



Industrial Milk Company S.A. and its subsidiaries

Consolidated Financial Statements

For the year ended 31 December 2011

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Statement of management responsibilities for preparation and approval of consolidated financial statements for the year ended 31 December 2011

Management of the Group of companies "IMC S.A." (Group) is responsible for preparing the consolidated financial statements which reflect in all material aspects the financial position of the Group as at 31 December 2011 as well as the results of its activities, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards (IFRS).

In preparing consolidated financial statements, the Group's Management is responsible for:

- selecting appropriate accounting policies and their consistent application;
- making reasonable measurement and calculation;
- following principles of IFRS or disclosing all considerable deviations from IFRS in the notes to consolidated financial statements;
- preparing consolidated financial statements of the Group on the going concern basis, except for the cases when such assumption is illegal.
- accounting and disclosing in the consolidated financial statements all the relations and transactions between related parties;
- accounting and disclosing in the consolidated financial statements all subsequent events that need to be adjusted or disclosed;
- disclosing all claims related to previous or potential legal proceedings;
- disclosing in the consolidated financial statements all the loans or guarantees on behalf of the management.

The Group's Management is also responsible for:

- development, implementation and control over effective and reliable internal control system in the Group;
- keeping accounting records in compliance with the legislation and accounting standards of the respective country of the Group's registration;
- taking reasonable steps within its cognizance to safeguard the assets of the Group;
- detecting and preventing from fraud and other irregularities.

These consolidated financial statements as at 31 December 2011 prepared in compliance with IFRS are approved on behalf of the Group's Management on 18 April 2012.

On behalf of the Management:

Chief Executive Officer



IEVGEN OSYPOV

Chief Financial Officer



DMYTRO MARTYNIUK

Consolidated Management Report

1 Business and General Conditions

2 Operational and Financial Results

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1 Business and General Conditions

Macro-economic development

- **World economy**

2011, a troubled year for the global economy, was marked by the sideways' trend of the world economic development. The return of positive global economic growth in 2010 and continued population gains resulted in increase of food and feed demand in 2011.

Strong growth in India and China increased demand for fuel and raw materials and led to a hardening of commodity prices. Economic growth in developing countries was especially important for food consumption and feed use.

Crude oil prices were increasing when global economic activity was improving. Increases in crude oil prices raised production costs in the agricultural sector. Global demand for biofuel feedstocks continued its growth. The EU remained the world's largest importer of biofuels.

The global demand for agricultural products, in combination with the continued presence of U.S. ethanol demand for corn and EU biodiesel demand for vegetable oils, held prices for corn, oilseeds, and many other crops at historically high levels.

- **Ukrainian economy**

In 2011 the Ukrainian economy stood up in the mixed international economic situation. The main achievements of the Ukrainian government were decrease of inflation and stability of the Ukrainian currency's rate.

The GDP growth was 5,2% (IMF forecasted 4,5%) and this fact indicates stabilization of the microeconomic situation in the country (in 2010 GDP growth was 4,2%).

The agricultural sector was and remains the main driver of the growth of the national GDP. The agricultural production had a crucial influence on the dynamics of this growth.

Development of Industrial Milk Company S.A. and its Subsidiaries (the hereinafter «the Group » or «IMC»).

After having achieved the best results in the Group's history in 2010, IMC was able to continue its success story also in the fiscal year 2011, and the company significantly increased EBITDA.

- **IPO**

In May 2011 Industrial Milk Company S.A. successfully managed IPO on Warsaw Stock Exchange and raised US\$ 24.4 mln (net cash) via initial public offering of 24% equity stake.

- **Corporate structure**

The parent company of the Group of companies “Industrial Milk Company” is Industrial Milk Company S.A. It is a limited company registered in accordance with the legislation of Luxembourg.

Unigrain Holding Limited is a direct subsidiary company of Industrial Milk Company S.A. and the parent company of Burat-Agro LLC, Burat LLC, Chernihiv Industrial Milk Company LLC, PJSC Mlibor. In addition, PJSC PKZ belongs directly to Burat LLC and the subsidiary company ZKCP belongs directly to Chernihiv Industrial Milk Company LLC.

In 2011 Industrial Milk Company S.A. purchased (indirectly, through its direct subsidiary company Unigrain Holding Limited) the silo OJSC Vyrivske HPP and the following agrarian companies:

- PAE Slavutich
- PE Progress 2010
- PAE Promin
- AF Kalynivska-2005, Ltd
- AF Zhovtneva, Ltd
- AF Shid-2005, Ltd
- AIE Vyrivske, Ltd
- Pisky, Ltd
- SE Vry-Agro

On November 30, 2011 to decrease expenses and to improve management quality the agrarian companies PAE Slavutich and PE Progress 2010 were joined to Chernihiv Industrial Milk Company LLC, and PAE Promin was joined to Burat-Agro LLC.

On August 30, 2011 owing to increase of volumes of export sales of the Group the direct subsidiary company Unigrain Holding Limited established Aristo Eurotrading Ltd (BVI).

- **Group strategy**

In 2011 the Group of companies “Industrial Milk Company” (hereinafter “the Group”) actively implemented its development strategy announced during IPO

Strategy	Strategy implementation results in 2011
Land bank expansion <ul style="list-style-type: none"> • Focus on land bank expansion via acquisition of agricultural entities with land lease rights as well as on organical growth through attracting new land owners • Development of land bank as land cluster model, which assumes highly concentrated location of fields and self-sufficiency in farming infrastructure of each cluster • Land bank expansion in prime quality agricultural areas, in the so-called black earth belt, with favourable weather conditions adding to its operational efficiency 	<p>In 2011 the Group increased its Land Bank under processing by 57%, from 37,9 ths ha as of 31.12.2010 to 59,6 ths ha as of 31.12.2011.</p> <p>The Land Bank under processing expansion was in existing clusters of the Group (Poltava and Chernihiv) and also the new cluster (Sumy) was created.</p> <p>The Group's Land Bank under processing is logistically concentrated that allows to maintain high level of operational efficiency.</p>
Operational efficiency <ul style="list-style-type: none"> • Specialisation in limited number of high marginal crops, which are optimal for effective crop rotation and suitable for land and climate specifics • Focus on increasing of yields and decreasing of production costs by use of high performance machinery and equipment, modern agricultural technologies, as well as controlling systems. • Sustaining sufficient level of grain and potato storage capacities with purpose to get optimal prices and have control over processing and storing process 	<p>In 2011 the growth of EBITDA per hectare was 24%.</p> <p>The Group continued its specialization on 4 high marginal crops:</p> <ul style="list-style-type: none"> • corn • wheat • sunflower • soybean <p>In 2011 the Group's yields were 24-48% higher than</p>

	<p>Ukraine average.</p> <p>The Group increased the storage capacities by 23% from 172 ths tonnes in 2010 to 211 ths tonnes in 2011.</p> <p>The new potato storage capacity of 13,5 ths tonnes equipped with modern climate system was built in 2011.</p>
<p>Diversification</p> <ul style="list-style-type: none"> • Diversification of operations with purpose to reduce risk exposure related to crop farming. In line with this strategy, the Group support and develops cattle business segment and potato production • Sales geography diversification 	<p>Cattle breeding ensured stable income during 2011.</p> <p>The Group increased milk production by 12% vs. 2010.</p> <p>The Group's milk yields were 27% higher than Ukraine average.</p> <p>The number of cattle herd was increased to 7,5 ths heads including 3,9 ths cows due to existing clusters expansion (Poltava and Chernihiv) and establishment of new cluster (Sumy).</p> <p>Sales geography diversification was supported. Export sales accounted 57% of total crop farming sales in 2011.</p>

- **The internal control system**

IMC's control system relies on daily resource planning analyses which are detailed by cost centre and cost article, department, thus providing all the necessary information for controlling inventories and products.

IMC established internal controlling instruments to secure proper accounting in compliance with legal requirements.

IMC's accounting procedures are governed by standardized guidelines and rules as well as a clearly defined course of action in different situation. Therefore, standard account parameters and booking directions for various production operations were established. Another control tool is the clear allocation of functions regarding various accounting processes. For Group consolidation and accounting purposes all book-keeping data of the consolidated companies may be accessed automatically.

The internal control system of IMC is based on the accounting data base thus integrating all controlling processes. Accounting processes are carried out on a high level basis and are monitored and adjusted by specialists.

IMC's accounting-related risk management system is set up in a way that the risk of misrepresentation could mainly ensue from new business processes or amendments to legal provisions. Risks are contained by transferring decisions on accounting-relevant data resulting from new business processes to the management level. Ongoing continuation training regarding the applicable accounting provisions from time to time is provided to the management.

- **Personnel**

Trained and motivated employees are the most precious success resource for an enterprise dedicated to agricultural production. Motivation and professionalism are prerequisites for excellent results. IMC can always rely on its qualified and motivated staff. Future-oriented technologies, trained personnel and continuation training of the company's employees are vital to secure quality and low cost of agricultural products.

As IMC is a vocational training provider, the company is able to train its qualified skilled workers and executives mainly from its own staff. Specialized training programs are aimed at the improvement of employees professional skills. Open communication channels on all levels, short decision-making processes are values applied and lived.

Number of employees as of 31 December

	2011	2010	Change in %
Total number of employees	1 747	1 441	21%
operating personnel	1 361	1 116	22%
administrative personnel	353	292	21%
sales personnel	24	24	0%
non-operating personnel	9	9	0%
Wages and salaries and related charges per employee (USD)	4 290	3 627	18%

2 Operational and Financial Results

The following table sets forth the Company's results of operations for the years ended 31 December 2011 and 2010 derived from the Consolidated Financial Statements:

(US\$ in thousands)

	For the year ended		Change in %
	31 December 2011	31 December 2010	
CONTINUING OPERATIONS			
Revenue	29 084	34 820	(16%)
Net change in fair value of biological assets and agricultural produce, net	24 158	10 216	136%
Cost of Sales	(25 506)	(28 476)	(10%)
GROSS INCOME	27 736	16 560	67%
Administrative expenses	(3 049)	(2 106)	45%
Selling and distribution costs	(730)	(952)	(23%)
Other operating income	1 167	4 045	(71%)
Income from the exchange of property certificates	192	-	-
Other operating expenses	(4 548)	(1 560)	192%
Write-offs of property, plant and equipment	(1 600)	(1 073)	49%
Loss on revaluation of other property, plant and equipment	-	(422)	(100%)
OPERATING INCOME	19 168	14 492	32%
Financial expenses, net	(1 763)	(1 865)	(5%)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	17 405	12 627	38%
Income tax (expense) / income	(69)	2 146	-
NET PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	17 336	14 773	17%
Normalised EBITDA	25 671	19 516	32%
Normalised EBIT	20 576	15 987	29%
Normalised Net Profit	18 744	16 268	15%
Depreciation and amortisation	(5 095)	(3 529)	44%
Income from the exchange of property certificates*	192	-	-
Write off of property, plant and equipment (PP&E)*	(1 600)	(1 073)	49%
Loss on revaluation of other PP&E*	-	(422)	-

* Normalisation adjustments to EBITDA, EBIT and Net Profit exclude effects of non-recurring expenditure from operating segments such as income from the exchange of property certificates, write off of PP&E, loss on revaluation of other PP&E resulting from an isolated, non-recurring event.

Revenue

The Company's revenue from sales of finished products decreased year-on-year by 16% primarily as a consequence of the change in stock of agricultural produce: as of 31 December 2011 the stock of agricultural produce had a book value of USD 33.8 million, compared to USD 10.0 million on 31 December of the previous year and USD 11.7 million on 31 December 2009. The following table sets forth the Company's sales revenue by products for the years indicated:

(US\$ in thousands)	2011	2010	Change in %
Corn	16 202	15 000	8%
Cattle	1 026	784	31%
Milk	6 654	5 122	30%
Wheat	593	4 804	(88%)
Sunflower	132	4 281	(97%)
Other	2 886	3 755	(23%)
	27 493	33 746	(19%)

The most significant portion of the Company's revenue comes from selling corn, which represented 56% and 43% of total revenue for the years ended 31 December 2011 and 2010, respectively. The following table sets forth the volume of the Company's main crops and revenues generated from the sales of such crops:

(US\$ in thousands)	Year ended December 31	
	2011	2010
Corn		
Sales of produced corn (<i>in tones</i>)	62 009	98 178
Average weighted realization price (U.S. \$ per ton)	261	153
Revenue from produced corn (<i>U.S. \$ in thousands</i>)	16 202	15 000
Wheat		
Sales of produced wheat (<i>in tones</i>)	3 471	27 798
Average weighted realization price (U.S. \$ per ton)	171	173
Revenue from produced wheat (<i>U.S. \$ in thousands</i>)	593	4 804
Rye		
Sales of produced rye (<i>in tones</i>)	211	4 398
Average weighted realization price (U.S. \$ per ton)	171	121
Revenue from produced rye (<i>U.S. \$ in thousands</i>)	36	531
Soy beans		
Sales of produced soy beans (<i>in tones</i>)	905	5 611
Average weighted realization price (U.S. \$ per ton)	350	325
Revenue from produced soy beans (<i>U.S. \$ in thousands</i>)	317	1 824
Sunflower		
Sales of produced sunflower (<i>in tones</i>)	326	10 042
Average weighted realization price (U.S. \$ per ton)	405	426
Revenue from produced sunflower (<i>U.S. \$ in thousands</i>)	132	4 281
Rape seed		
Sales of produced rye (<i>in tones</i>)	642	211

Average weighted realization price (U.S. \$ per ton)	503	360
Revenue from produced rye (U.S. \$ in thousands)	323	76
Lupin		
Sales of produced lupin (<i>in tones</i>)	2 631	40
Average weighted realization price (U.S. \$ per ton)	240	275
Revenue from produced lupin (U.S. \$ in thousands)	632	11
Potato		
Sales of produced potato (<i>in tones</i>)	6 941	1 851
Average weighted realization price (U.S. \$ per ton)	173	227
Revenue from produced potato (U.S. \$ in thousands)	1 199	421
Other (produced only)		
Total sales volume (<i>in tones</i>)	2 765	5 392
Total revenues (U.S. \$ in thousands)	379	892
Total sales volume (<i>in tones</i>)	79 901	153 521
 Total revenue from sale of crops (U.S. \$ in thousands)	 19 813	 27 840

Revenue relating to sales of corn increased by 8% to USD 16,2 million for the year ending 31 December 2011 from USD 15,0 million for the year ending 31 December 2010, primarily due to an increase in commodity prices in 2011.

Revenue relating to sales of sunflower seeds decreased by 97% to USD 0,1 million for the year ending 31 December 2011 from USD 4,3 million for the year ending 31 December 2010, primarily due to decrease in sales volume (tones) in 2011.

Revenue relating to sales of wheat decreased by 88% to USD 0,6 million for the year ending 31 December 2011 from USD 4,8 million for the year ending 31 December 2010, primarily due to decrease in sales volume (tones) in 2011.

Revenue relating to the sale of raw milk, which represented 23% and 15% of total revenue for the years ended 31 December 2011 and 2010, respectively, increased by 30% to USD 6,7 million for the year ending 31 December 2011 from USD 5,1 million for the year ending 31 December 2010, primarily due to an increase in the price of milk and the number of milking cows.

Income from changes in fair value of biological assets and agricultural products, net

Income from changes in fair value of biological assets and agricultural produce, net increased by 136% to USD 24,2 million for the year ending 31 December 2011 from USD 10,2 million for the year ending 31 December 2010. The increase for the year ending 31 December 2011 was due to the revaluation of crops and agricultural produce and increase of land under cultivation year-on-year by 57% from 37 907 hectares as of 31 December 2010 to 59 640 hectares on 31 December 2011.

Cost of sales

The Company's cost of sales decreased by 10% to USD 25,5 million for the year ending 31 December 2011 from USD 28,5 million for the year ending 31 December 2010, and totaled to approximately 88% as a percentage of total revenues. The following table sets forth the principal components of the Company's cost of sales for the periods indicated:

for the year ended 31 December	2011	2010	Change in %
Raw materials	(12 661)	(7 702)	64%
Change in inventories and work-in-progress	8 397	(7 376)	(214%)
Wages and salaries of operational personnel and related charges	(5 775)	(3 990)	45%
Depreciation and amortisation	(4 326)	(3 322)	30%
Third parties' services	(2 405)	(1 131)	113%
Fuel and energy supply	(6 151)	(3 308)	86%
Rent	(2 086)	(1 418)	47%
Repairs and maintenance	(349)	(167)	109%
Taxes and other statutory charges	(137)	(54)	154%
Other expenses	(13)	(8)	63%
Total cost of sales	(25 506)	(28 476)	(10%)

Raw materials increased 64% to USD 12,7 million for the year ending 31 December 2011 from USD 7,7 million for the year ending 31 December 2010. This increase was primarily due to an increase in arable land in 2011.

