and equipment**

At each reporting date the Group reviews the carrying amount of its assets of property, plant and equipment to determine whether any signs of impairment exist due to depreciation. If any such indication exists, the expected recoverable amount of an asset is estimated to determine the amount of impairment losses, if any.

In order to determine the impairment losses, assets are grouped at the lowest levels for which it is possible to identify separately the cash flows (cash generating unit).

The recoverable amount is the higher of the fair value less selling and distribution expenses and value of an asset in use. In assessing the value of an asset in use, the estimated future cash flows associated with the asset, are discounted to their present value using pre-tax discount rate that reflects current market estimates of time value of money and the risks inherent in the asset.

If, according to the estimates, the recoverable amount of an asset (cash generating unit) is less than its carrying amount, the carrying amount of an asset (cash generating unit) is reduced to the recoverable amount. An impairment loss is recognized immediately in the income statement, except when the asset is recorded at a revalued amount. In this case the impairment loss is considered as a revaluation decrease.

In cases where impairment losses are subsequently reversed, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of recovery amount, however, in such a way that the increased carrying amount does not exceed the carrying amount that would be determined, if an impairment loss was not recognized in respect of an asset (cash generating unit) in previous years. Reversal of impairment loss is recognized immediately in the income statement, except when the asset is recorded at a revalued amount. In this case, the reversal of an impairment loss is considered as a revaluation increase.

**Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Amortization is calculated on a straight line basis over the useful life of an asset, which is 3 years.

### **Borrowing costs**

Borrowing costs are capitalized by the Group in the asset if they are directly attributable to the acquisition or construction of a qualifying asset, including construction in progress, costs for acquisition of which arose since 1 January 2008. Other borrowing costs are recognized as an expense in the period they were incurred.

### **Leases**

Leases are classified as finance leases when according to the terms of lease the lessee assumes all principal risks and rewards incident to ownership of the leased property. Other leases are classified as operating leases. Income and expenses associated with operating leases are accrued on a straight-line basis and recorded in the income statement over the lease term.

### **Group as a lessee**

Operating lease payments are recognized as an expense in the income statement evenly over the lease term.

### **Group as a lessor**

Leases where the Group does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

### **Contingent assets and liabilities**

Contingent liabilities are not recognized in the financial statements. Such liabilities are disclosed in the notes to the financial statements, except where the probability of outflow of resources embodying economic benefits is insignificant.

Contingent assets are not recognized in the financial statements, but disclosed in the notes to the extent that it is probable that the economic benefits will flow to the Group.

### **Provisions**

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.

The amount recognized as a provision is the best estimate of compensation necessary to repay a current liability on the reporting date, which takes into account all the risks and uncertainties inherent in this liability. In cases where the amount of provision is estimated using cash flows that can be required to repay current liabilities, its carrying amount represents the present value of these cash flows.

Where there is a possibility that one or all of the economic benefits necessary to recover the amount of provision will be reimbursed by a third party, the receivables are recognized as an asset if there is actual assurance that such reimbursement will be received and the amount of receivables can be measured reliably.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **Revenue recognition**

Revenues from the sale of goods are recognized when the Group has transferred to the buyer all significant risks and rewards of ownership of the goods, and it is probable that the economic benefits associated with this transaction will flow to the Group.

Revenues from rendering of services are recognized in the reporting period in which the services were provided, based on the level of completion of the specific transaction and only when the amount of revenue can be reliably measured and it is probable that the economic benefits associated with this transaction will flow to the Group.

Income and expenses relating to the same transaction or event are recognized simultaneously.

Interest income is recognized using the effective interest rate method.

### **Income tax**

Income tax is calculated in accordance with the requirements of the applicable legislation of Ukraine. Income tax is calculated on the basis of financial results for the year adjusted to items that are not included in taxable income or that cannot be attributed to gross expenses. It is calculated using tax rates effective at the reporting date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base used to calculate taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recorded taking into account the degree of certainty in sufficient taxable income, which enables to realize temporary differences related to gross expenses.

Deferred tax is calculated at tax rates, which presumably will be applied during the sale of related assets or repayment of related liabilities.

Assets and liabilities on deferred income tax are offset when: a) The Group has a legally enforceable right to offset the recognized current income tax assets and liabilities; b) the Group intends either to perform settlement by offsetting counterclaims, or simultaneously sell the asset and settle the liability; c) deferred tax assets and liabilities relate to income taxes levied by the same taxation authority in each future period in which it is intended to repay or reimburse a significant amount of deferred tax liabilities and assets.

Deferred income tax is recognized in the income statement, except when it relates to items recognized directly in equity. In this case the deferred tax is also recognized in equity.

### **Value Added Tax**

In the years ended 31 December 2008, 2009 and 2010, VAT was levied at two rates: 20% on Ukrainian domestic sales and imports of goods, works and services and 0% on export of goods and provision of works or services to be used outside Ukraine.

VAT output equals the total amount of VAT collected within a reporting period, and arises on the earlier of the date of shipping goods to a customer or the date of receiving payment from the customer. VAT input is the amount that a taxpayer is entitled to offset against his VAT liability in the reporting period. According to Ukrainian legislation, rights to VAT input arise on the earlier of the date of payment to the supplier or the date goods are received.

Starting from 1 January 2011 VAT rate at 20% was changed by the new Tax Code of Ukraine (Note 31) and it was established at the level of 17%. This change has no effect on these consolidated financial statements.

### **Government grants**

Government grants are stated at fair value when there is reasonable assurance that the grant will be received.

Ukrainian legislation provides a variety of tax benefits and subsidies for agricultural companies. Such benefits and subsidies are approved by the Supreme Council of Ukraine, the Ministry of Agrarian Policy, Ministry of

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Finance, local authorities. Under the applicable legislation, agricultural producers are entitled to use VAT benefit regarding agricultural transactions.

VAT positive balance on agricultural transactions is directed at supporting agriculture, and negative - to be included in expenses. The amount of VAT revenues and expenses is included in other operating income and expenses in the statement of comprehensive income.

### **Partial compensation of interest rates on loans raised by the agricultural companies from financial institutions**

The Group companies are entitled to compensation from the government of a share of interest expenses incurred on loans which were received for agricultural purposes. The amount of interest compensation depends on the term and purpose of the loan. Due to the fact that the payment of interest compensations depends on the capabilities of the country's budget, they are recognized on a cash basis as other operating income in the period of receipt.

### **Related party transactions**

For the purposes of these consolidated financial statements, the parties are considered to be related if one of the parties has a possibility to control or considerably influence the operational and financial decisions of other company. While considering any relation which can be defined as related party transactions it is necessary to take into consideration the substance of the transaction not only their legal form.

### **5. Standards issued but not yet effective**

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

#### **IAS 24 Related Party Disclosures (Amendment)**

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

#### **IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)**

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

#### **IFRS 9 Financial Instruments: Classification and Measurement**

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011.

#### **IFRIC 14 Prepayments of a minimum funding requirement (Amendment)**

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. This amendment will have no impact on the Group after initial application.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments**

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

### **Improvements to IFRSs (issued in May 2010)**

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to have a reasonable possible impact on the Group:

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IFRIC 13 Customer Loyalty Programmes

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

## **6. Segment information**

All of the Group's operations are located within Ukraine.

Segment information is analyzed on the basis of the types of goods supplied by the Group's operating divisions. The Group's reportable segments under IFRS 8 are therefore as follows:

Egg operations segment	- sales of egg - sales of chicken meat
Egg products operations segment	- sales of egg processing products
Sunflower products operations segment	- sales of sunflower oil and related products

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 4. Sales between segments are mainly carried out at market prices. Segment result represents operating profit before tax. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

For the purposes of monitoring segment performance and allocating resources between segments:

All assets are allocated to reportable segments.