The Company recognised a gain from change in inventories and work in progress in the amount of USD 8,4 million for the year ending 31 December 2011 compared to a decrease of USD 7,4 million in 2010, as a result of the revaluation of agricultural produce and cattle, primarily due to higher prices.

Depreciation and amortisation increased by 30% to USD 4,3 million for the year ending 31 December 2011 from USD 3,3 million for the year ending 31 December 2010. This increase was primarily due to effect of acquisition of subsidiaries.

Fuel and energy supply increased by 86% to USD 6,2 million for the year ending 31 December 2011 from USD 3,3 million for the year ending 31 December 2010. This increase was primarily due to an increase in arable land in 2011.

Gross income

The Company's gross income increased from USD 16,6 million for the year ending 31 December 2010 to USD 27.7 million for the year ending 31 December 2011, an 67% year-on-year increase. In relative terms, the net change in the fair value of biological assets and agricultural produce went up 136% year-on-year.

Administrative expenses

Administrative expenses increased year-on-year from USD 2,1 million for the year ending 31 December 2010 to USD 3.0 million for the year ending 31 December 2011, reflecting an increase in the wages and salaries of administrative personnel year-on-year from USD 1.1 million to USD 1.5 million, and professional (audit and legal) services from USD 0.2 million to USD 0.4 million.

Other operating income

The Company's other operating income decreased by 71% to USD 1,2 million for the year ending 31 December 2011 from USD 4.0 million for the year ending 31 December 2010. This decrease was primarily due to a decrease in income from subsidized VAT to USD 0.8 million for the year ending 31 December 2011 from USD 3.0 million in 2010 as a result of decreased revenue.

Write-offs of property, plant and equipment

The Company's write-offs of property, plant and equipment increased by 49% to USD 1,6 million for the year ending 31 December 2011 from USD 1,1 million in 2010. This increase was due to the write-off of property, plant and equipment of former collective farms acquired by the Company in 2008 and 2009.

Financial expenses, net

The Company's financial expenses, net decreased by 5% to USD 1,8 million for the year ending 31 December 2011 from USD 1.9 million in 2010. This decrease was due primarily to a decrease in interest expenses on short-term and long-term loans and borrowings.

Income tax expenses

The Company had income tax income of USD 2,1 million for the year ending 31 December 2010 compared to an income tax expense of USD 0.1 million for the year ending 31 December 2011, due to increase in the level of inventory and changes in the tax rate used for the calculation of deferred tax on fixed assets due to the introduction of new the Tax Code.

Net profit for the period from continuing operations

Net profit for the period from continuing operations increased by 17% to USD 17,3 million for the year ending 31 December 2011 from USD 14,8 million for the year ending 31 December 2010, primarily due to an increase in income from changes in fair value of biological assets and agricultural produce, net.

Cash flows

The following table sets out a summary of the Company's cash flows for the periods indicated:

(US\$ in thousands)	For the year ended	
	31 December 2011	31 December 2010
Net cash flow from operating activities	(10 102)	12 283
Net cash flow from investing activities	(17 236)	2 125
Net cash flow from financing activities	30 311	(12 461)
Net increase in cash and cash equivalents	2 973	1 947

Net cash flow from operating activities

The Company's net cash outflow from operating activities decreased to USD 10.1 million for the year ending 31 December 2011 compared to net cash inflow of USD 12.3 million for the year ending 31 December 2010. The decrease in 2011 was primarily attributable to higher stock of agricultural produce: as of 31 December 2011 the stock of agricultural produce had a book value of USD 33.8 million, compared to USD 10.0 million on 31 December of the previous year and USD 11.7 million on 31 December 2009.

Net cash flow from investing activities

The Company's net cash outflow from investing activities decreased to USD 17.2 million for the year ending 31 December 2011 compared to net cash inflow of USD 2.1 million for the year ending 31 December 2010. The decrease in 2011 was primarily attributable to acquisition of subsidiaries and purchase of agricultural equipment.

Net cash flow from financing activities

Net cash flow from financing activities increased to USD 30.3 million for the year ending 31 December 2011 from a net cash outflow of USD 12.5 million for the year ending 31 December 2010. The increase in 2011 was primarily due to the emission of shares (IPO) in the amount USD 24.4 million, net and proceeds from short-term and long-term borrowings in the amount USD 6.0 million, net. Weighted average costs of debt financing equaled 10.1% for the year ending 31 December 2011.

3 Events after the Balance Sheet Date

On 29 March, 2012 a subsidiary of Industrial Milk Company S.A. purchased 100% stake in the Ukrainian company which had the land bank of 4,550 hectares (with 5 years lease term). The value of the deal is USD 2 995 000.

The deal includes, among other assets, the grain storage capacity of 12,000 t and farming equipment and machinery. 700 hectares of land are sown with winter wheat which is in good condition.

All land is the chernozem soil of the highest quality and located in close proximity to the existing cluster of Industrial Milk Company S.A. in Poltava region. Development and expansion of existing clusters is one of the key elements of the strategy of Industrial Milk Company S.A. along with further acquisition of new assets in other regions.

At present the farming land bank of Industrial Milk Company S.A. total to 64 190 hectares. The grain storage capacities of Industrial Milk Company S.A. total to 223 000 t.

4 Risk Report

Risks relating to the Group's business and Industry are as follows:

- Failure to generate or raise sufficient capital may restrict the group's development strategy

To decrease an influence of this risk the Group works on several sources of financing: bank crediting, bonds issue, financing by international financial organizations.

- The Group's financial results are sensitive to fluctuations in market prices of its products

To decrease an influence of this risk the Group on permanent basis researches the international and Ukrainian agricultural markets, monitoring price fluctuations and factors affecting these fluctuations (stocks, production, consumption, export, import, forecasts). On the basis of an analysis of the above mentioned information the management of the Group makes decisions regarding crop rotation structure and production plans.

- Poor and unexpected weather conditions may disrupt the Group's production of crops

To decrease an influence of this risk the Group is using the following practices:

- Application of mini-till and no-till technologies on 70% of cultivated lands enables the Group to decrease the risk of disruption of a general production of crops and increase yields during rainless season;
- Cultivation of relatively small share (10%) of winter crops in the general crop rotation structure enables to decrease the risk of disruption of a general production of crops during unfavourable winter conditions;
- Examination of introduction of irrigation to increase potato yields.

- The Group's operating costs could increase

The risk of Group's operating costs increase is basically connected to a possible price growth for fuel, seeds, fertilizers and crop protection materials.

To reduce the above mentioned risks the Group:

- has implemented the fuel consumption and machinery usage controlling systems using GPS-trackers;
- uses no-till and mini-till technologies that allow to reduce general fuel consumption;
- follows the land bank development strategy based on principle of fields' close proximity to each other that allows to reduce fuel consumption;
- is focused on limited number of crops (not more than 4) that allows to use and purchase seeds, fertilizers and crop protection materials more efficiently;
- has built long-term and mutually benefit relationships with suppliers of seeds, fertilizers and crop protection materials..

5 Forecast Report

The Group will focus on efficiency of crop rotation and technological crop production, animal husbandry as well as reduction of general and administrative costs.

In accordance with its strategy of development the Group is going to increase a farming land bank up to 285,000 ha during next 7 years by 2019.

In consequence of the above-mentioned factors the management expects the Group will have EBITDA of USD 185 million by 2019.

6 Selected Financial Data (in USD thousand, unless otherwise stated)

for the year ended 31 December		2011	2010
I.	Revenue	29 084	34 820
II.	Operating profit/(loss)	19 168	14 492
III.	Profit/(loss) before income tax	17 405	12 627
IV.	Net profit/(loss)	17 336	14 773
V.	Net cash flow from operating activity	(10 102)	12 283
VI.	Net cash flow from investing activity	(17 236)	2 125
VII.	Net cash flow from financing activity	30 311	(12 461)
VIII.	Total net cash flow	2 973	1 947
IX.	Total assets	138 714	87 440
X.	Share capital	56	46
XI.	Total equity	108 988	67 203
XII.	Non-current liabilities	17 189	11 998
XIII.	Current liabilities	12 537	8 239
XIV.	Weighted average number of shares	31 300 000	24 800 000
XV.	Profit/(loss) per ordinary share (in USD)	0,56	0,58
XVI.	Book value per share (in USD)	3,42	2,56

To the Shareholders of
Industrial Milk Company S.A.
16, Avenue Pasteur
L-2310 Luxembourg

Independent auditor's report (Réviseur d'Entreprises Agréé) on the consolidated financial statements as at December 31, 2011

We have audited the accompanying consolidated financial statements of Industrial Milk Company S.A. and its subsidiaries (the «Group» hereinafter), which comprise the consolidated statement of financial position as at December 31, 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of directors' responsibility for the consolidated financial statements

The Board of directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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 the Board of directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

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INTERAUDIT société à responsabilité limitée au capital de 31250 €
RCS Luxembourg B 29.501 Identification TVA LU 139 871 52
Autorisation d'habilitation 103 200/A



Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2011, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The management report, which is the responsibility of the Board of directors, is consistent with the consolidated financial statements.

Luxembourg, April 18, 2012

INTERAUDIT S.à r.l.
Cabinet de révision agréé



Edward KOSTKA
Managing partner

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2011
(in USD thousand, unless otherwise stated)

		31 December 2011	31 December 2010
CONTINUING OPERATIONS	Notes		
Revenue	6	29 084	34 820
Net change in fair value of biological assets and agricultural produce, net	7	24 158	10 216
Cost of Sales	8	(25 506)	(28 476)
GROSS INCOME		27 736	16 560
Administrative expenses	9	(3 049)	(2 106)
Selling and distribution costs	10	(730)	(952)
Other operating income	11	1 167	4 045
Income from the exchange of property certificates	12	192	-
Other operating expenses	13	(4 548)	(1 560)
Write-offs of property, plant and equipment		(1 600)	(1 073)
Loss on revaluation of other property, plant and equipment		-	(422)
OPERATING INCOME		19 168	14 492
Financial expenses, net	16	(1 763)	(1 865)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		17 405	12 627
Income tax (expense) / income	17	(69)	2 146
NET PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		17 336	14 773
Net profit attributable to:			
Owners of the parent company		17 641	14 374
Non-controlling interests		(305)	399
Weighted average number of shares		31 300 000	24 800 000
Profit/(loss) per ordinary share		0,56	0,58
OTHER COMPREHENSIVE INCOME			
Effect of revaluation of property, plant and equipment		-	4 438
Deferred tax charged directly to revaluation reserve		167	(95)
Effect on deferred tax from revaluation due to the change in income tax rate		232	-
Effect of foreign currency operations		(602)	92
TOTAL OTHER COMPREHENSIVE INCOME		(203)	4 435
TOTAL COMPREHENSIVE INCOME		17 133	19 208
Comprehensive income attributable to:			
Owners of the parent company		17 438	18 687
Non-controlling interests		(305)	521



Ievgen Osypov
Chief Executive Officer


Dmytro Martyniuk
Chief Financial Officer

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2011
(in USD thousand, unless otherwise stated)

		31 December 2011	31 December 2010
ASSETS	Notes		
Non-current assets			
Property, plant and equipment	18	61 607	54 025
Intangible assets	19	3 294	306
Non-current biological assets	20	9 057	4 657
Deferred tax assets	21	120	203
Other non-current assets	22	790	203
Total non-current assets		74 868	59 394
Current assets			
Inventories	23	40 637	13 030
Current biological assets	24	11 093	6 100
Trade accounts receivables, net	25	1 447	3 780
Prepayments and other current assets, net	26	6 074	3 147
Cash and cash equivalents	28	4 595	1 989
Total current assets		63 846	28 046
TOTAL ASSETS		138 714	87 440
LIABILITIES AND EQUITY			
Equity attributable to the owners of the parent company			
Share capital	29	56	46
Emission revenue		24 387	-
Revaluation reserve		13 862	15 829
Retained earnings		85 123	63 540
Effect of foreign currency translation		(16 408)	(15 806)
Total equity attributable to owners of the parent company		107 020	63 609
Non-controlling interests		1 968	3 594
Total equity		108 988	67 203
Non-current liabilities			
Long-term loans and borrowings	30	14 068	8 676
Deferred tax liabilities	21	3 121	3 322
Total non-current liabilities		17 189	11 998
Current liabilities			
Current portion of long-term borrowings	30	4 486	1 802
Short-term loans and borrowings	31	3 467	1 716
Trade accounts payable		1 473	504
Other current liabilities and accrued expenses	32	3 099	4 217
Income tax payable		12	-
Total current liabilities		12 537	8 239
TOTAL LIABILITIES AND EQUITY		138 714	87 440


Ievgen Oshpov
Chief Executive Officer


Dmytro Martyniuk
Chief Financial Officer

INDUSTRIAL MILK COMPANY S.A. AND ITS SUBSIDIARIES
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

(in USD thousand, unless otherwise stated)

	Notes	Share capital	Share premium	Revaluation reserve	Retained earnings	Effect of foreign currency translation	Total	Non-controlling interests	Total equity
As at 31 December 2010 (restated)		46	-	15 829	63 540	(15 806)	63 609	3 594	67 203
Profit for the period		-	-	-	17 641	-	17 641	(305)	17 336
Amortization of revaluation reserve		-	-	(2 792)	2 792	-	-	-	-
Deferred tax charged directly to amortization of revaluation reserve		-	-	167	-	-	167	-	167
Effect on deferred tax from revaluation due to the change in income tax rate		-	-	232	-	-	232	-	232
Other comprehensive income		-	-	-	-	(602)	(602)	-	(602)
Total comprehensive income		-	-	(2 393)	20 433	(602)	17 438	(305)	17 133
Issue of share capital	29	10	24 387	-	-	-	24 397	-	24 397
Changes in equity as a result of acquisition of subsidiaries	5	-	-	-	-	-	-	255	255
Changes in equity as a result of change in ownership share in the subsidiary *		-	-	426	1 150	-	1 576	(1 576)	-
As at 31 December 2011		56	24 387	13 862	85 123	(16 408)	107 020	1 968	108 988

* Changes in equity as a result of change in ownership share in the companies Burat-Agro, Ltd. and Burat, Ltd.

Industrial Milk Company S.A. has one class of ordinary shares with par value of EUR. All shares have equal voting rights. The number of authorized shares as of 31 December 2011 is 31 300 000 (2010:24 800 000) and the number of issued and fully paid-up shares is 31 300 000.


Ievgen Osyppov
Chief Executive Officer


Dmytro Martyniuk
Chief Financial Officer

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CONTINUED

For the year ended 31 December 2011

(in USD thousand, unless otherwise stated)

As at 31 December 2009	46	-	13 422	46 352	(15 887)	43 933	4 062	47 995
Profit for the period	-	-	-	14 374	-	14 374	399	14 773
Effect of revaluation of property, plant and equipment			4 326	-	-	4 326	112	4 438
Amortization of revaluation reserve	-	-	(2 031)	2 031	-	-	-	-
Deferred tax charged directly to revaluation reserve	-	-	(197)	-	-	(197)	-	(197)
Deferred tax charged directly to amortization of revaluation reserve	-	-	102	-	-	102	-	102
Other comprehensive income	-	-	-	-	81	81	11	92
Total comprehensive income	-	-	2 200	16 405	81	18 686	522	19 208
Changes in equity as a result of change in ownership share in the subsidiary	-	-	207	783	-	990	(990)	-
As at 31 December 2010 (restated)	46	-	15 829	63 540	(15 806)	63 609	3 594	67 203


Ievgen Osyppov
Chief Executive Officer


Dmytro Martyniuk
Chief Financial Officer

INDUSTRIAL MILK COMPANY S.A. AND ITS SUBSIDIARIES
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CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2011
(in USD thousand, unless otherwise stated)

	Notes	2011	2010
for the year ended 31 December			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before tax from continuing operations		17 405	12 627
Adjusted to reconcile profit before tax with net cash used in operating activities:			
Depreciation and amortization	14	5 095	3 529
Losses from impairment of PPE		-	422
Gain on disposal of inventories		(1)	-
Loss on disposal of other property, plant and equipment	13	109	113
Write-offs of VAT	13	400	-
Write-offs of property, plant and equipment		1 600	1 073
Write-offs of goodwill		48	-
Interest income	16	(78)	(3)
Interest expenses	16	1 884	1 877
Expenses for doubtful debts	13	32	115
Loss (gain) on currency exchange rate fluctuations, net	16	63	(6)
Lost crops	13	710	-
Losses from impairment of inventories	13	2 516	454
Provisions for audit	9	39	69
Provisions for vacations		126	-
Income from the exchange of property certificates	12	(192)	-
Income from changes in fair value of biological assets and agricultural produce, net	7	(24 158)	(10 216)
Cash flows from operating activities before changes in working capital		5 598	10 054
Increase / decrease in accounts receivable	25	3 871	(2 620)
Increase in prepayments and other current assets	26	(2 903)	2 516
Decrease / increase in inventories	23	(13 051)	6 276
Decrease / increase in current biological assets	24	2 609	1 344
Decrease / increase in accounts payable		(1 585)	(447)
Increase in other current liabilities and accrued expenses	32	(2 343)	(2 870)
Decrease/ increase in other non-current assets		(423)	-
Cash flows from operations		(8 227)	14 253
Interest paid		(1 875)	(1 963)
Interest tax paid		-	(7)
Net cash flows from operating activities		(10 102)	12 283


Ievgen Osypov
Chief Executive Officer


Dmytro Martyniuk
Chief Financial Officer

INDUSTRIAL MILK COMPANY S.A. AND ITS SUBSIDIARIES
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CONSOLIDATED STATEMENT OF CASH FLOWS CONTINUED
For the year ended 31 December 2011
(in USD thousand, unless otherwise stated)

		2011	2010
CASH FLOWS FROM INVESTING ACTIVITIES:	Notes		
Purchase of property, plant and equipment		(7 894)	(2 856)
Purchase of intangible assets		(77)	(138)
Proceeds from other current assets	26	-	5 501
Decrease/increase in non-current biological assets		(455)	(382)
Proceeds from disposal of property, plant and equipment		86	-
Cash (acquisition of the subsidiary)	5	20	-
Acquisition of the subsidiary	5	(8 916)	-
Net cash flows from investing activities		(17 236)	2 125
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of share capital		24 397	-
Proceeds from long-term and short-term borrowings		18 468	30 050
Repayment of long-term and short-term borrowings		(12 504)	(42 472)
Repayment of lease liabilities		(50)	(39)
Net cash flows from financing activities		30 311	(12 461)
NET CASH FLOWS		2 973	1 947
Cash and cash equivalents as at the beginning of the period		1 989	48
Net foreign exchange difference		(367)	(6)
Cash and cash equivalents as at the end of the period		4 595	1 989


Ievgen Osypov
Chief Executive Officer


Dmytro Martyniuk
Chief Financial Officer

INDUSTRIAL MILK COMPANY S.A. AND ITS SUBSIDIARIES

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in USD thousand, unless otherwise stated)

1. Description of formation and business.

For the purposes of these consolidated financial statements the term the "Operating group" (or the "Group" or the "Company") has been taken to indicate the companies listed below.

The financial year begins on January 1 of each year and terminates on December 31 of each year. It's register number within the Registre de Commerce et des Sociétés du Luxembourg is RCS Lu B157843.

Theses Group consolidated accounts are public and available for consultation at <http://www.imcmilk.com.ua/investor/relation/rf/financial/> or at its registered office.

Description of formation: Industrial Milk Company S.A. (the "Parent or "Industrial Milk Company S.A."), a limited liability company registered under the laws of Luxembourg, was formed on 28 December 2010 for an unlimited period of time. Industrial Milk Company S.A. was formed to serve as the ultimate holding company of Unigrain Holding Limited and its subsidiaries. The registered address of Industrial Milk Company S.A. is 16, Avenue Pasteur, L-2310, Luxembourg.

In the course of the corporate reorganization a sub-holding company under Industrial Milk Company S.A., Unigrain Holding Limited, was established and through a series of transactions became the immediate parent of Burat-Agro, Ltd., Burat, Ltd., Chernihiv Industrial Milk Company, Ltd., CJSC Mlibor and OJSC Poltava Kombilormoviy Zavod belong directly to Burat, Ltd., and Zemelnii Kadastroviy Centr SA belongs directly to Chernihiv Industrial Milk Company, Ltd.

In June 2011 Unigrain Holding Limited acquired 100% of the voting shares in the company PAE Promin, PE Progress 2010, PAE Slavutich. In December 2011 Unigrain Holding Limited acquired 100% of the voting shares in the company Agrofirma «Kalynivska-2005», Ltd., Agrofirma «Govtneva», Ltd., Agrofirma «Shid», Ltd., APP «Virynske», Ltd., Pisky, Ltd., Viry-Agro, SC and 80,61% of the voting shares in the company PSJC Viryvske HPP. As a result of these transactions (referred to as the "Restructuring") Industrial Milk Company S.A. indirectly owns all indicated above companies.

On 30 November 2011 companies PAE Slavutich and PE Progress 2010 were merged to Chernihiv Industrial Milk Company, Ltd. On 30 November 2011 the company PAE Promin was merged to Burat-Agro, Ltd.

In 30 August 2011 trading company Aristo Eurotrading was formed.

The subsidiaries and the principal activities of the companies comprising the Group are as follows:

Operating entity	Principal activity	Country of registration	Year established/acquired	Cumulative ownership ratio, %	
				31 December 2011	31 December 2010
Industrial Milk Company S.A.	Holding company	Luxembourg	28.12.2010	100,00	100,00
Unigrain Holding Limited	Subholding company	Cyprus	02.06.2009	100,00	100,00
Burat-Agro, Ltd.	Production of cattle milk and meat, oil-yielding and grain crops cultivation	Ukraine	31.12.2007	100,00	96,00
Burat, Ltd.	Agricultural products processing	Ukraine	31.12.2007	100,00	97,60

INDUSTRIAL MILK COMPANY S.A. AND ITS SUBSIDIARIES**Consolidated Financial Statements****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****(in USD thousand, unless otherwise stated)**

Chernihiv Industrial Milk Company, Ltd.	Production of cattle milk and meat, oil-yielding and grain crops cultivation	Ukraine	31.12.2007	100,00	100,00
PJSC Mlibor	Flour grinding	Ukraine	31.05.2008	71,82	71,82
PJSC Poltava Kombilormoviy Zavod	Granting of PPE into finance lease	Ukraine	31.12.2007	87,56	85,48
Zemelniy Kadaistroviy Centr SA	Preparation of technical documentation concerning land issues	Ukraine	23.11.2010	100,00	100,00
Aristo Eurotrading Limited	Trading company	British Virgin Islands	30.08.2011	100,00	-
AF Kalynivska-2005, Ltd	Agricultural and farming production	Ukraine	26.12.2011	100,00	-
AF Govtneva, Ltd	Agricultural and farming production	Ukraine	26.12.2011	100,00	-
AF Shid-2005, Ltd	Agricultural and farming production	Ukraine	26.12.2011	100,00	-
AIE Vyrinske, Ltd	Agricultural and farming production	Ukraine	26.12.2011	100,00	-
Pisky, Ltd	Agricultural and farming production	Ukraine	26.12.2011	100,00	-
SE "Vyry-Agro"	Agricultural and farming production	Ukraine	26.12.2011	100,00	-
OJSC "Viryvske HPP"	Agricultural products processing	Ukraine	28.12.2011	80,61	-

INDUSTRIAL MILK COMPANY S.A. AND ITS SUBSIDIARIES

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(in USD thousand, unless otherwise stated)

Description of the business: Companies comprising the Group are engaged in agricultural production and sale of grain and oil-yielding crops (Ukraine and export); and in farming production and sale of cattle milk and meat (Ukraine).

IMC is the group that was founded from the consolidation of midsized agricultural companies in 2007. The Group harvests 62,7 thousand ha of high quality arable land and operates in three segments: crop farming, dairy and beef farming and grain and oilseed storage as at 31 December 2011.

The Group's business model is focused on efficiency a manageable growth strategy.

Today IMC is the vertically integrated and high-technology group of companies engaged in crop farming, dairy farming, feed and flour production, storage services, operating in Poltava and Chernihiv region (northern and central Ukraine). IMC was ranked as a top five Ukrainian milk producer and a top eight Ukrainian meat producer in terms of herd headcount as of November 2009. The Group fully secured 175 thousand tones of crops produced in 2011 that are stored at three of the Group's siloses with a total capacity of 211 thousand tones. The Group controlled 59,6 thousand ha of farmland in the most fertile regions of Ukraine (Poltava, Chernihiv and Sumy) as at 31 December 2011.

Main assets LLC "Burat", LLC "Burat-Agro", LLC "Chernihivska IMC", CJSC "Mlibor" are companies duly incorporated and organized under the law of Ukraine.

IMC is strategically focused on the development of its crop operations due to high gross marginality in the segment. The Group plans to increase cultivated land from its current 59,6 thousand ha to 280 thousand ha in 2019.

2. Basis of preparation of the consolidated financial statements and summary of significant accounting policies

Statement of compliance

The consolidated financial have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and as adopted by the European Union. These consolidated financial statements are based on the assumptions described in note 2.6.

Companies comprising the Group which are incorporated in Ukraine maintain their accounting records in accordance with Ukrainian regulations. The financial information has been prepared from those accounting records and adjusted as management considers necessary in order to comply with IFRS.

In preparation of these consolidated financial statements the management used their best knowledge of International Financial Reporting Standards and interpretations, facts and circumstances that can affect these consolidated financial statements.

Basis of measurement

The consolidated financial statements are prepared under historical cost basis except for the revalued amounts of property, plant and equipment, biological assets and agricultural produce.

The Group's management has decided to present and measure these consolidated financial statements in US Dollars for the purposes of convenience of users of these financial statements.

Ukrainian statutory accounting principals and procedures differ from those generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared from the Ukrainian statutory accounting records for the entities of the Group domiciled in Ukraine, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Use of estimates

The preparation of these consolidated financial statements involves the use of reasonable accounting estimates and requires the management to make judgments in applying the Group's accounting policies. Note 4 contains areas, related to a high degree of importance or complexity in decision-making, or areas where assumptions and estimates are important for the special purpose pro-forma consolidated statement of comprehensive income.

Foreign currency translation

Functional and presentation currency

INDUSTRIAL MILK COMPANY S.A. AND ITS SUBSIDIARIES

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in USD thousand, unless otherwise stated)

Items included in the financial statements of each of the Group's companies are measured using the currency of the primary economic environment in which the company operates ("the functional currency"). For the companies of the Group operating in Ukraine the Ukrainian Hryvna ("UAH") is the functional currency. For the companies operating in Cyprus and Luxembourg the functional currency is Euro ("EUR").

These consolidated financial statements are presented in the United States Dollars ("USD"), unless otherwise indicated.

Foreign currency transactions and balances

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All exchange differences are taken to the statement of comprehensive income with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the statement of comprehensive income. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The principal exchange rates used in the preparation of these condensed consolidated interim financial statements are as follows:

Currency	31 December 2011	Average for the year ended 31 December 2011	31 December 2010	Average for the year ended 31 December 2010	31 December 2009
UAH/EUR	10,30	11,09	10,57	10,53	11,45
UAH/USD	7,99	7,97	7,96	7,94	7,99

Translation into presentation currency

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the official rate at the date of the balance sheet;
- income and expenses are translated at average exchange rate for the period, unless fluctuations in exchange rates during that period are significant, in which case income and expenses are translated at the rate on the dates of the transactions;
- all the equity and provision items are translated at the rate on the dates of the transactions;
- all resulting exchange differences are recognized as a separate component of other comprehensive income;
- in the consolidated statement of cash flows cash balances at the beginning and end of each presented period are translated at rates prevailing at corresponding dates. All cash flows are translated at average exchange rates for the periods presented. Exchange differences arising from the translation are presented as the effect of translation into presentation currency.

Going concern

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The recoverability of Group's assets, as well as the future operations of the Group, may be significantly affected by the current and future economic environment. Management believes that Group has reliable access to sources of financing capable to support appropriate operating activity of Group entities. These consolidated financial statements do not include any adjustments should the Group be unable to continue as going concern.

INDUSTRIAL MILK COMPANY S.A. AND ITS SUBSIDIARIES
Consolidated Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in USD thousand, unless otherwise stated)

Principles of consolidation

Restructuring

In 2010, the Group was restructured as shown in Note 1. During the restructuring, all the ownership rights for the Group's companies were concentrated in the established parent company, holder of investments.

In preparation of these consolidated financial statements the assumption was used that parent company, which was legally incorporated on 28 December 2010, and subsidiary companies comprising the Group existed with the same structure prior to restructuring, starting from 31 December 2007.

Until 28 December 2010, the parent company had no direct or indirect participation in equity of the companies included into these consolidated financial statements. Shares in the equities of these companies belonged to companies and individuals, controlled by the direct owners of the parent company. During the restructuring, all rights of control over the subsidiaries were transferred to the parent company.

The following key assumptions were made in the preparation of consolidated statement of comprehensive income:

- Restructuring of the Group was completed before 31 December 2010;
- The parent company owned a share in equities of subsidiary companies;
- Rights of control over the subsidiaries were determined on the basis of cumulative ownership ratio of all the companies which are controlled by the direct owners of the parent company.

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Financial statements of parent company and its subsidiaries, which is used while preparing the condensed consolidated interim financial statements, should be prepared as at the same date on the basis of consistent application of accounting policy for all companies of the Group.

3.Summary of significant accounting policies

Property, plant and equipment

Property, plant and equipment are shown at revalued price, based on regular valuations by external independent values, less subsequent accumulated depreciation. The Group conducts a full valuation exercise if there is an indication of impairment. An impairment review was conducted at the balance sheet date. Any accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

If there is no data about the market value of property, plant and equipment due to the nature of highly specialized machinery and equipment, such objects are evaluated according to acquisition expenses under present-day conditions, adjusted by an ageing percentage.

Valuations are performed frequently enough to ensure that the fair value of a remeasured asset does not differ materially from its carrying amount.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in USD thousand, unless otherwise stated)

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Previously recognized property, plant and equipment or their essential component is written-off on their disposal or in case if future economic benefits from use or disposal of such asset are expected. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included to the other incomes (expenses) in the income statement when the asset is derecognized.

Depreciation of an asset begins when it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases when the asset is derecognized. Depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their revalued amounts to their residual values over their estimated useful lives, as follows:

- Buildings 15-35 years
- Machinery 5-15 years
- Motor vehicles 5-15 years
- Other assets 5-10 years

Construction in progress comprises costs directly related to the construction of property, plant and equipment, as well as the relevant variable and fixed overhead costs related to the construction. These assets are depreciated from the moment when they are ready for operation.

Income from the exchange of property certificates

According to IAS 16 "Property, Plant and Equipment" in the case when the items of property, plant and equipment are acquired in exchange for non-cash asset (property certificate), the initial value of such assets is estimated at fair value. The difference between the price paid for property certificates and the fair value of received items of property, plant and equipment is recognized as income in the period of the exchange operation.

Biological assets

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

- Non-current biological assets of plant-breeding at fair value;
- Non-current biological assets of cattle-breeding at fair value;
- Current biological assets of plant-breeding measured at fair value;
- Current biological assets of cattle-breeding measured at fair value.

The Group assesses a biological asset at initial recognition and at each balance sheet date at fair value less estimated point-of-sale costs, except the cases where the fair value cannot be determined with reasonable assurance.

Determination of fair value of biological assets.

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

The carrying amount of biological assets is determined at each balance sheet date as their fair value less estimated selling and distribution expenses. Fair value is determined based on market prices at each balance sheet date.

Gains or losses from movements in the fair value of biological assets, less estimated selling and distribution expenses of the Group are recorded in the period they incurred.

The Group capitalizes cattle-breeding expenses between the reporting dates into the cost of biological assets.

INDUSTRIAL MILK COMPANY S.A. AND ITS SUBSIDIARIES
Consolidated Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in USD thousand, unless otherwise stated)

Intangible assets

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

Research costs are recognized as an expense as incurred. Costs incurred on development (relating to the design, construction and testing of new or improved devices, products, processes or systems) are recognized as intangible assets only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of adequate resources to complete the development, and the ability to measure reliably the expenditure during the development. Other development expenditures are recognized as an expense as incurred.