All liabilities are allocated to reportable segments.

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The following table presents revenue, results of operations and certain assets and liabilities information regarding segments for the year ended 31 December 2010.

	Egg operation s segment	Egg products operation s segment	Sunflower products operation s segment	Elimination s	Consolidate d
External sales	27 000	10 033	-	-	37 033
Sales between business segments	54 080	203	-	(54 283)	-
<b>Total revenue</b>	<b>81 080</b>	<b>10 236</b>	<b>-</b>	<b>(54 283)</b>	<b>37 033</b>
Segment results	60 379	3 174	-	(54 283)	9 270
<b>Profit before tax</b>	<b>60 379</b>	<b>3 174</b>	<b>-</b>	<b>(54 283)</b>	<b>9 270</b>

**Other information:**

	Egg operation s segment	Egg products operation s segment	Sunflower products operation s segment	Elimination s	Consolidate d
Segment assets	68 015	5 993	353	(33 557)	40 804
<b>Consolidated total assets</b>	<b>68 015</b>	<b>5 993</b>	<b>353</b>	<b>(33 557)</b>	<b>40 804</b>
Segment liabilities	31 169	5 858	-	(27 648)	9 379
<b>Consolidated total liabilities</b>	<b>31 169</b>	<b>5 858</b>	<b>-</b>	<b>(27 648)</b>	<b>9 379</b>
Additions to property, plant and equipment	4 229	54	353		4 636
Depreciation and amortization	1 302	753	-		2 055
Net change in fair value of biological assets and agricultural produce	843	294			1 137

The following table presents revenue, results of operations and certain assets and liabilities information regarding business segments for the year ended 31 December 2009:

	Egg operation s segment	Egg products operation s segment	Sunflower products operation s segment	Elimination s	Consolidate d
External sales	21 360	10 985	-	-	32 345
Sales between business segments	43 508	551	-	(44 059)	-
<b>Total revenue</b>	<b>64 868</b>	<b>11 536</b>	<b>-</b>	<b>(44 059)</b>	<b>32 345</b>
Segment results	42 078	4 401	-	(44 059)	2 420
<b>Profit before tax</b>	<b>42 078</b>	<b>4 401</b>	<b>-</b>	<b>(44 059)</b>	<b>2 420</b>

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	Egg operation s segment	Egg products operation s segment	Sunflower products operation s segment	Elimination s	Consolidate d
Segment assets	65 073	6 213	-	(29 480)	41 806
<b>Consolidated total assets</b>	<b>65 073</b>	<b>6 213</b>	<b>-</b>	<b>(29 480)</b>	<b>41 806</b>
Segment liabilities	34 466	5 830	-	(28 499)	11 797
<b>Consolidated total liabilities</b>	<b>34 466</b>	<b>5 830</b>	<b>-</b>	<b>(28 499)</b>	<b>11 797</b>
Additions to property, plant and equipment	642	138	-		780
Depreciation and amortization	1 313	770	-		2 083
Net change in fair value of biological assets and agricultural produce	(2 997)	(1 046)	-		(4 043)

The following table presents revenue, results of operations and certain assets and liabilities information regarding business segments for the year ended 31 December 2008:

	Egg operation s segment	Egg products operation s segment	Sunflower products operation s segment	Elimination s	Consolidate d
External sales	25 950	10 753	-	-	36 703
Sales between business segments	43 245	2 960	-	(46 205)	-
<b>Total revenue</b>	<b>69 195</b>	<b>13 713</b>	<b>-</b>	<b>(46 205)</b>	<b>36 703</b>
Segment results	43 720	8 086	-	(46 205)	5 601
<b>Profit before tax</b>	<b>43 720</b>	<b>8 086</b>	<b>-</b>	<b>(46 205)</b>	<b>5 601</b>

**Other information:**

	Egg operation s segment	Egg products operation s segment	Sunflower products operation s segment	Elimination s	Consolidate d
Segment assets	58 740	3 585	-	(19 209)	43 116
<b>Consolidated total assets</b>	<b>58 740</b>	<b>3 585</b>	<b>-</b>	<b>(19 209)</b>	<b>43 116</b>
Segment liabilities	29 171	3 596	-	(18 190)	14 577
<b>Consolidated total liabilities</b>	<b>29 171</b>	<b>3 596</b>	<b>-</b>	<b>(18 190)</b>	<b>14 577</b>
Additions to property, plant and equipment	4 301	335	-		4 636
Depreciation and amortization	1 882	920	-		2 802
Net change in fair value of biological assets and agricultural produce	4 000	1 318	-		5 318

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7. Cost of sales

	Notes	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Costs of inventories recognised as an expense		(15 064)	(11 834)	(14 175)
Wages, salaries and social security costs of production personnel	10	(5 334)	(3 139)	(5 046)
Amortisation, depreciation and impairment	18, 19	(1 622)	(1 452)	(2 120)
Packaging		(2 581)	(2 318)	(2 383)
Service charges and other expenses included in cost of sales		(3 532)	(1 393)	(2 517)
<b>Total cost of sales</b>		<b>(28 133)</b>	<b>(20 136)</b>	<b>(26 241)</b>

8. Selling and distribution costs

	Notes	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Wages, salaries and social security costs of distribution personnel	10	(723)	(1 535)	(1 971)
Marketing and advertising		(451)	(55)	(422)
Transportation		(683)	(67)	-
Amortisation, depreciation and impairment	18, 19	(22)	(132)	(159)
Service charges and other expenses included in selling and distribution costs		(1 305)	(1 902)	(2 801)
<b>Total selling and distribution costs</b>		<b>(3 184)</b>	<b>(3 691)</b>	<b>(5 353)</b>

9. Administrative expenses

	Notes	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Wages, salaries and social security costs of administrative personnel	10	(588)	(794)	(701)
Service charge expenses		(65)	(308)	(422)
Legal, audit and other professional fees		(51)	(70)	-
Amortisation, depreciation and impairment	18, 19	(412)	(499)	(523)
Material usage		(156)	(236)	(305)
Service charges and other expenses included in administrative expenses		(598)	(283)	(942)
<b>Total administrative expenses</b>		<b>(1 870)</b>	<b>(2 190)</b>	<b>(2 893)</b>

10. Employee benefits expense

	Notes	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Wages, salaries and social security costs of production personnel	7	(5 334)	(3 139)	(5 046)
Wages, salaries and social security costs of distribution personnel	8	(723)	(1 535)	(1 971)
Wages, salaries and social security costs of administrative personnel	9	(588)	(794)	(701)
<b>Total employee benefits expense</b>		<b>(6 645)</b>	<b>(5 468)</b>	<b>(7 718)</b>

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Total number of employees of all companies of the Group constituted:

As at 31 December 2008 – 1504 employees.

As at 31 December 2009 – 1647 employees.

As at 31 December 2010 – 1389 employees.

**11. Other operating income**

	Notes	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Income from government grants and incentives	12	4 257	1 766	5 325
Gain on disposal of property plant and equipment		218	-	-
Recovery of assets previously written-off		349	224	241
Other income		788	149	346
<b>Total other operating income</b>		<b>5 612</b>	<b>2 139</b>	<b>5 912</b>

Recovery of assets previously written-off mainly represents amounts of inventory surplus identified in the reporting period during the stock-taking.