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 recognized in the statement of comprehensive income in other income (expenses) when the asset is derecognized.

The Group determines whether the useful life of an intangible asset is finite or indefinite.

Useful life of intangible assets is indefinite if the Group suggests that the period during which it is expected that the object of intangible assets will generate net cash inflows to the organization has no foreseeable limit. Intangible assets with indefinite useful lives are not amortized, but reviewed for impairment.

The amount of amortization of an intangible asset with finite useful life is systematically allocated over its useful life as follows:

- | | |
|---------------------|------------|
| - Land lease rights | 5-11 years |
| - Computer software | 5 years |

Inventories

Inventories are measured at the lower of cost and net realizable value.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The cost of work in progress and finished goods includes costs of raw materials, direct labor and other direct productions costs and related production overheads (based on normal operating capacity).

The Group periodically analyses inventories to determine whether they are damaged, obsolete or slow-moving or if their net realizable value has declined, and makes an allowance for such inventories. If such situation occurred, the sum remissive the cost of inventories should be reflected as a part of other expenses in statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts.

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Leases

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

i) Group as a lessee

Leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are classified as finance leases. Assets held under finance lease are included in property, plant and equipment since the commencement of lease at the lower of the fair value of leased property and present value of minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the statement of comprehensive income.

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

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

ii) Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits 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 recognized 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.

Financial assets

Initial recognition and measurement

The Group classifies its investments in equity and debt securities in the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, available for-sale financial assets, loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of investments at initial recognition and re-evaluates this designation at every balance sheet date.

The Group's financial assets include cash, trade and other accounts receivable, other receivables, quoted financial instruments.

Financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in the held for trading category if acquired for the purpose of sale in the nearest future.

Financial assets at fair value through profit or loss are recorded in the statement of financial position at fair value with fair value changes recognized in financing income or financing expenses within income statement.

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Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables include trade and other accounts receivable. Lendings given are financial assets, that appeared owing to issuance of means to debtor.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Borrowings issued are measured at amortized cost less impairment losses.

Available-for-sale financial assets

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale. These assets are included in non-current assets unless Group has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Available-for-sale financial assets are accounted at fair value through equity.

Held-to-maturity investments

Investments with fixed or determinable payments and fixed maturity that management has the positive intent and ability to hold to maturity, other than loan and receivables originated by the Group, are classified as held-to-maturity investments. Such investments are included in non-current assets, except for maturities within twelve months from the balance sheet date, which are classified as current assets. Held-to-maturity investments are accounted at amortized cost.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Prepayments issued and other accounts receivable that are not financial assets

Prepayments issued are reflected at nominal value less VAT and accumulated impairment losses, other current assets are reflected at nominal value less accumulated impairment losses.

Impairment of prepayments issued is recognized under objective evidences that total amount of liability will not be repaid in compliance with terms of financial lease agreements, including while receiving the information about the significant financial straits of the debtor, possibility of composition in bankruptcy or probability of debtor's reorganization, while delivery breakdown and etc.

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Taxes

Depending on the nature of activity, companies of the Group incorporated in Ukraine fall under different taxation systems:

The Group's company	Taxation system
Burat-Agro, Ltd.	Simplified taxation system (fixed agricultural tax)
Burat, Ltd.	Common taxation system
Chernihiv Industrial Milk Company, Ltd.	Simplified taxation system (fixed agricultural tax)
PJSC Mlibor	Common taxation system
PJSC Poltava Kombilormoviy Zavod	Common taxation system
Zemelniy Kadastroviy Centr SA	Common taxation system
AF «Kalynivska-2005», Ltd	Simplified taxation system (fixed agricultural tax)
AF «Jovtneva», Ltd	Simplified taxation system (fixed agricultural tax)
AF «Shid-2005», Ltd	Simplified taxation system (fixed agricultural tax)
AIE Vyrinske, Ltd	Simplified taxation system (fixed agricultural tax)
Pisky, Ltd	Simplified taxation system (fixed agricultural tax)
SE "Vry-Agro"	Simplified taxation system (fixed agricultural tax)
OJSC "Vryvske HPP"	Common taxation system

The activities of the companies under the simplified taxation system and registered as fixed agricultural tax payers are governed by the Law of Ukraine «On fixed agricultural tax».

Income tax

Income tax expense represents the amount of the tax currently payable and deferred tax.

Income tax expenses are recorded as expenses or income in the consolidated statement of comprehensive income, except when they relate to items directly attributable to other comprehensive income (in which case the amount of tax is taken to other comprehensive income), or when they arise at initial recognition of company acquisition.

i) Current income tax

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

ii) Deferred income tax

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

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

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

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

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

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

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

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

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

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

Value added tax (VAT)

VAT output equals to 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 a reporting period. Rights to VAT input arise on the earlier of the date of payment to the supplier or the date goods are received.

Revenue, expenses and assets are recognized less VAT amount, except cases, when VAT arising on purchases of assets or services, is not recoverable by tax authority; in this case VAT is recognized as part of purchase costs or part of item of expenses respectively. Net amount of VAT, recoverable by tax authority or paid, is included into accounts receivable and payable, reflected in consolidated statement of financial position.

Government grants related to VAT

According to the Law of Ukraine "On Value Added Tax", the agricultural enterprises (whose income from sale of agricultural products is not less than 50% of the total gross income, or enterprises which sell meat and milk products irrespective of the volume of such transactions) receive benefits regarding VAT payment on agricultural operations. These tax amounts are not paid to the budget, but transferred to the special purpose account and used to support agriculture. Upon the transfer and use of funds from the company's special purpose account, the income from grants received is recognized. Amounts of VAT charged, but not spent for the specified purposes are to be recorded in as "Targeted financing".

Starting from 01 January 2009 the Ukrainian legislation modified the mechanism of benefits application. Only those agricultural enterprises will be able to use them, whose share of agricultural products in the general supply transactions is not less than 75% over the past 12 months. In this case, VAT debit balance on agricultural transactions, as previously, aims to support agriculture (without transfer to special purpose account), and VAT credit balance is to be included in expenses.

The Group's companies, which previously used VAT benefit, and complied with the criteria for benefits application on this tax since 1 January 2009 are the companies Burat-Agro, Ltd. And Chernihiv Industrial Milk Company, Ltd.

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Government grants related to plant-breeding

The Ukrainian legislation provides various tax benefits and grants for companies engaged in agriculture. Such benefits and grants are approved by the Supreme Council of Ukraine (SCU), the Ministry of Agrarian Policy, Ministry of Finance, and local authorities.

Amount of such benefit is determined based on the number of hectares planted for the future harvest, taking into account the crop expected to be bred. The Group of companies recognizes this type of benefits upon the receipt of funds as other operating income.

Government grants related to cattle-breeding

Agricultural producers of poultry and livestock are eligible for government grants, depending on quantity of meat in live weight delivered to processing enterprises. The Group of companies recognizes these grants upon entitlement to them as other operating income.

Agricultural producers of poultry and livestock are also eligible for government grants for each animal unit of poultry and livestock, including slaughter for own needs or transfer to slaughter. The Group recognizes these grants upon the receipt of funds due to the uncertainty in amounts and timeframes of receipt.

Government grants related to milk production

Agricultural producers of milk are eligible for government grants, depending on the amount of milk delivered to processing enterprises. The Group of companies recognizes these grants upon entitlement to them as other operating income.

Partial compensation of interest expenses and other grants

The Group's companies, which are the fixed agricultural tax payers are entitled to compensation from the government of share of incurred interest expenses on loans. The amount of the interest compensation depends on the period and purpose of loan. Due to the fact that the payment of interest compensations depends on the capacity of the national budget, they are recognized on a cash basis as other operating income in the income period.

The Group's companies, which bought seed and planting material from a State Reserve Seed Bank, are eligible for partial compensation of their cost. The amount of compensation is determined based on the volume of purchased seed and planting material. The Group of companies recognizes these grants as other operating income in the income period.

Share capital

Ordinary shares are classified as equity. Nominal value of share capital of Parent company is specified in Note 29.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

The Group's financial liabilities include trade and other payables, loans and borrowings.

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Financial liabilities are initially recognized at fair value, adjusted in case of borrowings at costs that are directly attributed to transaction expenses.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and those designated at initial recognition as liabilities at fair value through profit or loss.

Loans and borrowings

Borrowings initially recognized at fair value less transaction costs, are subsequently recorded at amortized cost; any difference between amount of received resources and sum to repayment is recorded as interest cost at effective interest rate method during the period, when borrowings were received.

Borrowings are classified as current liabilities except the cases, when Group has vested right reschedule liability payments at least for 12 months since the reporting date.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Revenue recognition

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is measured at fair value of consideration amount received or receivable for the sale of goods and services in the ordinary course of the Group's business activities. Revenue is recorded excluding taxes and duties on sales, discounts and intercompany transactions.

i) Sales of goods

The Group manufactures and sells a range of products stated in Note 1. Revenue from sales of goods are recognized when a Group entity has delivered products to the purchaser and there is no unfulfilled obligation that could affect the purchaser's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the purchaser, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the group has objective evidence that all criteria for acceptance have been satisfied.

ii) Rendering of services

Revenue from rendering services is recognized on the basis of the stage of work completion under each contract. When financial result can be measured reliably, revenue is recognized only to the extent of the amount of incurred charges, which can be recovered.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Investment income resulting from temporary investment of received borrowing costs, until their expensing for the purchase of capital construction objects, shall be deducted from the cost of raising borrowing costs that may be capitalized.

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Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Where it is impossible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of a cash-generating unit to which the asset belongs.

The recoverable amount is the higher of the fair value of an asset less costs to sell and its value in use.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the consolidated statement of comprehensive income.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

Contingent assets and liabilities

Contingent liabilities are not recognized in the financial statements. The Group discloses information about contingent liabilities in the Notes to financial statements, except in cases where fulfillment of contingent liabilities is unlikely; because of the remoteness of the event (possible repayment period is more than 12 months).

The Group constantly analyzes contingent liabilities to determine the possibility of their repayment. If the repayment of a liability, which was previously characterized as contingent, becomes probable, the Group records the provision for the period in which repayment of the obligation has become probable.

Contingent assets are not recognized in the financial statements, but disclosed in the Notes where there is a reasonable possibility of future economic benefits.

4. Critical accounting estimates and judgments

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

In the process of applying the Group's accounting policies, management has made the following judgments, estimates and assumptions which have the most significant effect on the amounts recognized in the special purpose pro-forma consolidated statement of comprehensive income:

Value of property, plant and equipment

The Group engaged an independent appraiser to determine the fair value of property, plant and equipment as at 31 December 2010. In respect of portion of property, plant and equipment, the cost plus method was used due to lack of comparable market data, because of the nature of real estate. The cost plus method is adjusted by the income method data, which is based on the discounted cash flow model. This model is most sensitive to the discount rate, as well as to the expected cash flows and growth rates used for the extrapolation purposes. Judgments of the Group in determining the indices used in the appraisers' calculations may have a significant effect on the determination of fair value of property, plant and equipment, and hence on their carrying amount.

In accordance with IAS 16, the Group carries out revaluations on a regular basis and conducts a full valuation exercise if there is an indication of impairment. An impairment review was conducted at the balance sheet date. To test property, plant and equipment for impairment, the Group's business is treated as a single cash generating unit. The recoverable amount of the cash-generating unit was determined on the basis of value-in use. The amount of value in use for the cash generating unit was determined on the basis of the most recent budget estimates prepared by management and application of the income approach of valuation. Under the income approach, the discounted cash flow method has been applied with discount rate of 17,2 %. No impairment was detected following the results of impairment test.

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Useful lives of property, plant and equipment

Items of property, plant and equipment owned by the Group are depreciated using the straight-line method over their useful lives, which are calculated in accordance with business plans and operating calculations of the Group's management with respect to those assets.

The estimated useful life and residual value of non-current assets are influenced by the rate of exploitation of assets, servicing technologies, changes in legislation, unforeseen operational circumstances. The Group's management periodically reviews the applicable useful lives. This analysis is based on the current technical condition of assets and the expected period in which they will generate economic benefits to the Group.

Any of the above factors may affect the future rates of depreciation, as well as carrying and residual value of property, plant and equipment.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Value of biological assets

The Group classifies crop-bearing fields and livestock as biological assets. Biological assets are carried at their fair value less estimated costs to sell, except for the case where the fair value cannot be measured reliably. Change of biological assets is recognized in profit or loss. Costs to sell include all costs that would be necessary to sell the assets.

Livestock

Livestock held for regeneration of livestock population and animals raised for milk production. The fair value of live stock is determined based on market prices of livestock of similar age, breed and genetic merit.

Crop-bearing fields

The Group classifies biological assets as current or non-current depending upon the average useful life of the particular group of biological assets.

Inventories

As at the reporting date the Group assesses the need to reduce the carrying amount of inventories to their net realizable value. The measurement of impairment is based on the analysis of market prices for similar inventories existing at the reporting date and published in official sources. Such assessments can have a significant impact on the carrying amount of inventories.

Besides, at each balance sheet date, the Group assesses inventories for surplus and obsolescence and determines the allowance for obsolete and slow moving inventories. Changes in assessment can influence the amount of required allowance for obsolete and slow moving inventories either positively or negatively.

Trade and other accounts receivable

Accounts receivable are recorded in the financial statements at net realizable value, less allowance for doubtful debts. Allowance for doubtful debts is calculated on the basis of the assessment of possible losses in existing balances of accounts receivable. In forming the allowance, management takes into account many factors, including general economic conditions, specifics of industry and history of customer servicing. Uncertainties associated with changes in financial position of customers, both positive and negative, can also affect the amount and timing of allowance for doubtful debts.

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Taxation

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Since 01 January 2011 a new Tax Code of Ukraine has been adopted. Tax Code regulates relationships evolving in process of adoption, altering and cancellation of taxes and charges in Ukraine; it specifies full list of taxes and charges collected in Ukraine, administration procedure for taxes, payers of taxes and charges, their rights and obligations, power of controlling authorities, credentials and responsibilities of their officials in the exercise of tax control, and also liability for the infringement of tax law.

Adoption of the Tax Code changes taxation system in Ukraine entirely. Quantity of taxes decreases almost twofold. Gradual decrease of base rates for all fiscal charges is stipulated within several years. Additional rate for tax on income of physical persons is adopted. Regulations settling procedure of taxation covered by the Tax Code are cancelled. These changes substantially increase risks of incorrect interpretation of adopted Tax Code. As a result of future tax inspections additional liabilities may be revealed, which will not comply with tax statements of the Company. Such liabilities may comprise taxes themselves, and also fines and penalties, and their amounts may be material.

Impairment of assets

The carrying amount of the Group's assets is reviewed for evidence of impairment of such assets. If any events or changes in circumstances indicate that the current value of the assets may not be recoverable, the Group estimates the recoverable amount of assets. Such estimate results in a number of judgments in respect of long-range forecast of future revenue and expenses associated with the assets. In turn, these forecasts are uncertain, since they are based on assumptions about the product demand level and future market conditions. Subsequent and unforeseen changes in such assumptions and estimates used in testing for impairment may lead to the result different from the one presented in the consolidated financial statements.

Legal proceedings

The Group's management makes significant assumptions in estimation and reflection of inventories and risk of exposure to contingent liabilities related to current legal proceedings and other unliquidated claims, as well as other contingent liabilities. Management's judgments are required in assessing the possibility of a secured claim against the Group or material obligations, as well as in determining probable amounts of final payment or obligations. Due to the uncertainties inherent in the evaluation process, actual expenses may differ from the initial calculations. These preliminary estimates are subject to changes as new information becomes available from the Group's internal specialists, if any, or from third parties, such as lawyers. Revisions of such estimates may have a significant impact on future operating results.

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

IAS 24 Related Party Disclosures (amendment) effective 1 January 2011

IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010

IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011

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Improvements to IFRSs (May 2010)

The adoption of the standards or interpretations is described below:

IAS 24 Related Party Transactions (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 Financial Instruments: Presentation (Amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these type of instruments.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

IFRS 3 Business Combinations: The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

IFRS 7 Financial Instruments - Disclosures: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

IAS 1 Presentation of Financial Statements: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.

IAS 34 Interim Financial Statements: Greater emphasis has been placed on the disclosure principles in IAS 34 involving significant events and transactions, including changes to fair value measurements, and the need to update relevant information from the most recent annual report.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))

IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)

IAS 27 Consolidated and Separate Financial Statements

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011

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IFRIC 13 Customer Loyalty Programmes (determining the fair value of award credits)

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

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 of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

IAS 1 Financial Statement Presentation - Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 Income Taxes - Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently assessing the full impact of the remaining amendments. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12 IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement

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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 and financial liabilities 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 hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation -Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities - Non-monetary

Contributions by Venturers.

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

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5 Business combination

During 2011 the Group significantly extended its agrarian clusters in Chernihiv and Poltava regions by acquisition of PAE Slavutich, PE Progress 2010, PAE Promin. Also in 2011 the Group started to develop its new agrarian cluster in Sumy region. With this purpose the Group acquired the following entities in this region: AF Kalynivska-2005, Ltd, AF Zhovtneva, Ltd, AF Shid-2005, Ltd, AIE Vyrnske, Ltd, Pisky, Ltd, SE "Vry-Agro".

The total fair value of the acquired entities is th USD 9 666 and direct cost related to these acquisitions are not significant. All these purchases were paid by cash.

Non-controlling interest is measured as the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

It is not practicable to determine what would be the total revenue and net profit for the year ended 31 December 2011 for 7 companies which were acquired during December 2011 if the acquisitions occurred on 1 January 2011 in accordance with IFRS because the acquired companies' financial statements were prepared in accordance with Ukrainian National Standards, which are different from IFRSs different from IFRSs.

As PE Progress 2010 and PAE Slavutich were merged to Chernigiv Industrial Milk Company and PAE Promin was merged to Burat-Agro it is impossible to estimate financial results incurred by the acquired companies from the date of acquisition.

Restatement of prior year financial data.

At 31 December 2010, the balance of non-controlling interests was understated by th USD 6 150.

Management believes that the effect of these errors is material. The relevant consolidated statement of changes in equity as reported in the financial statements as of 31 December 2010 and for the year then ended have been restated to correct this error.

As a result of these restatements the following adjustments have been made to the prior year comparatives as at year ended 31 December 2010 in these financial statements:

	Statement of changes in equity as previously reported, (in USD thousand)	Adjustment	Statement of changes in equity as restated(in USD thousand)
Revaluation reserve		207	207
Retained earnings	7 140	(6 357)	783
Non-controlling interests	(7 140)	6 150	(990)

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5. Business combination (continued)

Name of the company	<i>PAE Promin</i>		<i>PE Progress 2010</i>		<i>PAE Slavutich</i>	
Date of the acquisition	31.05.2011		31.05.2011		31.05.2011	
Percent of ownership as at the date of the acquisition.	100%		100%		100%	
Value at the date of acquisition	Fair value	Balance value	Fair value	Balance value	Fair value	Balance value
Non-current assets						
Property, plant and equipment	356	200	744	202	569	324
Non-current biological assets	208	106	75	49	318	176
Intangible assets	868	173	124	-	771	-
Other non-current assets	-	-	-	-	-	-
Current assets						
Inventories	134	134	3	3	28	28
Current biological assets	1 533	704	69	60	404	268
Trade accounts receivable, net	26	26	2	2	8	8
Prepayments and other current assets, net	111	111	2	2	7	7
Cash and cash equivalents	6	6	-	-	11	11
Non-current liabilities						
borrowings	(38)	(38)	(22)	(22)	(10)	(10)
Deferred tax liabilities	-	-				
Current liabilities						
borrowings					(21)	(21)
Trade accounts payable	(666)	(666)	(10)	(10)	(36)	(36)
Other current liabilities and accrued expenses	(34)	(29)	(43)	(38)	(180)	(168)
Net assets						
	2 504	727	944	248	1 869	587
Non-controlling interests	-		-		-	
Owners of the company	2 504		944		1 869	
Cost of acquisition	2 504		944		1 869	
Effect from the acquisition	-		-		-	

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5. Business combination (continued)

Name of the company	<i>OJSC Vyryvske HPP</i>		<i>AF Shid-2005 including SE Vyry-Agro **</i>		<i>AIE Vyrynske ltd</i>		<i>AF Govtneva Ltd</i>		<i>AF Kalinivska-2005 Ltd</i>		<i>Piski Ltd</i>	
Date of the acquisition	28.12.2011		26.12.2011		26.12.2011		26.12.2011		26.12.2011		26.12.2011	
Percent of ownership as at the date of the acquisition.	80,61%		100%		100%		100%		100%		100%	
Value at the date of acquisition	Fair value	Balance value	Fair value	Balance value	Fair value	Balance value	Fair value	Balance value	Fair value	Balance value	Fair value	Balance value
Non-current assets												
Property, plant and equipment	2 228	659	23	15	625	-	728	72	1 170	217	-	-
Non-current biological assets	-	-	-	-	-	-	-	-	129	88	-	-
Intangible assets	-	-	711	-	19	-	20	-	156	-	351	-
Other non-current assets	25	25	-	-	-	-	-	-	139	138	-	-
Current assets												
Inventories	579	579	86	86	179	179	120	120	212	212	74	74
Current biological assets	-	-	356	82	171	40	-	-	400	132	152	31
Trade accounts receivable, net	320	330	323	326	85	85	101	115	667	733	6	6
Prepayments and other current assets, net	49	49	32	32	29	29	129	129	4	4	15	15
Cash and cash equivalents	-	-	-	-	-	-	1	1	2	2	-	-
Non-current liabilities												
borrowings	(941)	(941)	(291)	(291)	(503)	(503)	(626)	(626)	(1 002)	(1 002)	(344)	(344)
Deferred tax liabilities	(251)	-	-	-	-	-	-	-	-	-	-	-
Current liabilities												
borrowings	-	-	(12)	(12)	-	-	(3)	(3)	-	-	(1)	(1)
Trade accounts payable	(662)	(662)	(340)	(340)	(260)	(260)	(207)	(207)	(118)	(118)	(90)	(90)
Other current liabilities and accrued expenses	(33)	(14)	(10)	(7)	(15)	(9)	(13)	(9)	(135)	(123)	(3)	(2)
Net assets	1 314	25	878	(109)	330	(439)	250	(408)	1 624	283	160	(311)
Non-controlling interests	255		-		-		-		-		-	
Owners of the company	1 059		878		330		250		1 624		160	
Cost of acquisition	1 107		878		330		250		1 624		160	
Effect from the acquisition	(48)*		-		-		-		-		-	

* The effect from the acquisition of OJSC Vyryvske HPP in the reporting period is charged to the other operating expenses of the Group (note 13).

** As at the date of business combinations AF Shid-2005 owned 100% of corporative rights in SE Vyry-Agro.

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6 Revenue

for the year ended 31 December	Notes	2011	2010
Revenue from sales of finished products	a)	27 493	33 746
Revenue from services rendered	b)	1 591	1 074
Total revenue		29 084	34 820

a) Revenue from sales of finished products for the year ended 31 December was as follows:

	2011	2010
Corn	16 202	15 000
Cattle	1 026	784
Milk	6 654	5 122
Wheat	593	4 804
Sunflower	132	4 281
Other	2 886	3 755
	27 493	33 746

b) Revenue from services rendered for the year ended 31 December was as follows:

	2011	2010
Storage	643	417
Processing	241	310
Transport	509	234
Other	198	113
	1 591	1 074

7 Income / (loss) from changes in fair value of biological assets and agricultural produce, net

for the year ended 31 December		2011	2010
	Notes		
Non-current biological assets	20	3 241	1 091
Current biological assets	24	5 261	3 774
Agricultural produce		15 656	5 351
		24 158	10 216

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8 Cost of sales

Revenue from sales of finished products was as follows:

for the year ended 31 December		2011	2010
	Notes		
Raw materials		(12 661)	(7 702)
Change in inventories and work-in-progress		8 397	(7 376)
Wages and salaries of operational personnel and related charges	15	(5 775)	(3 990)
Depreciation and amortisation	14	(4 326)	(3 322)
Third parties' services		(2 405)	(1 131)
Fuel and energy supply		(6 151)	(3 308)
Rent		(2 086)	(1 418)
Repairs and maintenance		(349)	(167)
Taxes and other statutory charges		(137)	(54)
Other expenses		(13)	(8)
Total cost of sales		(25 506)	(28 476)

a) Change in inventories and work-in-progress comprises changes in work-in-progress, agricultural produce and current biological assets. Book values of agricultural produce and biological assets as at the end of the reporting periods comprise fair value component stemming from revaluation conducted for the purposes of initial recognition of agricultural produce and biological assets at fair value.

9 Administrative expenses

for the year ended 31 December		2011	2010
	Notes		
Wages and salaries of administrative personnel and related charges	15	(1 548)	(1 123)
Third parties' services		(168)	(184)
Repairs and maintenance		(133)	(73)
Depreciation and amortisation	14	(158)	(109)
Bank services		(167)	(178)
Professional services		(402)	(167)
Transport expenses		(289)	(196)
Taxes, except for the income tax		-	(1)
Other expenses		(184)	(75)
Total administrative expenses		(3 049)	(2 106)

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10 Selling and distribution expenses

for the year ended 31 December	Notes	2011	2010
Wages and salaries of sales personnel and related charges	15	(105)	(88)
Depreciation	14	(81)	(34)
Delivery costs		(492)	(792)
Other expenses		(52)	(38)
Total selling and distribution expenses		(730)	(952)

11 Other operating income

for the year ended 31 December	Notes	2011	2010
Government grants and subsidies recognised as income	a)	2	519
Income from subsidized VAT	b)	797	3 005
Gain on disposal of inventories		1	18
Other		367	503
Total other operating income		1 167	4 045

a) Government grants and subsidies recognised as income were as follows:

for the year ended 31 December	2011	2010
Grant for grown and sold milk	-	438
Compensation for interest rates for agricultural manufactures	-	5
Grants for grown and sold cattle	-	76
Other	2	-
	2	519

b) Income from subsidized VAT is brought about by provisions of Law of Ukraine "On Value Added Tax". Under these amendments valid from 01 January 2009 the companies, whose total income from supplying their own goods (services) of agricultural purpose for the previous year is not less than 75%, have a right to use the input VAT from the sale of agricultural products (services) for the purposes of compensation of VAT amount paid to suppliers of production factors or for other manufacturing purposes. In this regard, the VAT debit balance on agricultural transactions, as previously, aims to support agriculture (starting from 01 January 2009 without transfer to special purpose account, starting from 01 January 2011 with transfer to special purpose account), and VAT credit balance is to be included in expenses.

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12 Income from the exchange of property certificates

for the year ended 31 December	2011	2010
	<hr/>	<hr/>
Income from the exchange of property certificates	192	-

Income from the acquisition of property certificates represents the difference between the nominal value of the certificate and the cost of purchasing a certificate from individuals on the property certificate of collective farms.

13 Other operating expenses

for the year ended 31 December	Notes	2011	2010
		<hr/>	<hr/>
Write-offs of VAT		(400)	(36)
Shortages and losses due to impairment of inventories		(2 516)	(454)
Allowance for doubtful accounts receivable	27	(32)	(115)
Fines and penalties		(14)	(15)
Lost crops		(710)	(383)
Depreciation	14	(474)	(64)
Wages and salaries of non-operating personnel and related charges	15	(29)	(25)
Loss on disposal of other property, plant and equipment		(109)	(113)
Loss on disposal of VAT bonds		-	(223)
Other		(264)	(132)
Total other operating expenses		<hr/> (4 548)	<hr/> (1 560)

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14 Depreciation and amortisation

for the year ended 31 December	Notes	2011	2010
		<u> </u>	<u> </u>
Depreciation			
Cost of sales	8	(4 156)	(3 322)
Administrative expenses	9	(153)	(104)
Selling and distribution expenses	10	(81)	(34)
Depreciation of non-operating property, plant and equipment	13	(474)	(64)
Depreciation as a part of item "Lost crops"	13	<u>(56)</u>	<u>-</u>
		(4 920)	(3 524)
Amortisation			
Cost of sales	8	(170)	-
Administrative expenses	9	<u>(5)</u>	<u>(5)</u>
		(175)	(5)
Total depreciation and amortisation		<u>(5 095)</u>	<u>(3 529)</u>

15 Wages and salaries expenses
for the year ended 31 December

	Notes	2011	2010
		<u> </u>	<u> </u>
Wages and salaries		(5 530)	(3 839)
Related charges		<u>(1 966)</u>	<u>(1 387)</u>
		(7 496)	(5 226)
 The average number of employees, persons		 1 747	 1 441
 Remuneration of management:		 519	 397
 Wages and salaries of operating personnel and related charges	8	 (5 775)	 (3 990)
Wages and salaries of administrative personnel and related charges	9	(1 548)	(1 123)
Wages and salaries of sales personnel and related charges	10	(105)	(88)
Wages and salaries of non-operating personnel and related charges	13	(29)	(25)
Wages and salaries as a part of article "Lost crops" and related charges	13	(18)	-
Wages and salaries as a part of article "Construction in progress" and related charges	18	<u>(20)</u>	<u>-</u>
		(7 495)	(5 226)

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16 Financial (expense) / income, net

for the year ended 31 December	2011	2010
	<u> </u>	<u> </u>
Interest income on bank deposits	78	3
Income from sale of currency	106	-
Loss from sale of currency	-	3
Loss from exchange differences	(63)	6
Interest expenses on loans and borrowings	<u>(1 884)</u>	<u>(1 877)</u>
Total financial (expense) / income, net	<u>(1 763)</u>	<u>(1 865)</u>

17 Income tax (expense) / income

for the year ended 31 December	2011	2010
	<u> </u>	<u> </u>
Consolidated income statement		
Current income tax	(12)	(2)
Deferred tax	<u>(57)</u>	<u>2 148</u>
Income tax expense reported in the income statement	<u>(69)</u>	<u>2 146</u>
Consolidated statement of other comprehensive income		
Deferred tax related to items charged or credit directly to other comprehensive income during year:		
Net gain on revaluation of property plant and equipment	399	(95)

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17 Income tax (expense) / income (continued)

A reconciliation between tax expenses and the product of accounting multiplied by Ukrainian domestic tax rate for the year ended 31 December 2011 and 2010 is as follows:

Accounting profit before tax from continuing operations	-	17 405	12 627
Accounting profit before tax from continuing operations of companies, non-payers of income tax		-	14 102
Loss before tax from continuing operations of companies, payers of income tax		(2 195)	(1 475)
Income tax rate of 23% (2010:25%)		(505)	(369)
Effect due to the change in tax rate		30	(1 029)
Allowances for unrecognized tax assets		439	-
Permanent difference		105	(748)
Income tax (benefit)/expense reported in the income statement		69	(2 146)

Since 01 January 2011 a new Tax Code of Ukraine has been adopted. Under new Tax Code, income tax rate in the subsequent periods will be decreased annually from 25% to 16%. For the purposes of calculation of deferred tax stemming from long-term items rates were applied in compliance with new rates specified in Tax Code.