**12. Income from government grants and income from special VAT treatment**
**12.1. Income from government grants received for the years ended 31 December 2010, 2009 and 2008 were as follows:**

	Note	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Partial compensation of interest for loans received by agro-industrial enterprises from financial institutions	a)	1 436	112	921
VAT for development of poultry keeping	b)	-	-	4 403
Other grants	c)	12	6	1
		<b>1 447</b>	<b>118</b>	<b>5 325</b>

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

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

For the years ended 31 December 2010, 2009 and 2008 the Group received partial compensation of interest for loans received by agro-industrial enterprises from financial institutions in the amount of USD 1 436 thousand, 112 thousand and USD 921 thousand respectively which is presented on a cash received basis.

**b) VAT for development of poultry keeping**

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

**c) Other grants**

The item "Other grants" comprises the following grants: grants for meat, grants for maintain parent flock and grants for keeping of working places.

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12.2. Income from special VAT treatment received for the years ended 31 December 2010, 2009 and 2008 were as follows:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Income from special VAT treatment	2 810	1 648	-
	<b>2 810</b>	<b>1 648</b>	<b>-</b>

Ukrainian agricultural producers, including the companies of the Group, benefit from a special regime of taxation. According to this special regime, they are permitted to retain the difference between the VAT that they charge on their agricultural products (prior to 1 January 2011 - at a rate of 20%) and the VAT paid on items purchased for their operational needs, and negative VAT balance shall be recognised as other operating expenses. These income and expenses are recorded in the consolidated financial statements on a net basis.

All members of the Group qualify for the use of these VAT benefits except for Limited Liability Company "Ovostar", Open Joint Stock Company "Krushynskyy Poultry Complex", Limited Liability Company "Skybynsky Fodder Plant".

According to the new Tax Code of Ukraine, this VAT benefit will be cancelled as of 1 January 2018.

13. Other operating expenses

	Notes	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Shortages and losses from damage of valuables		(58)	(130)	(201)
Loss on disposal of inventories		(186)	-	(151)
Fines and penalties		(13)	(39)	(52)
Impairment of doubtful accounts receivable	25	(183)	(143)	(410)
Impairment of inventories		(232)	(255)	(430)
Other expenses		(419)	(244)	(31)
<b>Total other operating expenses</b>		<b>(1 091)</b>	<b>(811)</b>	<b>(1 275)</b>

14. Finance costs

	Notes	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Interest on debts and borrowings		(876)	(1 545)	(1 909)
Exchange difference loss		-	(56)	(3 645)
Loss from amortization of long-term loan issued	21	-	-	(2 259)
Other finance costs		-	(32)	(85)
<b>Total finance costs</b>		<b>(876)</b>	<b>(1 633)</b>	<b>(7 898)</b>

15. Finance income

	Notes	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Interest income		73	80	1 328
Exchange difference gain		390	-	-
Fair value gain on financial assets at fair value through profit or loss	21	179	360	-
<b>Total finance income</b>		<b>642</b>	<b>440</b>	<b>1 328</b>

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16. Income tax

Companies of the Group that are involved in agricultural production pay the Fixed Agricultural Tax (the "FAT") in accordance with the applicable laws. The FAT is paid in lieu of corporate income tax, land tax, duties for geological survey works and duties for trade patents.

The FAT is calculated by local authorities and depends on the area and valuation of land occupied. This tax regime is valid indefinitely. FAT does not constitute an income tax, and as such, is recognized in the statement of comprehensive income in administrative expenses.

During the years ended 31 December 2010, 2009 and 2008, the Group companies which have the status of the Corporate Income Tax (the "CIT") payers in Ukraine were subject to income tax at a 25% rate. The new Tax Code of Ukraine effective as of 1 January 2011 (Note 31), introduced gradual decreases 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 2010 were measured based on the tax rates expected to be applied to the period when the temporary differences are expected to reverse.

The major components of income tax expense for the years ended 31 December 2010, 2009 and 2008 are:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
<i>Current income tax:</i>			
Current income tax charge	(76)	(84)	(60)
<i>Deferred tax:</i>			
Relating to origination and reversal of temporary differences	(31)	202	(216)
<b>Income tax (expense)/benefit reported in the income statement</b>	<b>(107)</b>	<b>118</b>	<b>(276)</b>

A reconciliation between tax expense and the product of accounting profit multiplied by Ukraine's domestic tax rate for the years ended 31 December 2010 and 2009 is as follows:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
<b>Accounting profit before income tax</b>	<b>9 270</b>	<b>2 420</b>	<b>5 601</b>
At Ukraine's statutory income tax rate of 25%	2 318	605	1 400
<b>Tax effect of:</b>			
Effect of changes in tax rates and laws	(834)	-	-
Income generated by FAT payers (exempt from income tax)	(2 181)	(986)	(1 492)
Effect on deferred tax balances due to the change in income tax rate from 25% to 16% (effective 01 January 2011)	2	-	-
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	475	-	-
Effect of expenses that are not deductible in determining taxable profit	327	263	368
<b>At the effective income tax rate of 1% (2009: - 5% 2008: 5%)</b>	<b>107</b>	<b>(118)</b>	<b>276</b>

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Deferred tax

As of 31 December 2010, 2009 and 2008, deferred tax assets and liabilities comprised the following:

	As at 31 December 2010	As at 31 December 2009	As at 31 December 2008	As at 31 December 2007
Advances received and other payables	357	38	26	-
Inventories	163	-	-	-
Property, plant and equipment	199	94	31	-
<i>less:</i>				
Unrecognized deferred tax assets	(475)	-	-	-
<b>Total deferred tax assets</b>	<b>244</b>	<b>132</b>	<b>57</b>	<b>-</b>
Property, plant and equipment	(2)	(78)	(42)	-
Prepayments to suppliers	(218)	(1)	(164)	-
<b>Total deferred tax liabilities</b>	<b>(220)</b>	<b>(79)</b>	<b>(206)</b>	<b>-</b>
<b>Net deferred tax asset/(liability)</b>	<b>24</b>	<b>53</b>	<b>(149)</b>	<b>-</b>

As of 31 December 2010 the Group did not recognize deferred tax assets arising from temporary differences of USD 1 114 thousand as the Group does not intend to deduct respective expenses for tax purposes in future periods. As of 31 December 2010 the Group did not recognize deferred tax assets on temporary differences in respect of the property, plant and equipment of USD 1 006 thousand due to uncertainties as to whether the Group will be able to realize these deferred tax assets.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are presented in the consolidated balance sheet as of 31 December 2010, 2009 and 2008:

	As at 31 December 2010	As at 31 December 2009	As at 31 December 2008	As at 31 December 2007
Non - current assets	29	132	57	-
Long term liabilities	(5)	(79)	(206)	-
<b>Net deferred tax asset/(liability)</b>	<b>24</b>	<b>53</b>	<b>(149)</b>	<b>-</b>

17. Biological assets

	As at 31 December 2010	As at 31 December 2009	As at 31 December 2008	As at 31 December 2007
<b>Non-current biological assets</b>				
Replacement poultry	6 121	1 468	894	612
<b>Current biological assets</b>				
Commercial poultry	5 026	5 950	7 946	5 345
<b>Total biological assets</b>	<b>11 147</b>	<b>7 418</b>	<b>8 840</b>	<b>5 957</b>

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As at 31 December 2010, 2009 and 2008 commercial and replacement poultry were presented as follows:

	As at 31 December 2010		As at 31 December 2009		As at 31 December 2008		As at 31 December 2007	
	Number, thousand heads	Carrying value	Number, thousand heads	Carrying value	Number, thousand heads	Carrying value	Number, thousand heads	Carrying value
Lohman	-	-	46	89	258	604	1 400	1 662
Hy-line	123	461	166	49	293	934	48	121
Hy-sex	1 273	6 707	1 279	3 168	1 117	6 312	1 032	2 725
Rodonit (brown)	1 009	3 979	1 053	4 112	124	466	256	1 264
Dekalb (white)	-	-	-	-	102	317	-	-
Iza (brown)	-	-	-	-	74	208	38	185
<b>Total biological assets</b>	<b>2 405</b>	<b>11 147</b>	<b>2 545</b>	<b>7 418</b>	<b>1 968</b>	<b>8 841</b>	<b>2 774</b>	<b>5 957</b>

Reconciliation of commercial and replacement poultry carrying values for the years ended 31 December 2010, 31 December 2009, 31 December 2008 was presented as follows:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
<b>As at 01 January</b>	<b>7 418</b>	<b>8 840</b>	<b>5 957</b>
Increase in value as a result of assets acquisition	180	-	-
Increase in value as a result of capitalization of cost	4 150	4 434	5 719
Increase in value as a result of increase in weight/number	84	13	27
Income/(Losses) from presentation of biological assets at fair value	1 137	(4 043)	5 318
Decrease in value as a result of assets disposal	(1 614)	(574)	(2 735)
Decrease in value as a result of assets slaughter	(217)	(965)	(1 119)
Exchange differences	9	(287)	(4 327)
<b>As at 31 December</b>	<b>11 147</b>	<b>7 418</b>	<b>8 840</b>

For the year ended 31 December 2010 the Group produced shell eggs in the quantity of 546 123 thousand items (2009: 540 125 thousand; 2008: 527 532 thousand).

Fair value of biological assets was estimated by Group's specialists which have experience in valuation of such assets. Fair value was calculated by discounting of expected net cash flow (in nominal measuring) at the moment of eggs produced selling using corresponding discount rate which is equal to 27.44%. Management supposes that sale price and production and distribution costs fluctuations will comply with forecasted index of consumer price in Ukraine. The major assumptions were performed on the basis of internal and external information and it reflected Management's assessment of the future agricultural prospect.

Till the year ended 31 December 2010 Management has applied indicators of expected cash flow in substantial measurement (less inflationary component) using corresponding discount rate which was in the range 11.7%-12.1%.

Management believes that changes in approach relating to measurement of cash flow amount and discount rate are reasonable in relation to usage of riskfree profitability indexes which are identified and published in nominal measurement.

Changes in approach relating to measurement of cash flow amount and discount rate have not significant influence on value of biological assets as at 31 December 2010.

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Value measurement is a maximum value exposed to the following assumptions which were used in fair value calculations:

	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Eggs sale price, USD/per item	0,07	0,06	0,08	0,07
Discount rate, %	27.44%	12.1%	12.1%	11.7%
Long-term inflation rate of Ukrainian hrivnya, %	108.9%	N/a	N/a	N/a

Changes in key assumptions that were used in fair value estimation of biological assets will have the following influence on the value of biological assets as at 31 December 2010, 2009 and 2008:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
1% decrease in eggs sales price	(899)	(494)	(405)
1% increase in discount rate	(424)	(42)	(46)
1% increase in long-term inflation rate of Ukrainian hrivnya	685	N/a	N/a

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**18. Property, plant and equipment**

	Buildings	Plant and equipment	Vehicles	Furniture and fittings	Construction-in- progress and uninstalled equipment	Total
<b>Cost or valuation</b>						
<b>As at 31 December 2007</b>	<b>10 337</b>	<b>12 775</b>	<b>1 182</b>	<b>529</b>	<b>1 411</b>	<b>26 234</b>
Additions	589	3 354	270	64	359	4 636
Disposals	(52)	(178)	(48)	(35)	-	(313)
Exchange differences	(3 727)	(5 176)	(462)	(189)	-	(9 554)
<b>As at 31 December 2008</b>	<b>7 147</b>	<b>10 775</b>	<b>942</b>	<b>369</b>	<b>1 770</b>	<b>21 003</b>
Additions	347	218	59	32	124	780
Disposals	(29)	(199)	(33)	(39)	-	(300)
Transfer	329	282	-	-	(611)	-
Exchange differences	(266)	(214)	(32)	(16)	-	(528)
<b>As at 31 December 2009</b>	<b>7 528</b>	<b>10 862</b>	<b>936</b>	<b>346</b>	<b>1 283</b>	<b>20 955</b>
Additions	13	1 843	88	79	209	2 232
Disposals	(723)	(1 021)	(43)	(15)	-	(1 802)
Transfer	-	240	-	-	(240)	-
Exchange differences	(14)	(90)	(5)	(2)	-	(111)
<b>As at 31 December 2010</b>	<b>6 804</b>	<b>11 834</b>	<b>976</b>	<b>408</b>	<b>1 252</b>	<b>21 274</b>
<b>Depreciation and impairment</b>						
<b>As at 31 December 2007</b>	<b>(2 307)</b>	<b>(5 158)</b>	<b>(506)</b>	<b>(327)</b>	<b>-</b>	<b>(8 298)</b>
Depreciation charge for the year	(530)	(1 954)	(206)	(105)	-	(2 795)
Disposals	16	17	25	23	-	81
Exchange differences	990	2 509	231	152	-	3 882
<b>As at 31 December 2008</b>	<b>(1 831)</b>	<b>(4 586)</b>	<b>(456)</b>	<b>(257)</b>	<b>-</b>	<b>(7 130)</b>
Depreciation charge for the year	(386)	(1 462)	(162)	(71)	-	(2 081)
Disposals	10	48	32	19	-	109
Exchange differences	82	233	15	27	-	357
<b>As at 31 December 2009</b>	<b>(2 125)</b>	<b>(5 767)</b>	<b>(571)</b>	<b>(282)</b>	<b>-</b>	<b>(8 745)</b>

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**Property, plant and equipment (continued)**

	Buildings	Plant and equipment	Vehicles	Furniture and fittings	Construction-in- progress and uninstalled equipment	Total
<b>Depreciation and impairment (continued)</b>						
<b>As at 31 December 2009</b>	<b>(2 125)</b>	<b>(5 767)</b>	<b>(571)</b>	<b>(282)</b>	-	<b>(8 745)</b>
Depreciation charge for the year	(367)	(1 384)	(160)	(79)	-	(1 990)
Disposals	380	622	24	15	-	1 041
Exchange differences	9	33	3	4	-	49
<b>As at 31 December 2010</b>	<b>(2 103)</b>	<b>(6 496)</b>	<b>(704)</b>	<b>(342)</b>	-	<b>(9 645)</b>
<b>Net book value</b>						
As at 31 December 2010	4 701	5 338	272	66	1 252	11 629
As at 31 December 2009	5 403	5 095	365	64	1 283	12 210
As at 31 December 2008	5 316	6 189	486	112	1 770	13 873
As at 31 December 2007	8 030	7 617	676	202	1 411	17 936

As at 31 December 2010 property, plant and equipment secured long-term and short-term loans. The net book value of secured property plant and equipment is USD 9 457 thousands.