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18 Property, plant and equipment

for the year ended 31 December	Land and buildings	Machinery	Motor vehicles	Other	Construction in progress	Total
Initial costs						
31 December 2009	37 712	12 602	5 819	851	654	57 638
Additions	369	1 842	331	-	351	2 893
Additions from acquisition of subsidiaries		13				13
Disposals	(946)	(480)	(198)	(11)	-	(1 635)
Additions from revaluation	5 274	4 934	1 357	215	-	11 780
Reduction from revaluation decrease	(3 478)	(1 523)	(733)	(38)	-	(5 772)
Effect from translation into presentation currency	111	30	16	5	1	163
31 December 2010	39 042	17 418	6 592	1 022	1 006	65 080
31 December 2010	39 042	17 418	6 592	1 022	1 006	65 080
Additions	1 786	4 110	1 507	202	445	8 050
Additions from acquisition of subsidiaries	4 742	1 236	466	25	1	6 470
Disposals	(1 078)	(1 188)	(287)	(112)	-	(2 665)
Transfer	5	355	-	-	(360)	-
Effect from translation into presentation currency	(152)	(74)	(28)	(4)	(5)	(263)
31 December 2011	44 345	21 857	8 250	1 133	1 087	76 672

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18 Property, plant and equipment (continued)

for the year ended 31 December	Land and buildings	Machinery	Motor vehicles	Other	Construction in progress	Total
Accumulated depreciation						
31 December 2009	(1 784)	(2 277)	(1 079)	(607)	-	(5 747)
Depreciation for the period	(1 292)	(1 468)	(694)	(70)	-	(3 524)
Additions from acquisition of subsidiaries	-	-	-	(7)	-	(7)
Disposals	40	118	56	5	-	219
Additions from revaluation	(456)	(1 745)	(480)	(111)	-	(2 792)
Reduction from revaluation decrease	302	325	161	12	-	800
Effect from translation into presentation currency	1	(2)	(1)	(2)	-	(4)
31 December 2010	(3 189)	(5 049)	(2 037)	(780)	-	(11 055)
31 December 2010	(3 189)	(5 049)	(2 037)	(780)	-	(11 055)
Depreciation for the period	(1 498)	(2 300)	(846)	(276)	-	(4 920)
Additions from acquisition of subsidiaries	-	-	-	(10)	-	(10)
Disposals	103	534	140	93	-	870
Effect from translation into presentation currency	15	23	9	3	-	50
31 December 2011	(4 569)	(6 792)	(2 734)	(970)	-	(15 065)
Net book value						
As at 31 December 2009	35 928	10 325	4 740	244	654	51 891
As at 31 December 2010	35 853	12 369	4 555	242	1 006	54 025
As at 31 December 2011	39 776	15 065	5 516	163	1 087	61 607

The fair value of property, plant and equipment of all the Group's companies has been measured as at 31 December 2010 by an independent appraiser FDI "Bureau Veritas Ukraine" (ODS Certificate No.7100/08 as of 26 May 2008 issued by State Property Fund of Ukraine). While acquisition of the subsidiaries, values of property, plant and equipment in acquired companies were adjusted to their fair value as at the date of consolidation. The fair value as at the date of consolidation were determined by an independent appraisers FDI "Bureau Veritas Ukraine" at 30 June 2011 and FDI "Veritex" at 31 December 2011.

The assessment was conducted in accordance with International Valuation Standards for property. The assessment procedure was carried out for all groups of property, plant and equipment. The fair value of certain items of property, plant and equipment was estimated on the basis of cost plus and comparative approaches.

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18 Property, plant and equipment (continued)

The cost approach involves the definition of present value of costs of reconstruction or replacement of the assessment item with their further adjustment by the depreciation (impairment) amount. Based on the application of this approach, the fair value of certain items of property, plant and equipment was determined in the amount of the replacement of these items. The comparative approach is based on an analysis of sales prices and offers of similar items of property, plant and equipment, taking into account the appropriate adjustments for differences between the objects of comparison and assessment item. Based on the application of this approach, the fair value of property, plant and equipment was determined on the basis of their market value.

In accordance with IAS 16, the Group carries out revaluations on a regular basis and conducts a full valuation exercise if there is an indication of impairment. An impairment review was conducted at the balance sheet date. To test property, plant and equipment for impairment, the Group's business is treated as a single cash generating unit. The recoverable amount of the cash-generating unit was determined on the basis of value-in use. The amount of value in use for the cash generating unit was determined on the basis of the most recent budget estimates prepared by management and application of the income approach of valuation. Under the income approach, the discounted cash flow method has been applied with discount rate of 17,2 %. No impairment was detected following the results of impairment test.

If property, plant and equipment are measured at cost their book value would be the following:

	Land and buildings	Machinery	Motor vehicles	Other	Construction in progress	Total
31 December 2010	5 635	5 262	854	186	1 006	12 943
31 December 2011	7 324	9 031	2 983	308	1 087	20 733

As at 31 December 2011 bank loans were secured by property, plant and equipment as follows:

	2011	2010
Land and buildings	17 015	16 333
Machinery	5 590	1 670
Motor vehicles	2 390	689
Other	52	-
	25 047	18 692

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19 Intangible assets

for the year ended 31 December

	Computer software	Property certificates	Land lease rights	Total
Initial costs				
31 December 2009	19	249	-	268
Additions	12	126	-	138
Disposals	-	(78)	-	(78)
Effect from translation into presentation currency	-	1	-	1
31 December 2010	31	298	-	329
31 December 2010	31	298	-	329
Additions	-	269	-	269
Additions from acquisition of subsidiaries	-	173	2 850	3 023
Disposals	-	(120)	-	(120)
Effect from translation into presentation currency	1	(2)	(8)	(9)
31 December 2011	32	618	2 842	3 492
Accumulated amortisation				
31 December 2009	(10)	(8)	-	(18)
Amortisation for the period	(5)	-	-	(5)
Effect from translation into presentation currency	-	-	-	-
31 December 2010	(15)	(8)	-	(23)
31 December 2010	(15)	(8)	-	(23)
Amortisation for the period	(5)	-	(170)	(175)
Effect from translation into presentation currency	-	-	-	-
31 December 2011	(20)	(8)	(170)	(198)
Net book value				
As at 31 December 2009	9	241	-	250
As at 31 December 2010	16	290	-	306
As at 31 December 2011	12	610	2 672	3 294

Property certificates represent deeds supporting ownership right for property units of members of agricultural entity, which are intended for exchange by the Group companies on the property objects of this agricultural entity.

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20 Non-current biological assets

As at 31 December	2011	2010
Non-current biological assets - animal-breeding		
Cattle	8 947	4 607
Pigs	24	-
Total non-current biological assets - animal-breeding	8 971	4 607
Non-current biological assets - plant-breeding		
Perennial grasses	86	50
Total non-current biological assets	9 057	4 657

As at the reporting dates non-current biological assets of animal-breeding were presented as follows:

As at 31 December	2011	2010
Cattle		
Cattle, units	3 905	2 947
Live weight, kg	1 601 171	1 222 312
Book value	8 947	4 607
Pigs		
Pigs, units	56	-
Live weight, kg	8 894	-
Book value	24	-

As at the reporting dates non-current biological assets of plant-breeding were presented as follows:

Perennial grasses		
Area, ha	1 562	542
Book value	86	50

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20 Non-current biological assets (continued)

Following changes took place in the non-current biological assets of animal-breeding for the year ended 31 December 2011, 2010:

	Cattle	Pigs	Total
31 December 2009	3 106	18	3 124
Acquisition for the period	17	-	17
Capitalized expenses	4	-	4
Transfer (from (to) current biological assets)	372	(6)	366
Change in fair value	1 103	(12)	1 091
Effect from translation into presentation currency	5	-	5
31 December 2010	4 607	-	4 607
31 December 2010	4 607	-	4 607
Additions from acquisition of subsidiaries	706	24	730
Transfer (from (to) current biological assets)	419	-	419
Change in fair value	3 241	-	3 241
Effect from translation into presentation currency	(26)	-	(26)
31 December 2011	8 947	24	8 971

	Perennial grasses
31 December 2009	55
Capitalized expenses	4
Harvesting	(9)
Effect from translation into presentation currency	-
31 December 2010	50
31 December 2010	50
Capitalized expenses	40
Harvesting	(4)
Effect from translation into presentation currency	-
31 December 2011	86

Due to the absence of an active market for cattle in Ukraine, to determine the fair value of biological assets, the Group used the discounted value of net cash flows expected from assets. As a discount rate, the rate of 22,92% prevailing as at 31 December 2011 was applied for cattle.

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21 Deferred tax assets and liabilities

Deferred tax assets	Tax losses	Allowances for recognized tax assets	Prepayments and accounts receivable	Provisions	Other	Total
31 December 2009	-	-	883	63	-	946
Considering profit / (loss)	-	-	(768)	19	-	(749)
Effect from translation into presentation currency	-	-	6	-	-	6
31 December 2010	-	-	121	82	-	203
31 December 2010	-	-	121	82	-	203
Considering profit / (loss)	439	(439)	(89)	(4)	-	(93)
Effect from translation into presentation currency	-	-	10	-	-	10
31 December 2011	439	(439)	42	78	-	120

Deferred tax liabilities	Property, plant and equipment	Inventories	Prepayments and accounts payable	Other	Total
31 December 2009	(4 547)	(1 222)	(326)	(1)	(6 096)
Considering profit / (loss)	1 350	1 227	318	-	2 895
Considering equity	(95)	-	-	-	(95)
Effect from translation into presentation currency	(16)	(8)	(2)	-	(26)
31 December 2010	(3 308)	(3)	(10)	(1)	(3 322)
31 December 2010	(3 308)	(3)	(10)	(1)	(3 322)
Considering profit / (loss)	23	3	9	1	36
Considering equity	399	-	-	-	399
Acquisition of subsidiaries	(251)	-	-	-	(251)
Effect from translation into presentation currency	17	-	-	-	17
31 December 2011	(3 120)	-	(1)	-	(3 121)

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22 Other non-current assets

As at 31 December	2011	2010
Prepayments for property, plant and equipment	790	202
Other non-current assets	-	1
Total other non-current assets	790	203

23 Inventories

As at 31 December	Notes	2011	2010
Work-in-progress	a)	3 587	1 574
Agricultural produce	b)	33 824	10 005
Agricultural materials		1 212	454
Raw materials		473	147
Spare parts		784	545
Fuel		342	221
Other inventories		415	84
Total inventories		40 637	13 030

a) Work-in-progress includes expenses on works connected with preparation of the lands for the future harvest obtained from the biological assets of plant growing.

b) As at the reporting dates agricultural produce was presented as follows:

As at 31 December	2011	2010
Corn	17 592	6 027
Wheat	5 437	262
Sunflower	5 484	108
Lupin	510	741
Hay	657	534
Silage	584	1 043
Soya	2 021	542
Potatoes	1 112	566
Other	427	182
Total agricultural produce	33 824	10 005

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23 Inventories (continued)

As at the 31 December 2011 agricultural produce was impaired as follows:

	Initial amount	Impairment amount	Total
Corn	17 592	-	17 592
Wheat	5 753	(316)	5 437
Sunflower	6 247	(763)	5 484
Lupin	537	(27)	510
Hay	657	-	657
Silage	584	-	584
Soya	2 137	(116)	2 021
Potatoes	2 223	(1 111)	1 112
Other	427	-	427
	36 157	(2 333)	33 824

Losses from impairment of agricultural produce amounting to th USD 2 333 as at 31 December 2011 are comprised into the item Other operating expenses (Shortages and losses due to impairment of inventories) of the consolidated statement of comprehensive income.

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24 Current biological assets

As at 31 December	2011	2010
	<hr/>	<hr/>
Current biological assets of animal-breeding		
Cattle	6 907	3 082
Pigs	8	-
Other	43	21
	<hr/>	<hr/>
Total current biological assets of animal-breeding	6 958	3 103
	<hr/>	<hr/>
Current biological assets of plant-breeding		
Corn	-	-
Wheat	3 150	2 445
Rye	741	54
Grasses	173	187
Other	71	311
	<hr/>	<hr/>
Total current biological assets of plant-breeding	4 135	2 997
	<hr/>	<hr/>
Total current biological assets	11 093	6 100
	<hr/>	<hr/>

As at the reporting dates current biological assets of animal-breeding were presented as follows:

Cattle		
Cattle, units	3 477	2 363
Live weight, kg	897 570	603 526
Book value	6 907	3 082
Pigs		
Pigs, units	129	-
Live weight, kg	4 961	-
Book value	8	-
Other		
Number of animals, units	74	70
Live weight, kg	27 442	14 262
Book value	43	21
Total book value	6 958	3 103

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24 Current biological assets (continued)

As at the reporting dates current biological assets of plant-breeding were presented as follows:

Wheat

Area, ha	5 213	7 063
Book value	3 150	2 445

Rye

Area, ha	1 806	333
Book value	741	54

Grasses

Area, ha	1 561	1 937
Book value	173	187

Other

Area, ha	181	698
Book value	71	311

Total book value	4 135	2 997
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Following changes took place in the current biological assets of animal-breeding for the year ended 31 December 2011, 2010:

	Cattle	Pigs	Other	Total
31 December 2009	1 332	4	22	1 358
Acquisitions for the period	3	-	-	3
Capitalized expenses	1 814	16	4	1 834
Transfer (from (to) non-current biological assets)	(372)	6	-	(366)
Sale	(1 736)	(26)	(6)	(1 768)
Slaughter	(112)	(5)	-	(117)
Change in fair value	2 156	5	1	2 162
Effect from translation into presentation currency	(3)	-	-	(3)
31 December 2010	3 082	-	21	3 103
31 December 2010	3 082	-	21	3 103
Additions from acquisition of subsidiaries	428	8	21	457
Additions	17	-	-	17
Capitalized expenses	2 882	-	1	2 883
Transfer (from (to) non-current biological assets)	(419)	-	-	(419)
Sale	(2 231)	-	(4)	(2 235)
Slaughter	(242)	-	-	(242)
Change in fair value	3 409	-	6	3 415
Effect from translation into presentation currency	(19)	-	(2)	(21)
31 December 2011	6 907	8	43	6 958

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24 Current biological assets (continued)

Following changes took place in the current biological assets of plant-breeding for the year ended 31 December 2011, 2010:

	Corn	Wheat	Rye	Grasses	Sunflower	Other	Total
31 December 2009	1 389	789	115	132	-	-	2 425
Capitalized expenses	5 938	2 411	218	1 674	1 316	1 923	13 480
Harvesting	(7 325)	(1 953)	(295)	(1 560)	(1 252)	(1 796)	(14 181)
Harvest failure	(6)	(182)	(2)	(59)	(64)	(35)	(348)
Change in fair value	-	1 377	17	-	-	218	1 612
Effect from translation into presentation currency	4	3	1	-	-	1	9
31 December 2010	-	2 445	54	187	-	311	2 997
31 December 2010	-	2 445	54	187	-	311	2 997
Additions from acquisition of subsidiaries as at 31 May 2011	654	292	70	120	431	49	1 616
Capitalized expenses (Harvesting 2011)	8 978	2 324	81	1 699	2 532	3 939	19 553
Revaluation at fair value at the date of harvest	9 482	1 218	-	190	3 312	1 454	15 656
Harvesting (2011)	(19 113)	(6 249)	(204)	(2 057)	(6 192)	(5 425)	(39 240)
Harvest failure (Harvesting 2011)	(1)	(30)	(1)	(139)	(83)	(328)	(582)
Additions from acquisition of subsidiaries as at 31 December 2011	-	638	362	1	-	10	1 011
Capitalized expenses (Harvesting 2012)	-	978	167	183	-	61	1 389
Harvest failure (Harvesting 2012)	-	(89)	-	(9)	-	-	(98)
Change in fair value (Harvesting 2012)	-	1 632	214	-	-	-	1 846
Effect from translation into presentation currency	-	(9)	(2)	(2)	-	-	(13)
31 December 2011	-	3 150	741	173	-	71	4 135

25 Trade accounts receivable, net

As at 31 December		2011	2010
	Notes		
Trade accounts receivable		2 185	4 083
Allowances for accounts receivable	27	(738)	(303)
Trade accounts receivable, net		1 447	3 780

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25 Trade accounts receivable, net (continued)

Trade accounts receivable as at 31 December 2011 amounting to th USD 1 447 comprise th USD 365 according to the contract concluded with Nibulon S.A., th USD 188 according to the contract concluded with Molochnuy Soyuz-Agro Ltd.

Trade accounts receivable as at 31 December 2010 amounting to th USD 3 780 comprise th USD 2 283 according to the contract concluded with Nibulon Ltd, th USD 816 according to the contract concluded with Nibulon S.A., th USD 188 according to the contract concluded with Molochnuy Soyuz-Agro Ltd.