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19. Intangible assets

	Computer software	Other intangible assets	Total
<b>Cost</b>			
<b>As at 31 December 2007</b>	<b>13</b>	<b>4</b>	<b>17</b>
Additions	1	-	1
Exchange differences	(5)	(1)	(6)
<b>As at 31 December 2008</b>	<b>9</b>	<b>3</b>	<b>12</b>
Additions	15	-	15
Exchange differences	(1)	-	(1)
<b>As at 31 December 2009</b>	<b>23</b>	<b>3</b>	<b>26</b>
Additions	59	7	66
Exchange differences	1	-	1
<b>As at 31 December 2010</b>	<b>83</b>	<b>10</b>	<b>93</b>
<b>Amortisation and impairment</b>			
<b>As at 31 December 2007</b>	<b>(12)</b>	<b>(1)</b>	<b>(13)</b>
Amortisation	(7)	-	(7)
Exchange differences	10	-	10
<b>As at 31 December 2008</b>	<b>(9)</b>	<b>(1)</b>	<b>(10)</b>
Amortisation	(1)	(1)	(2)
Exchange differences	1	1	2
<b>As at 31 December 2009</b>	<b>(9)</b>	<b>(1)</b>	<b>(10)</b>
Amortisation	(59)	(7)	(66)
Exchange differences	(15)	-	(15)
<b>As at 31 December 2010</b>	<b>(83)</b>	<b>(8)</b>	<b>(91)</b>
<b>Net book value</b>			
As at 31 December 2007	1	3	4
As at 31 December 2008	-	2	2
As at 31 December 2009	14	2	16
As at 31 December 2010	-	2	2

20. Other investments

	As at 31 December 2010	As at 31 December 2009	As at 31 December 2008	As at 31 December 2007
<b>Available-for-sale investments:</b>				
Measured at cost	-	3 288	2 083	3 114
<b>Total other investments</b>	<b>-</b>	<b>3 288</b>	<b>2 083</b>	<b>3 114</b>

Available-for-sale investments stated at cost comprise unquoted equity securities in the agricultural and food-producing industries. There is no market for these investments and there have not been any recent transactions that provide evidence of fair value. However, management believes it unlikely that the fair value at the end of the reporting period would differ significantly from their carrying amount.

In 2010 Beneficial Owners of the Group made decision to spin off available-for-sale investments to entity which is controlled over by them. Above mentioned investments were excluded from the consolidated statement of financial position and charged directly to retained earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. Other non current assets

	As at 31 December r 2010	As at 31 December r 2009	As at 31 December r 2008	As at 31 December r 2007
Long-term loan issued to the Beneficial Owner	1 149	1 358	1 337	-
Prepayments for property, plant and equipment	-	1	27	467
<b>Total other non current assets</b>	<b>1 149</b>	<b>1 359</b>	<b>1 364</b>	<b>467</b>

Long-term loan issued to the Beneficial Owner represent interest-free loan, issued for a period of 5 years with a nominal value of UAH 22 000 000 (approximately USD2.77 million), which is recorded at amortized cost using 16% effective interest rate.

22. Interest-bearing loans and other non-current financial liabilities

	Interest rate, %	Maturity	As at 31 December 2010	As at 31 December 2009	As at 31 December 2008	As at 31 December 2007
<b>Current interest-bearing loans and borrowings</b>						
UniCreditBank loan	10,5% + Libor (1m), 15,5% in UAH	30.06.2011	3 333	3 400	3 552	2 371
UniCreditBank loan	14,5%	30.06.2011	377	-	-	-
UniCreditBank loan	5,0% + LIBOR (3m)	19.12.2012	230	230	230	-
UniCreditBank loan	17,8%	10.05.2011	84	167	130	-
UniCreditBank loan	11,0%	20.06.2010	-	106	212	212
UkrPromBank loan	14,5%	19.03.2009	-	-	215	-
SEB Bank loan	21,5%	29.11.2009	-	-	279	-
Brokbusinessbank loan	24,0%	12.07.2011	-	-	445	4 356
Brokbusinessbank loan	24,0%	01.08.2010	-	1 861	727	1 485
Brokbusinessbank loan	26,0%	05.04.2009	-	-	516	-
Other current loans			126	130	147	441
<b>Total current interest-bearing loans and borrowings</b>			<b>4 150</b>	<b>5 894</b>	<b>6 453</b>	<b>8 865</b>
<b>Non-current interest-bearing loans and borrowings</b>						
UniCreditBank loan	5,0% + LIBOR (3m)	19.12.2012	230	460	690	-
UniCreditBank loan	17,8%	10.05.2011	-	83	260	-
UniCreditBank loan	11,0%	20.06.2010	-	-	106	318
Brokbusinessbank loan	24,0%	12.07.2011	-	1 642	1 257	594
Brokbusinessbank loan	24,0%	01.08.2010	-	-	1 203	1 485
Brokbusinessbank loan	26,0%	05.04.2009	-	-	-	787
Brokbusinessbank loan	18,0%	02.07.2008	-	-	-	248
Other non-current financial liabilities			-	9	45	123
<b>Total non-current interest-bearing loans and borrowings</b>			<b>230</b>	<b>2 194</b>	<b>3 560</b>	<b>3 555</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Covenants

The Group's loan agreements contain a number of covenants and restrictions, which include, but are not limited to, financial ratios and other legal matters. Covenant breaches generally permit lenders to demand accelerated repayment of principal and interest.

At 31 December 2010 the Group was not in breach of any financial covenants which allow lenders to demand immediate repayment of loans or bonds.

### 23. Inventories

	As at 31 December 2010	As at 31 December 2009	As at 31 December 2008	As at 31 December 2007
Raw materials	2 515	1 487	1 278	2 677
Work in progress	146	25	-	-
Agricultural produce and finished goods	5 282	2 926	1 504	1 673
Package and packing materials	728	833	1 086	927
Other inventories	319	320	229	660
<b>Total inventories at the lower of cost and net realisable value</b>	<b>8 990</b>	<b>5 591</b>	<b>4 097</b>	<b>5 937</b>

For the year ended 31 December 2010 the Group recognized impairment losses of agricultural produce and finished goods in the amount of USD 337 thousand.

The impairment losses recognized were due to decreased net realizable value and illiquidity of finished goods.

### 24. Trade and other receivables (current)

	As at 31 December 2010	As at 31 December 2009	As at 31 December 2008	As at 31 December 2007
Trade receivables	4 564	3 634	4 945	4 334
Allowances for doubtful accounts receivable	(387)	(278)	(214)	(440)
VAT for reimbursement	2 569	1 367	1 551	452
Receivables for securities sold but not yet settled	-	4 316	4 476	-
Current loans issued	280	134	794	2 000
Other accounts receivable	148	104	698	278
<b>Total trade and other receivables</b>	<b>7 174</b>	<b>9 277</b>	<b>12 250</b>	<b>6 624</b>

### 25. Movements in formed allowance for doubtful accounts receivable

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
<b>As at 01 January</b>	<b>(278)</b>	<b>(214)</b>	<b>(440)</b>
Accrued in the period	(183)	(143)	(410)
Use of allowance	46	50	-
Refund of amounts previously recognized as doubtful	23	11	-
Exchange differences	5	18	636
<b>As at 31 December</b>	<b>(387)</b>	<b>(278)</b>	<b>(214)</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. Cash and short-term deposits

	As at 31 December 2010	As at 31 December 2009	As at 31 December 2008	As at 31 December 2007
Cash in banks	334	546	315	250
Cash on hand	25	31	20	31
<b>Total cash at banks and on hand</b>	<b>359</b>	<b>577</b>	<b>335</b>	<b>281</b>
Short-term deposits	-	1 370	-	11 248
<b>Total cash and short-term deposits</b>	<b>359</b>	<b>1 947</b>	<b>335</b>	<b>11 529</b>

27. Equity

**Issued capital and capital distribution**

As referred to in Note 1, the Group was formed in December 2010 through a series of transactions that ultimately resulted in the Company obtaining controlling ownership interest in the subsidiaries from entities which were under common control at the time of reorganisation and Beneficial Owners. As part of the reorganisation all the shares of the subsidiaries have been transferred from Beneficial Owners and entities under their common control to the Company.

As at 31 December 2007, charter capital of the Company in the amount of UAH 90 thousand (equivalent of USD 18 thousand) was issued and fully paid.

In December 2010 the Company issued additional shares capital in the amount of UAH 215 thousand (equivalent of USD 27 thousand) to its current shareholders (Beneficial Owners) due to exchange for the controlling ownership interests in subsidiaries, which have been transferred at the nominal share value to the Company in the process of the reorganisation of the Group carried out during 2010.

As at 31 December 2010, charter capital of the Company in the amount of UAH 305 thousand (equivalent of USD 45 thousand) was issued and fully paid.

As of 31 December 2010 the Shareholders' interest in the Company was as follows:

	As at 31 December 2010
Mr. BorysBielikov (Beneficial Owner)	50.0%
Mr. VitaliiVeresenko (Beneficial Owner)	50.0%
<b>Total</b>	<b>100%</b>

Before year ended 31 December 2010, the Company was controlled by Mr. Borys Bielikov and Mr. Vitalii Veresenko (through his nominal representative).

The shares of the Company were not listed as at 31 December 2010.

**Dividends payable of the Company**

During the year ended 31 December 2008, the Company paid dividends attributable to profits accumulated which is amounting to USD 1,990 thousand to the shareholders.

During the year ended 31 December 2010 and 2009, no dividends have been declared and paid.

**Foreign currency translation reserve**

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Merger reserve**

Merger reserve represents the merger reserve set up in relation for the transactions that ultimately resulted obtaining controlling ownership interest in the subsidiaries from Beneficial Owners during 2008-2010.

**28. Trade and other payables (current)**

	As at 31 December 2010	As at 31 December 2009	As at 31 December 2008	As at 31 December 2007
Trade payables	3 662	2 133	2 234	3 144
VAT liabilities	7	236	271	394
Interest payable	-	72	8	2
Employee benefit liability	295	303	559	538
Taxes payable	46	48	103	64
Other payables	438	586	903	673
<b>Total trade and other payables</b>	<b>4 448</b>	<b>3 378</b>	<b>4 078</b>	<b>4 815</b>

**29. Provisions**

	As at 31 December 2010	As at 31 December 2009	As at 31 December 2008	As at 31 December 2007
Provisions for unused vacations	22	120	154	59
Other provisions	-	-	-	131
<b>Total provisions</b>	<b>22</b>	<b>120</b>	<b>154</b>	<b>190</b>

**30. Related party disclosures**

For the purposes of these financial statements, the parties are considered to be related, if one of the parties has the ability to exercise control over the other party or influence significantly the other party in making financial and operating decisions. In considering the transactions with each possible related party, the particular attention is paid to the essence of relationships, not merely their legal form.

Related parties may enter into transactions, which may not always be available to unrelated parties, and they may be subject to such conditions and such amounts that are impossible in transactions with unrelated parties.

The following companies and individuals are considered to be the Group's related parties as at 31 December 2010, 31 December 2009 and 31 December 2008:

**Individuals (shareholders)**

BorysBielikov  
VitaliiVeresenko

**Key management personnel**

Natalia Malyovana  
Natalia Vlasniuk  
PetrShkurat \*  
Viacheslav Protsyshyn  
VitaliiVoron  
Yuriy Doroshev

\* In 2008 PetrShkurat left the obtained position

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**Parties under the significant influence of the Beneficial Owners**

AgrofirmaBoryspilskyHutir LLC  
 Aleksa LTD LLC  
 Anglo-Brit Management Limited  
 Boryspilsky EKZ OJSC \*\*  
 BVV-Invest LLC\*\*\*\*  
 Kompromis - Invest LLC\*\*\*\*  
 Lagoda Confectionery Firm CJSC\*\*\*\*  
 Ovostar LTD LLC  
 Poltavarybgosp OJSC \*\*\*  
 Zootechnologiya LLC\*\*\*\*

\*\* In 2008 BorysBielikovsold his share in Boryspilsky EKZ OJSC to third parties

\*\*\* In 2008 VitaliiVeresenkosold his share in Poltavarybgosp OJSC to third parties

\*\*\*\* At the end of 2010 as a result of restructuring operations of the Group, Beneficial Owners withdrew from the shareholders of companies indicated above.

As at 31 December 2010, 31 December 2009, 31 December 2008 and 31 December 2007, trade accounts receivable from related parties, advances issued to related parties and trade and other accounts payable to related parties were presented as follows:

	As at 31 December 2010	As at 31 December 2009	As at 31 December 2008	As at 31 December 2007
<b>Long-term loan issued to the Beneficial Owners</b>				
BorysBielikov	1 149	1 358	1 337	-
	<b>1 149</b>	<b>1 358</b>	<b>1 337</b>	<b>-</b>
<b>Trade receivables from related parties</b>				
Zootechnologiya LLC	-	-	-	1
Lagoda Confectionery Firm CJSC	699	37	1 080	995
	<b>699</b>	<b>37</b>	<b>1 080</b>	<b>996</b>
<b>Current loans issued to related parties</b>				
Poltavarybgosp OJSC	-	-	-	1 877
Key management personnel	277	-	368	41
	<b>277</b>	<b>-</b>	<b>368</b>	<b>1 918</b>
<b>Current loans issued to Beneficial Owners</b>				
VitaliiVeresenko	3	134	423	82
	<b>3</b>	<b>134</b>	<b>423</b>	<b>82</b>
<b>Other accounts receivable from related parties</b>				
Ovostar LTD LLC	13	13	13	20
Lagoda Confectionery Firm CJSC	-	8	4	15
Poltavarybgosp OJSC	-	-	-	2
Key management personnel	1	1	6	1
	<b>14</b>	<b>22</b>	<b>23</b>	<b>38</b>
<b>Prepayments to related parties</b>				
Aleksa LTD LLC	145	118	133	208
AgrofirmaBoryspilskyHutir LLC	9	7	6	-
	<b>154</b>	<b>125</b>	<b>139</b>	<b>208</b>
<b>Receivables for securities sold but not yet settled from Beneficial Owner</b>				
VitaliiVeresenko	-	4 316	4 476	-
	<b>-</b>	<b>4 316</b>	<b>4 476</b>	<b>-</b>

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	As at 31 December 2010	As at 31 December 2009	As at 31 December 2008	As at 31 December 2007
<b>Trade payables to related parties</b>				
Boryspilsky EKZ OJSC	-	-	-	38
Lagoda Confectionery Firm CJSC	165	21	23	30
AgrofirmaBoryspilskyHutir LLC	-	-	-	1
	<b>165</b>	<b>21</b>	<b>23</b>	<b>69</b>
<b>Prepayments from related parties</b>				
Poltavarybgosp OJSC	-	-	-	61
	<b>-</b>	<b>-</b>	<b>-</b>	<b>61</b>
<b>Other payables to related parties</b>				
Aleksa LTD LLC	-	1	34	178
Anglo-brit management limited	104	104	108	164
BorysBielikov	1	5	5	-
VitaliiVeresenko	1	1	1	-
	<b>106</b>	<b>111</b>	<b>148</b>	<b>342</b>

For the years ended 31 December 2010, 31 December 2009, 31 December 2008 revenues and expenses from related parties were presented as follows:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
<b>Revenue from related parties</b>			
Lagoda Confectionery Firm CJSC	1 907	8	-
Boryspilsky EKZ OJSC	-	-	206
	<b>1 907</b>	<b>8</b>	<b>206</b>
<b>Administrative expenses</b>			
Aleksa LTD LLC	5	5	8
	<b>5</b>	<b>5</b>	<b>8</b>

**Compensation of key management personnel of the Group**

The amount of remuneration of key management personnel of the Group for the year ended 31 December 2010 amounted to USD 55 thousand (2009: USD 57 thousand; 2008: USD 70 thousand). Remuneration was performed mainly in the form of salaries and contributions to social security fund.