26 Prepayments and other current assets, net

As at 31 December	2011	2010
Advances to suppliers	1 243	282
Allowances for advances to suppliers 27	(60)	(54)
VAT for reimbursement	4 265	2 661
Non-bank accommodations interest free short-term	206	124
Amounts due from shareholders	-	127
Other accounts receivable	443	28
Allowances for other accounts receivable 27	(23)	(21)
Prepayments and other current assets, net	6 074	3 147

27 Changes in allowances made

		2011	2010
	Notes		
Allowances for trade accounts receivable	25	(738)	(303)
Allowances for advances to suppliers	26	(60)	(54)
Allowances for other accounts receivable	26	(23)	(21)
		(821)	(378)
		31 December 2011	31 December 2010
	Notes		
As at the beginning of the period		(378)	(297)
Accrual	13	(32)	(115)
Additions from acquisition of subsidiaries		(470)	-
Use of allowances		56	1
Effect from translation into presentation currency		3	33
As at the end of the period		(821)	(378)

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28 Cash and cash equivalents

		31 December 2011	31 December 2010
	Currency		
Cash in bank and hand	EUR	42	-
Cash in bank and hand	PLN	3	-
Cash in bank and hand	USD	2 501	3
Cash in bank and hand	UAH	2 049	1 986
Total cash and cash equivalents		4 595	1 989

29 Share capital

As at 31 December	2011		2010	
	%	Amount	%	Amount
AGROVALLEY LIMITED	68	38	100	46
Amplico Powszechnie Towarzystwo Emerytalne S.A. (with subsidiaries)	5	3	-	-
Other shareholders (each one less than 5% of the share capital)	27	15	-	-
Total share capital	100	56	100	46

As at 31 December 2011 share capital of Industrial Milk Company SA is divided into 31 300 000 shares. Par value of one share is 0,0018 USD.

As at 31 December 2010 share capital of Industrial Milk Company SA is divided into 24 800 000 shares. Par value of one share is 0,0018 USD.

In 2011 Industrial Milk Company S.A. completed initial public offering of own shares on Warsaw Stock Exchange. Issue of share capital of Industrial Milk Company SA brought to the increase of share capital equaling to th USD 10 and share premium in amount of th USD 24 381.

Legal reserve.

From the annual net profits of the parent company, 5% have to be allocated to the legal reserve. This allocation shall cease to be required as soon and as long as such surplus reserve amounts to 10% of the capital. This reserve may not be distributed to the share holders.

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30 Long-term loans and borrowings

As at 31 December	Currency	2011	2010
Secured			
Long-term bank loans	USD	18 501	10 424
Finance lease liabilities	UAH	49	51
		18 550	10 475
Unsecured			
Long-term loans from related parties	UAH	4	3
		4	3
		18 554	10 478
Current portion of long-term loans and borrowings	USD	(4 450)	(1 768)
Current portion of finance lease liabilities	UAH	(36)	(34)
		(4 486)	(1 802)
Total long-term loans		14 068	8 676

Amount of long-term loans and borrowings outstanding as at 31 December 2011 comprises following loans:

— credit line amounting to th USD 9 590 received by Chernihiv Industrial Milk Company, Ltd. in USD according to the credit contract concluded with "PJSC Prominvestbank" with credit limit equaling to th USD 9 660. Annual interest rate is 1 Y Libor+10%. Maturity date is 29 April 2016. Obligations under credit contract are guaranteed by transport vehicle, equipment, mortgage, property rights of Chernihiv Industrial Milk Company, Ltd., property rights of Burat-Agro, Ltd., corporate rights of Burat-Agro, Ltd.; financial warranty of Burat, Ltd., Burat-Agro, Ltd., PJSC, Petrov A.L.

— credit line amounting to th USD 3 857 received by Burat-Agro, Ltd., Ltd in USD according to the credit contract concluded with "PJSC Prominvestbank" with credit limit equaling to th USD 4 285. Annual interest rate is 1 Y Libor+10%. Maturity date is 29 April 2016. Obligations under credit contract are guaranteed by transport vehicle, equipment, mortgage, property rights of Chernihiv Industrial Milk Company, Ltd., property rights of Burat-Agro, Ltd., corporate rights of Burat-Agro, Ltd.; financial warranty of Burat, Ltd., Chernihiv Industrial Milk Company, Ltd., PJSC Mlibor, Petrov A.L.

— credit line amounting to thUSD 2 000 received by Chernihiv Industrial Milk Company, Ltd. In USD according to the credit contract concluded with OJSC "Prominvestbank" with credit limit equaling to thUSD 2 000. Annual interest rate is Libor 3M +8,5%. Maturity date is 30 November 2012. Obligations under credit contract are guaranteed by transport vehicle, equipment, mortgage, property rights of Chernihiv Industrial Milk Company, Ltd., property rights of Burat-Agro, Ltd. corporate rights of Burat-Agro, Ltd.; financial warranty of Burat, Ltd., Burat-Agro, Ltd., PJSC Mlibor, Petrov A.L.

— credit line amounting to th USD 2 000 received by Burat-Agro, Ltd. In USD according to the credit contract concluded with OJSC "Prominvestbank" with credit limit equaling to thUSD 2 000. Annual interest rate is Libor 3M+ 8,5% . Maturity date is 30 November 2012. Obligations under credit contract are guaranteed by goods, transport vehicle, equipment, mortgage, property rights of Chernihiv Industrial Milk Company, Ltd., property rights of Burat-Agro, Ltd., corporate rights of Burat-Agro, Ltd.; financial warranty of Burat, Ltd., Chernihiv Industrial Milk Company, Ltd., PJSC Mlibor, Petrov A.L.

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30 Long-term loans and borrowings (continued)

— credit amounting to th USD 451 received by Burat-Agro, Ltd. in USD according to the credit contract concluded with PJSC "Privatbank" with credit limit equaling to th USD 1 502. Annual interest rate is 11,5%. Maturity date is 15 February 2013. Obligations under credit contract are movable property of Burat-Agro, Ltd. The current portion of long-term obligation equals to thUSD 300.

— credit amounting to th USD 20 received by Burat-Agro, Ltd. in USD according to the credit contract concluded with PJSC "Privatbank" with credit limit equaling to th USD 200. Annual interest rate is 11%. Maturity date is 15 June 2012. Obligations under the contract are guaranteed by movable property of Burat-Agro, Ltd. The current portion of long-term obligation equals to th USD 20.

— credit amounting to th USD 583 received by Burat-Agro, Ltd. in USD according to the credit contract concluded with PJSC "Credit Agricole Bank" with credit limit equaling to th USD 648 thousand. Annual interest rate is 9%. Maturity date is 01 March 2016. Obligations under the contract are guaranteed by movable property of Burat-Agro Co, Ltd.. The current portion of long-term obligation equals to thUSD 130.

Amount of long-term loans and borrowings outstanding as at 31 December 2010 comprises following loans:

— credit line amounting to th USD 5 515 received by Chernihiv Industrial Milk Company, Ltd. in USD according to the credit contract concluded with "PJSC Prominvestbank" with credit limit equaling to th USD 6 500. Annual interest rate is 12%. Maturity date is 29 November 2013. Obligations under credit contract are guaranteed by goods, transport vehicle, equipment, property rights of Chernihiv Industrial Milk Company, Ltd., shares of OJSC Poltava Kombilormoviy Zavod; financial warranty of Burat, Ltd., Burat-Agro, Ltd., PJSC Mlibor, Petrov A.L. Current portion of long-term loan equals to th USD 515. As at the date of signing the financial statements current portion of long-term loans is repaid in the amount of th USD 40.

— credit line amounting to th USD 4 085 received by Burat-Agro, Ltd., Ltd in USD according to the credit contract concluded with "PJSC Prominvestbank" with credit limit equaling to th USD 4 085. Annual interest rate is 12%. Maturity date is 29 November 2013. Obligations under credit contract are guaranteed by goods, transport vehicle, equipment, property rights of Burat-Agro, Ltd., shares of OJSC Poltava Kombilormoviy Zavod; financial warranty of Burat, Ltd., Chernihiv Industrial Milk Company, Ltd., PJSC Mlibor, Petrov A.L. Current portion of long-term loan equals to th USD 900. As at the date of signing the financial statements current portion of long-term loans is repaid in the amount of th USD 300.

— credit amounting to th USD 751 received by Burat-Agro, Ltd. in USD according to the credit contract concluded with CJSC "Privatbank" with credit limit equaling to th USD 1 502. Annual interest rate is 11,5%. Maturity date is 15 February 2013. Obligations under credit contract are guaranteed by property rights of Burat-Agro, Ltd. The current portion of long-term obligation equals to th USD 300. As at the date of signing the financial statements current portion of long-term loans is repaid in the amount of th USD 150.

— credit amounting to th USD 60 received by Burat-Agro, Ltd. in USD according to the credit contract concluded with CJSC "Privatbank" with credit limit equaling to th USD 200. Annual interest rate is 11%. Maturity date is 15 June 2012. Obligations under the contract are guaranteed by property rights of Burat-Agro, Ltd. The current portion of long-term obligation equals to th USD 40.

— credit amounting to th USD 10 received by Burat-Agro, Ltd. in USD according to the credit contract concluded with CJSC "Privatbank" in Poltava with credit limit equaling to th USD 51 thousand. Annual interest rate is 13,5%. Maturity date is 25 February 2011. Obligations under the contract are guaranteed by real estate of Burat-Agro Co, Ltd.. The current portion of long-term obligation equals to th USD 10. As at the date of signing the financial statements current portion of long-term loans is repaid in the amount of th USD 3.

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30 Long-term loans and borrowings (continued)

— credit amounting to th USD 3 received by "Burat-Agro" Co., Ltd in USD according to the credit contract concluded with CJSC "Privatbank" in Poltava with credit limit equalling to th USD 52. Annual interest rate is 13,5%. Maturity date is 20 September 2011. Obligations under the contract are guaranteed by real movable property of "Burat-Agro" Co., Ltd. with total value amounting to th UAH 246. The current portion of long-term obligation equals to th USD 3. As at the date of signing the financial statements current portion of long-term loans is repaid in the amount of th USD 2.

Essential terms of credit contracts:

	Currency	31 December 2011	Nominal interest rate	Effective interest rate
PJSC "Prominvestbank"	USD	9 590	1 Y Libor+10%	-
PJSC "Prominvestbank"	USD	3 857	1 Y Libor+10%	-
PJSC "Prominvestbank"	USD	2 000	3 M Libor+8,5%	-
PJSC "Prominvestbank"	USD	2 000	3 M Libor+8,5%	-
PJSC "Privatbank"	USD	451	11,50%	12,13%
PJSC "Privatbank"	USD	20	11,00%	11,57%
PJSC "Credit Agricole Bank"	USD	583	9,00%	9,38%
Long-term borrowings from related parties	UAH	4		
		18 505		
	Currency	31 December 2010	Nominal interest rate	Effective interest rate
PJSC "Privatbank"	USD	751	11,50%	12,13%
PJSC "Privatbank"	USD	60	11,00%	11,57%
PJSC "Prominvestbank"	USD	10	13,50%	14,37%
PJSC "Prominvestbank"	USD	3	13,50%	14,37%
PJSC "Prominvestbank"	USD	5 515	12,00%	12,68%
PJSC "Prominvestbank"	USD	4 085	12,00%	12,68%
			0,00%	0,00%
Long-term borrowings from related parties	UAH	3		
		10 427		

Long-term loans and borrowings outstanding as of 31 December 2011, 2010, were repayable as follows:

	31 December 2011	31 December 2010
Within 1 year	4 486	1 802
In the second to fifth year inclusive	14 068	8 676
Later than fifth year		-
	18 554	10 478

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31 Short-term loans and borrowings

As at 31 December	Currency	2011	2010
Secured			
Short-term bank loans	UAH	-	-
Short-term bank loans	USD	3 415	1 707
		3 415	1 707
Unsecured			
Short-term borrowings from third parties	UAH	52	9
Short-term borrowings from related parties	USD	-	-
		52	9
Total short-term borrowings		3 467	1 716

Amount of the largest short-term loans and borrowings outstanding as at 31 December 2011 comprises following loans:

— credit line amounting to th USD 1 500 received by Chernihiv Industrial Milk Company, Ltd. In USD according to the credit contract concluded with OJSC "Prominvestbank" with credit limit equaling to thUSD 1 500. Annual interest rate is Libor 3M+8,5%. Maturity date is 30 November 2012. Obligations under credit contract are guaranteed by transport vehicle, equipment, mortgage, property rights of Chernihiv Industrial Milk Company, Ltd., property rights of Burat-Agro, Ltd. corporate rights of Burat-Agro, Ltd.; financial warranty of Burat, Ltd., Burat-Agro, Ltd., PJSC, Petrov A.L.

— credit line amounting to th USD 1 915 received by Burat-Agro, Ltd. In USD according to the credit contract concluded with OJSC "Prominvestbank" with credit limit equaling to th USD 1 915. Annual interest rate is Libor 3M+8,5%. Maturity date is 30 November 2012. Obligations under credit contract are guaranteed by goods, transport vehicle, equipment, mortgage, property rights of Chernihiv Industrial Milk Company, Ltd., property rights of Burat-Agro Ltd., corporate rights of Burat-Agro, Ltd.; financial warranty of Burat, Ltd., Chernihiv Industrial Milk Company, Ltd., PJSC Mlibor, Petrov A.L.

Amount of the largest short-term loans and borrowings outstanding as at 31 December 2010 comprises following loans:

— credit line amounting to th USD 642 received by Chernihiv Industrial Milk Company, Ltd. in USD according to the credit contract concluded with OJSC "Prominvestbank" with credit limit equaling to th USD 1 500. Annual interest rate is 11%. Maturity date is 30 November 2013. Obligations under credit contract are guaranteed by goods, transport vehicles, equipment, property rights of Burat-Agro, Ltd., shares of Chernihiv Industrial Milk Company, Ltd.; financial warranty of Burat, Ltd., Burat-Agro, Ltd., PJSC Mlibor, Petrov A.L.

— credit line amounting to th USD 1 065 received by Burat-Agro, Ltd. in USD according to the credit contract concluded with OJSC "Prominvestbank" with credit limit equaling to th USD 1 915. Annual interest rate is 11%. Maturity date is 30 November 2013. Obligations under credit contract are guaranteed by goods, transport vehicles, equipment, property rights of Burat-Agro, Ltd., shares of OJSC Poltava Kombilormoviy Zavod; financial warranty of Burat, Ltd., Chernihiv Industrial Milk Company, Ltd., PJSC Mlibor, Petrov A.L.

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32 Other current liabilities and accrued expenses

As at 31 December	2011	2010
Advances from clients	128	3 157
Interest payable on bank loans	9	-
Interest payable on finance lease	5	3
Accounts payable for the lease of land and property rights	355	303
Accounts payable for property, plant and equipment	802	158
Taxes payable	35	17
Wages, salaries and related charges payable	477	252
Provisions for unused vacations	410	217
Provisions for audit services	38	68
Accounts payable for investments	749	19
Other accounts payable	91	23
Total other current liabilities and accrued expenses	3 099	4 217

Accounts payable for property, plant and equipment amounting to th USD 802 as at 31 December 2011 comprise th USD 650 according to the contracts concluded with Landmaschinen Vertrieb Altenweddingen GmbH.

33 Related parties

According to existing criteria of determination of related parties, the related parties of the Group are divided into the following categories:

- a) Entities - related parties under common control with the Companies of the Group;
- b) Entities- related parties, in equity of which Companies of the Group have an interest;

The information on total amounts of balances and transactions with related parties for the corresponding reporting periods is presented below:

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33 Related parties (continued)

As at 31 December	Notes	2011	2010
Trade accounts receivable, net			
a) Entities - related parties under common control with the Companies of the Group;	25	317	320
b) Entities-related parties, in equity of which Companies of the Group have an interest;	25	14	14
		<u>331</u>	<u>334</u>
 Non-bank accommodations interest free short-term			
a) Entities - related parties under common control with the Companies of the Group;	26	15	15
b) Entities-related parties, in equity of which Companies of the Group have an interest;	26	89	89
		<u>104</u>	<u>104</u>
 Other accounts receivable			
a) Entities - related parties under common control with the Companies of the Group;	26	20	-
b) Entities-related parties, in equity of which Companies of the Group have an interest;	26	3	-
		<u>23</u>	<u>-</u>
 Long-term borrowings from related parties			
a) Entities - related parties under common control with the Companies of the Group;	30	4	3
		<u>4</u>	<u>3</u>
 Trade accounts payable			
a) Entities - related parties under common control with the Companies of the Group;		25	28
b) Entities-related parties, in equity of which Companies of the Group have an interest;		116	233
		<u>141</u>	<u>261</u>

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33 Related parties (continued)

During the reporting period the Group did not perform any related parties transactions made outside the market conditions (non market basis related parties transactions).

Remuneration of key management personnel

	31 December 2011	31 December 2010
Wages and salaries	383	292
Related charges	136	105
	519	397

The average number of employees, persons	7	7
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34 Information on segments

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

For the purpose of management the Group is divided into the following business segments on the basis of produced goods and rendered services, and consists of the following 3 operating segments:

Farming division - a segment, which deals with cultivation and sale of such basic agricultural crops as corn and wheat.