**31. Commitments and contingencies**

**Contingent liabilities**

**Operating environment** – The principal business activities of the Group are within Ukraine. Emerging markets such as Ukraine are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Ukraine and the Ukraine's economy in general. Laws and regulations affecting businesses operating in Ukraine are subject to rapid changes and the Group's assets and operations could be at risk if there are any adverse changes in the political and business environment.

The global financial turmoil has negatively affected Ukraine's financial and capital markets in 2008 and 2009. While due to the nature of the Group's business the Group's revenues and margins were not affected by

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

these factors, the Group's net profit was impacted by the significant depreciation of Ukrainian currency during the year ended 31 December 2008. The Ukrainian currency remained relatively stable in 2010 and 2009. The Ukraine's economy returned to growth in 2010. Although significant economic uncertainties remain, Ukrainian economy experienced a 4.2% GDP growth in 2010 and further recovery is expected in 2011.

**Taxation** – Ukrainian tax authorities are increasingly directing their attention to the business community as a result of the overall Ukrainian economic environment. In respect of this, the local and national tax environment in Ukraine is constantly changing and subject to inconsistent application, interpretation and enforcement. Non-compliance with Ukrainian laws and regulations can lead to the imposition of severe penalties and interest. Future tax examinations could raise issues or assessments which are contrary to the Group companies' tax filings. Such assessments could include taxes, penalties and interest, and these amounts could be material. While the Group believes it has complied with local tax legislation, there have been many new tax and foreign currency laws and related regulations introduced in recent years which are not always clearly written.

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 take effect later (such as, Section III dealing with corporate income tax, came into force from 1 April 2011). Apart from changes in CIT rates from 1 April 2011 and planned abandonment of VAT refunds for agricultural industry from 1 January 2018, as discussed in Note 12, the Tax Code also changes various other taxation rules.

As of the date 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 the 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 of effects of its adoption on the operations of the Group.

**Legal issues** – The Group is involved in litigations and other claims that are in the ordinary course of its business activities. Management believes that the resolution of such matters will not have a material impact on its financial position or operating results.

**Capital liabilities** – As at 31 December 2010, 31 December 2009, 31 December 2008 and 31 December 2007 the Group had no significant contractual liabilities for acquisition of property, plant and equipment and intangible assets.

**Liabilities for property, plant and equipment operating lease contracts** – As at 31 December 2010, 31 December 2009, 31 December 2008 and 31 December 2007 the Group had no significant contractual liabilities for operating lease contracts.

### 32. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through a combination of debt and equity capital. The management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to balance its overall capital structure through the issue of new debt or the redemption of existing debt.

The capital structure of the Group consists of debt, which includes the borrowings and cash and cash equivalents disclosed in notes 22 and 26 respectively, and equity attributable to the Company shareholders, comprising issued capital, reserves and retained earnings.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Gearing ratio

The Group's management reviews quarterly the capital structure of the Group. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

	31 December 2010	31 December 2009	31 December 2008	31 December 2007
Debt liabilities* (Note 22)	4 380	8 079	9 969	12 297
Cash and cash equivalents (Note 26)	(359)	(577)	(335)	(281)
Net debts	4 021	7 502	9 634	12 016
Equity**	28 902	27 080	25 343	28 764
<b>Gearing ratio</b>	<b>14%</b>	<b>28%</b>	<b>38%</b>	<b>42%</b>

\*Debts include short-term and long-term borrowings.

\*\* Equity includes the share capital, merger reserve, retained earnings and foreign currency translation reserve.

### Financial risk management

The main risks inherent to the Group's operations are those related to credit risk exposures, liquidity risk, market movements in currency rates and interest rates and potential negative impact of livestock diseases.

#### Credit risk

Credit risk – The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group's exposure to credit risk regarding trade accounts receivable is primarily dependent on specific characteristics of each client. The Group's policy for credit risk management provides systematic work with debtors, which includes: analysis of solvency, determination of maximum amount of risk related to one customer or a group of customers and control over timeliness of debt repayment. The majority of Group's clients are longstanding clients, there were no significant losses during 2010, 2009 and 2008 resulting from non-fulfilment of obligations by clients. Concentration of credit risk on trade accounts receivable is characterised by the following indicators:

For the year ended 31 December 2010 USD 7 016 thousand or 19.7% of Group's sales revenue is related to sales transactions, realised with 5 major customers of the Group. As at 31 December 2010 USD 1 504 thousand or 33.2 % of trade accounts receivable relates to 5 major debtors.

For the year ended 31 December 2009 USD 6 514 thousand or 20.1% of Group's sales revenue is related to sales transactions, realised with 5 major customers of the Group. As at 31 December 2009 USD 1 307 thousand or 36.5 % of trade accounts receivable relates to 5 major debtors.

For the year ended 31 December 2008 USD 14 770 thousand or 29.1% of Group's sales revenue is related to sales transactions, realised with 5 major customers of the Group. As at 31 December 2008 USD 1 449 thousand or 29.3 % of trade accounts receivable relates to 5 major debtors.

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As at 31 December 2010, 2009, 2008 and 2007 overdue but not impaired trade accounts receivable was presented as follows:

	31 December 2010	31 December 2009	31 December 2008	31 December 2007
0-30 days	2 763	2 681	4 674	2 808
31-90 days	440	138	52	545
91-180 days	566	452	3	360
181-360 days	54	85	2	16
more than 360 days	354	-	-	165
<b>Total</b>	<b>4 177</b>	<b>3 356</b>	<b>4 731</b>	<b>3 894</b>

**Liquidity risk**

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

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 cashflows from operating activities are insufficient for liabilities to be settled. The table below represents the expected maturity of components of working capital:

	Carrying value	Less than 3 months	3-6 months	6-12 months	Over 1 year
<b>31 December 2010</b>					
<b>Non-derived financial liabilities:</b>					
Trade payables	3 662	3 662	-	-	-
Employee benefit liability	295	295	-	-	-
Current interest-bearing loans and borrowings	4 150	1 399	2 636	115	-
Non-current interest-bearing loans and borrowings	230	-	-	-	230
Other payables	438	438	-	-	-
	<b>8 775</b>	<b>5 794</b>	<b>2 636</b>	<b>115</b>	<b>230</b>

	Carrying value	Less than 3 months	3-6 months	6-12 months	Over 1 year
<b>31 December 2009</b>					
<b>Non-derived financial liabilities:</b>					
Trade payables	2 133	2 133	-	-	-
Interest payable	72	72	-	-	-
Employee benefit liability	303	303	-	-	-
Current interest-bearing loans and borrowings	5 894	3 552	285	2 057	-
Non-current interest-bearing loans and borrowings	2 185	-	-	-	2 185
Other payables	594	594	-	-	-
	<b>11 181</b>	<b>6 654</b>	<b>285</b>	<b>2 057</b>	<b>2 185</b>

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31 December 2008	Carrying value	Less than 3 months	3-6 months	6-12 months	Over 1 year
<b>Non-derived financial liabilities:</b>					
Trade payables	2 234	2 234	-	-	-
Interest payable	8	8	-	-	-
Employee benefit liability	559	559	-	-	-
Current interest-bearing loans and borrowings	6 452	4 156	816	1 479	-
Non-current interest-bearing loans and borrowings	3 516	-	-	-	3 516
Accounts payable for property, plant and equipment	380	380	-	-	-
Other payables	948	948	-	-	-
	<b>14 097</b>	<b>8 285</b>	<b>816</b>	<b>1 479</b>	<b>3 516</b>

**Currency risk**

Currency risk – Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group undertakes certain transactions denominated in foreign currencies. The Group does not use any derivatives to manage foreign currency risk exposure, at the same time the management of the Group sets limits on the level of exposure by currencies.

**Exposure to foreign currency risk**

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities as of 31 December 2010 were as follows:

	USD	EUR	UAH	Total
(in conversion to USD thousand)				
<b>Assets</b>				
Cash in banks	99	-	235	334
Trade accounts receivable	100	-	4 077	4 177
<b>Liabilities</b>				
Current interest-bearing loans and borrowings	(3 563)	-	(587)	(4 150)
Non-current interest-bearing loans and borrowings	(230)	-	-	(230)
Trade accounts payable	(20)	(322)	(3 320)	(3 662)
<b>Net exposure to foreign currency risk</b>	<b>(3 614)</b>	<b>(322)</b>	<b>405</b>	<b>(3 531)</b>

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities as of 31 December 2009 were as follows:

	USD	EUR	UAH	Total
(in conversion to USD thousand)				
<b>Assets</b>				
Trade accounts receivable	208	-	3 148	3 356
<b>Liabilities</b>				
Current interest-bearing loans and borrowings	(3 736)	-	(2 158)	(5 894)
Non-current interest-bearing loans and borrowings	(460)	-	(1 725)	(2 185)
Trade accounts payable	(344)	(78)	(1 711)	(2 133)
<b>Net exposure to foreign currency risk</b>	<b>(4 332)</b>	<b>(78)</b>	<b>(2 446)</b>	<b>(6 856)</b>

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The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities as of 31 December 2008 were as follows:

	USD	EUR	UAH	Total
(in conversion to USD thousand)				
<b>Assets</b>				
Cash in banks	57	-	258	315
Trade accounts receivable	136	-	4 595	4 731
<b>Liabilities</b>				
Current interest-bearing loans and borrowings	(3 994)	(215)	(2 243)	(6 452)
Non-current interest-bearing loans and borrowings	(796)	-	(2 720)	(3 516)
Trade accounts payable	(189)	(553)	(1 492)	(2 234)
<b>Net exposure to foreign currency risk</b>	<b>(4 786)</b>	<b>(768)</b>	<b>(1 602)</b>	<b>(7 156)</b>

This sensitivity rate represents Management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for expected change in foreign currency rates.

### Effect in USD thousand:

	Increase in currency rate against UAH	Effect on profit before tax
<b>31 December 2010</b>		
USD	15%	(542)
EUR	10%	(32)
<b>31 December 2009</b>		
USD	15%	(650)
EUR	10%	(8)
<b>31 December 2008</b>		
USD	15%	(718)
EUR	10%	(77)

The effect of foreign currency sensitivity on shareholders' equity is equal to that on profit or loss.

### Interest rate risk

Interest rate risk – Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The major part of the Group's borrowings bear variable interest rates which are linked to LIBOR. Other borrowings are presented at fixed interest rates.

The below details the Group's sensitivity to increase or decrease of floating rate by 1%. The analysis was applied to interest bearing liabilities (bank borrowings under facility agreements) based on the assumption that the amount of liability outstanding as of the balance sheet date was outstanding for the whole year.

	31 December 2010	31 December 2009	31 December 2008
	<b>LIBOR</b>	<b>LIBOR</b>	<b>LIBOR</b>
Profit/(loss)	33/(33)	7/(7)	29/(29)

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The effect of interest rate sensitivity on shareholders' equity is equal to that on profit or loss.

### Livestock diseases risk

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 diseases, 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 minimize 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.

### 33. Fair values

Estimated fair value disclosure of financial instruments is made in accordance with the requirements of International Financial Reporting Standard 7 "Financial Instruments: Disclosure". Fair value is defined as the amount at which the 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 instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The Group does not acquire, hold or issue derivative financial instruments for trading purposes. The following table presents the classification, subsequent measurement, carrying values and fair values of the Group's financial assets and liabilities:

Classification	Subsequent measurement	31 December 2010		31 December 2009		31 December 2008		31 December 2007	
		Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets:</b>									
Available-for-sale investments (b)	Fair value (L3)	-	-	3 288	3288	2083	2083	3114	3114
Trade and other receivables (a)	Amortized cost	7 174	7 174	9 277	9277	12 250	12250	6 624	6624
Long-term loan issued to the Beneficial Owner of the Group (c)	Amortized cost	1 149	1 149	1 358	1358	1 337	1337	-	-
		<b>8 323</b>	<b>8 323</b>	<b>13 923</b>	<b>13 923</b>	<b>15 670</b>	<b>15 670</b>	<b>9 738</b>	<b>9 738</b>
<b>Financial liabilities:</b>									
Current interest-bearing loans and borrowings (a)	Amortized cost	4 150	4 150	5 894	5894	6 453	6453	8 865	8865
Non-current interest-bearing loans and borrowings (c)	Amortized cost	230	230	2 185	2185	3 516	3516	3 432	3432
Trade and other payables (current) (a)	Amortized cost	4 448	4 448	3 378	3378	4 078	4078	4 815	4815
		<b>8 828</b>	<b>8 828</b>	<b>11 457</b>	<b>11 457</b>	<b>14 047</b>	<b>14 047</b>	<b>17 112</b>	<b>17 112</b>

The Group uses the following hierarchy for determining the fair value of financial instruments: Level 1 ("L1") - quoted (unadjusted) prices in active markets for identical assets or liabilities; Level 2 ("L2") - other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either

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directly or indirectly; and Level 3 ("L3") - techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

- a) The Group's short-term financial instruments, comprising trade and other receivables, current interest-bearing loans and borrowings, trade and other payables are carried at amortized cost which, due to their short term nature, approximates their fair value.
- b) Available-for-sale investments stated at cost comprise unquoted equity securities in the agricultural and food-producing industries. There is no market for these investments and there have not been any recent transactions that provide evidence of fair value. However, management believes it unlikely that the fair value at the end of the reporting period would differ significantly from their carrying amount.
- c) The fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

### **34. Subsequent events**

- a) On 22 March 2011 Ovostar Union N.V. was incorporated for the purposes of initial public offering. Ovostar Union N.V. is a Dutch limited company. The registered office of the Company is Koningslaan 17, 1075AA, Amsterdam, the Netherlands. On 28 March 2011 Ovostar Union N.V (the Netherlands) acquired 99.8% of corporate rights of the Company from Beneficial Owners at its nominal value.
- b) In 2011 the Group's Management made decision regarding liquidation of Limited Liability Company "Skybyskyy Fodder Zavod". All assets and liabilities of this Company and its major activities will be transferred to Limited Liability Company "Yasensvit". As of the date of signing of these consolidated financial statements the process of liquidation was not still finished.