Live-stock breeding - a segment which deals with breeding and sale of biological assets and agricultural products of live farming. Basic agricultural product of live farming for sale in this segment is milk.

Storage and processing- a segment which deals with processing of agricultural produce, and also with production of finished goods. Principal goods produced and sold within this segment are flour and fodder.

The Group carries out its economic and financial activity in Ukraine.

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34 Information on segments (continued)

Information on business segments for the year ended 31 December 2011

	Farming division	Live-stock breeding	Storage and processing	Adjustments	Total
Revenue	36 484	7 721	7 062	-	51 267
Intra-group elimination	(16 867)	(22)	(5 294)	-	(22 183)
Revenue from external buyers	19 617	7 699	1 768	-	29 084
Income from changes in fair value of biological assets and agricultural produce, net	17 502	6 656	-	-	24 158
Cost of sales	(17 677)	(6 302)	(1 527)	-	(25 506)
Gross income	19 442	8 053	241	-	27 736
Administrative expenses	-	-	-	(3 049)	(3 049)
Selling and distribution expenses	-	-	-	(730)	(730)
Other income	-	-	-	1359	1359
Other expenses	-	-	-	(6 148)	(6 148)
Operating income of a segment	19 442	8 053	241	(8 568)	19 168
Financial expenses	-	-	-	(1 763)	(1 763)
Profit before tax	19 442	8 053	241	(10 331)	17 405
Income tax	-	-	-	(69)	(69)
Net profit	19 442	8 053	241	(10 400)	17 336

Other segment information:

Depreciation and amortisation	3 220	609	497	769	5 095
Additions to non-current assets:					
Property, plant and equipment	13 581	486	453	-	14 520
Intangible assets	3 292	-	-	-	3 292
Non-current biological assets	40	730	-	-	770
Total assets	92 315	25 796	7 928	12 675	138 714

Total liabilities	2 375	175	41	27 135	29 726
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Assets of segments do not include deferred tax assets (th USD 120), property, plant and equipment (th USD 3 320), inventories (th USD 3 059), trade accounts receivable (th USD 102), prepayments and other current assets (th USD 6 074), since supervision over these assets is carried out at the level of the Group.

Liabilities of the segments do not include deferred tax liabilities (th USD 3 121), long-term loans (th USD 14 068), short-term loans (th USD 3 467), current amount of long-term loans (th USD 4 486), trade accounts payable (th USD 172), other current liabilities (th USD 1 809), income tax payable (th USD 12), since supervision over these liabilities is carried out at the level of the Group.

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34 Information on segments (continued)

Information on business segments for the year ended 31 December 2010

	Farming division	Live-stock breeding	Storage and processin g	Adjustment s	Total
Revenue	32 864	6 583	2 324	-	41 771
Intra-group elimination	(5 696)	(5)	(1 250)	-	(6 951)
Revenue from external buyers	27 168	6 578	1 074	-	34 820
Income from changes in fair value of biological assets and agricultural produce, net	6 963	3 253	-	-	10 216
Cost of sales	(21 804)	(5 866)	(806)	-	(28 476)
Gross income	12 327	3 965	268	-	16 560
Administrative expenses	-	-	-	(2 106)	(2 106)
Selling and distribution expenses	-	-	-	(952)	(952)
Other income	-	-	-	4 045	4 045
Other expenses	-	-	-	(3 055)	(3 055)
Operating income of a segment	12 327	3 965	268	(2 068)	14 492
Financial expenses	-	-	-	(1 865)	(1 865)
Profit before tax	12 327	3 965	268	(3 933)	12 627
Income tax	-	-	-	2 146	2 146
Net profit	12 327	3 965	268	(1 787)	14 773

Other segment information:

Depreciation and amortisation	2 512	322	385	310	3 529
Additions to non-current assets:					
Property, plant and equipment	2 271	113	88	434	2 906
Intangible assets	126	-	-	12	138
Non-current biological assets	4	21	-	-	25
Total assets	50 747	16 440	9 138	11 115	87 440

Total liabilities	3 749	107	220	16 161	20 237
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Assets of segments do not include deferred tax assets (th USD 203), property, plant and equipment (th USD 6 236), inventories (th USD 1 451), trade accounts receivable (th USD 224), prepayments and other current assets (th USD 3 001), since supervision over these assets is carried out at the level of the Group.

Liabilities of the segments do not include deferred tax liabilities (th USD 3 322), long-term loans (th USD 8 676), short-term loans (th USD 1 716), current amount of long-term loans (th USD 1 802), trade accounts payable (th USD 49), other current liabilities (th USD 596), since supervision over these liabilities is carried out at the level of the Group.

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35 Lease of land

The Group leases land for agricultural purposes from private individuals. Lease payments are calculated on the basis of monetary valuation of the land considering the inflation factor. The average interest rate for lease of land of the Group is 2-5% and depends on validity of the contract.

Future minimum lease payments for operating leases of land of agricultural designation as at 31 December 2011 considering existing at that date the inflation factor are as follows:

	As at 31 December 2011
Within 1 year	4 486
In the second to fifth year inclusive	15 019
Later than fifth year	14 712
	34 217

Areas of operating leased land as at 31 December 2011, 2010 were as follows:

	31 December 2011	31 December 2010
	Hectare	Hectare
Poltava region		
Land under processing	22 715	19 931
Land for grazing, construction, other	1 638	2 389
Sumy region		
Land under processing	10 080	-
Land for grazing, construction, other	113	-
Chernihiv region		
Land under processing	26 845	17 976
Land for grazing, construction, other	1 269	1 465
	62 660	41 761

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36 Management of financial risks

Use of financial instruments exposes the Group to following risks:

- credit risk
- liquidity risk
- market risk

The information about the Group's expose to each of the indicated risks, about its objectives, policy and estimating procedures and managing of such risks, approach to capital management is provided in this explanation.

Participants of the risk management process are the managers of all service branches responsible for the risk controls at the Group's companies.

Depending on the type of risks faced by a company, it is possible to use a single or several methods of minimizing or levelling their negative impact on income / value of the company.

The use of the following risk management methods is possible at the Group's companies:

- 1) risk pooling is a method aimed at reducing the risk by transferring accidental losses into the relatively small fixed expenses (this method is a basis for insurance);
- 2) limitation is a method involving the development of detailed strategic documentation, which sets the boundary level of risk in each area of the company's activities, as well as clear allocation of functions and responsibilities of personnel;
- 3) diversification is a method of risk control through the selection of assets, profit on which slightly correlates, if possible;
- 4) hedging is a balancing transaction, minimizing the negative impact of risk (e.g., selection of assets and liabilities by timing, by currency).

The Group's management reviews and approves the risk management policy, details of which are described below. Additional disclosures are presented in many other parts of the financial statements, including:

Information about financial income and expense is disclosed in Note 16 (all financial income and expenses are recognized in profit (loss) for the period);

Information about cash is disclosed in Note 28;

Information about trade accounts receivables and other current assets is presented in Note 25, 26;

Information concerned with current liabilities is disclosed in Note 32;

Information about essential conditions for granting loans and borrowings is disclosed in Note 30, 31.

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36 Management of financial risks (continued)

36.1 Credit risk

Credit risk is a risk of financial loss to the Group, which results from failure of a buyer or a contractor under the financial instrument to fulfill its contractual obligations. The risk is primarily related to the Group's accounts receivable.

Credit risk is a risk of financial loss to the Group, which results from failure of a buyer or a contractor under the financial instrument to fulfill its contractual obligations. The risk is primarily related to the Group's accounts receivable. Financial and Economic Department has developed the credit policy. In accordance with it, all contractors are subjected to careful analysis on ability to pay before the Group offers its standard terms of payment and delivery. If the Group sells goods to a contractor it has never dealt before, transactions are performed on terms of prepayment. Deferred payment is offered only to contractors with work experience with the Group more than 1 year without delays in payment terms established in sale contracts.

Information about the amount of trade accounts receivable due from the largest Group's contractors is shown below:

	31 December 2011		31 December 2010	
	% account	Amount	% account	Amount
Yagotinskiy MZ OJSC	2%	28	-	-
Urojayna Kraina Ltd	5%	72	-	-
Agrobiz-12 Ltd	3%	37	-	-
Molochniy Souz Ltd	22%	316	8%	316
Kremenchutskiy MZ OJSC	3%	43	-	-
Nibulon S.A.	25%	365	22%	816
Nibulon Ltd	-	-	60%	2 283
MAKS Ltd	-	-	1%	44
Agrarien Fund of Grain	-	-	1%	53
Galacton OJSC	5%	68	1%	49
	64%	929	94%	3 561

Group's management believes that companies comprising the Group are free in their choice of the customers, have close contacts with the leading global and Ukrainian traders, and may switch without risk to other customer offering better conditions of collaboration.

The Financial Directorate of the Group constantly carries out monitoring over payment terms' deadlines according to goods selling contracts. In case of delay in payment, the personnel of the commercial department deals up with the customer and the decision whether to apply penalties or slightly extend the terms (within 90 days) is taken.

The Group forms estimated provision for trade and other accounts receivable and investments. It corresponds with estimation of amount of already suffered credit losses. The main element of the provision is an element of certain loss, determined for assets considering already suffered but not fixed losses. Estimated amount of losses is determined on the basis of statistical data for previous periods for similar financial assets.

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36 Management of financial risks (continued)

Book value of financial assets reflects maximal extent that is subject to credit risk of the Group. Maximal level of credit risk is the following:

	Notes	31 December 2011	31 December 2010
Trade accounts receivable	25	1 447	3 780
Other financial investments			
Loans and borrowings issued	26	206	124
Other accounts receivable	26	420	7
Cash and cash equivalents	28	4 595	1 989
		6 668	5 900

Distribution of trade accounts receivable on time-frames is the following:

	Notes	31 December 2011
Undue	25	1 002
Past due		445
		1 447

On the basis of analysis of payments for the current period Financial Directorate of the Group considers that there is no need to form provision for overdue, but not impaired trade accounts receivable.

Distribution of accounts receivable by maturities is as follows:

	within 180 days	from 180 to 360 days	from 1 to 5 years	more than 5 years	Total
Past due but not impaired trade accounts receivable	-	129	316	-	445

The Group uses the accounts of assessed provisions for reflection of impairment losses of accounts receivable and investments held for trading, except where the Group is confident in impossibility of repayment; in this case the amount that can be collected is written-off by direct decrease in value of appropriate financial asset.

36.2 Liquidity risk

Risk of liquidity - is the risk of inability to meet financial obligations of the Group in due time. The way the Group manages the liquidity lies in providing the Group with constant availability of liquid facilities, enough to meet the obligation in due time, avoiding unforeseen losses and not to expose the reputation of the Group to risk.

There is system of management accounting and budgeting, which allows to plan and control covering all the expenses from operating activity and related with it financial expenses by means of profit.

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36 Management of financial risks (continued)

Allocation of accounts receivable and other current assets by maturities as at 31 December 2011 is as follows:

	On demand	within 30 days	from 30 to 90 days	from 90 to 180 days	from 180 to 360 days	from 1 to 5 years	Total
Trade accounts payable	465	496	410	68	34	-	1 473
Other current liabilities and accrued expenses	535	1 057	1 051	83	170	75	2 971
Short-term borrowings	-	-	6	46	3 415	-	3 467
Long-term borrowings	-	11	234	-	4 258	14 051	18 554
	1 000	1 564	1 701	197	7 877	14 126	26 465

36.3 Market risk

Market risk is a risk that changes in market prices, e.g. exchange rates and interest rates which can exert negative influence on the income of the Group or cost of financial instruments. The objective of market risk management is to control the exposure to market risk and keep it within acceptable limits, while optimizing the profitability of investments.

There are 4 types of market risk within the Group's activity:

- Risk of changes in market prices of products for sale
- Risk of changes in prices of materials and services
- Foreign currency risk;
- Interest rate risk.

Risk of changes in market prices of products for sale

The Group Sales Department makes continuous monitoring of market prices of products sold in order to manage exposure to changes in market prices for the products. According to the results of this analysis and subsequent prediction of prices for products, management pricing policy depending on the dynamics of market prices is formed.

Risk of changes in prices of materials and services

The Group is exposed to changes in prices of materials and services that are used in the process of production. The Group manages these risks by working with reliable suppliers, business relationships with whom had developed over a long time, and the search for new, more affordable supply of resources.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

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36 Management of financial risks (continued)

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense are denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign subsidiaries.

The Group's companies manage their foreign currency risk by comparing the volumes of export revenues by currencies and loan portfolio by currencies. The Group avoids borrowing and production sales for export in any currency except for USD. The comparison is carried out as a part of the annual planning and budgeting.

When the amounts of the expected export revenues is below the level of USD borrowing for the financial year, the decrease in foreign currency borrowings by repayment of such loans or conversion of foreign currency loans into national currency is performed.

Group avoided realization of risk transactions that are subject to foreign currency risk.

The table below summarizes the Group's exposure to foreign currency risk as at 31 December 2011:

	Notes	USD	UAH	EUR	PLN	Total
Trade accounts receivable, net	25	365	1 082	-	-	1 447
Cash and cash equivalents	28	2 501	2 049	42	3	4 595
Long-term loans and borrowings	30	14 051	17	-	-	14 068
Current portion of long-term borrowings	30	4 450	36	-	-	4 486
Short-term loans and borrowings	31	3 415	52	-	-	3 467
		24 782	3 236	42	3	28 063

The Group's exposure to foreign currency risk, based on book value, was as follows:

	Notes	31 December 2011	Increase/decrease in USD exchange rate, %	Effect on revenue before tax
Trade accounts receivable, net	25	365	10	37
			(10)	(37)
Long-term loans	30	(14 051)	10	(1 405)
			(10)	1 405
Current portion of long-term borrowings	30	(4 450)	10	(445)
			(10)	445
Short-term loans and borrowings	30	(3 415)	10	(342)
			(10)	342
General effect		(21 551)	10	(2 155)
			(10)	2 155

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36 Management of financial risks (continue)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Change in interest rates influences the involved loans and borrowings and finance lease transactions. Management of the Group doesn't have formalized policy respecting proportion of interest risk's allocation between the loans with fixed interest rate and floating interest rate. However, when attracting new loans and borrowings, management solves the problem respecting which interest rate, fixed or floating, will be more profitable for the Group during the expected period till the maturity date, based on own professional judgments.

As at 31 December 2011 the Group's interest-bearing financial instruments were formed by the financial instruments with floating interest rate.

37 Capital management

The Group's objectives in the process of capital management are maintaining the Group's ability to follow the going concern principle to provide benefits to interested parties, and also maintaining the optimal structure of involved and own funds. The management of the Group regularly analyzes the structure of its capital. On basis of results of this analysis the Group takes measures, which are aimed at maintenance of total structure of the capital balance.

The main financial liabilities of the Group are received loans, trade and other accounts payable. The main aim of these financial instruments is to involve facilities for the Group's activity. The Group owns such financial assets as issued loans, trade and other accounts receivable, cash and cash equivalents.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 40% and 50%.

	Notes	31 December 2011	31 December 2010
Long-term borrowings	30	14 068	8 676
Current portion of non-current liabilities	30	4 486	1 802
Short-term loans and borrowings	31	3 467	1 716
Trade accounts payable		1 473	504
Other current liabilities and accrued expenses	32	3 099	4 217
Cash and cash equivalents	28	(4 595)	(1 989)
Net loans		21 998	14 926
Total capital		108 988	67 203
Capital and net loans		130 986	82 129
Financial leverage ratio (Gearing)		17%	18%

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38 Events after the balance sheet date

In January 2012 Nibulon S.A. settled thUSD 365 of trade accounts receivable due to the Group as at 31 December 2011.

On 29 March, 2012 a subsidiary of Industrial Milk Company S.A. purchased 100% stake in the Ukrainian company which had the land bank of 4,550 hectares (with 5 years lease term). The value of the deal is th USD 2 995.

As at the date of signing of the financial statements current portion of long-term loans is repaid in the amount of thUSD 262.

In March - April 2012 long-term loans were received in the amount of thUSD 4 618.

In April 2012 the short-term loan was received in the amount of thUSD 1 265.

In January - April 2012 the Group carried out thUSD 7 057 of advance payments for machinery and equipment.

There were no other essential subsequent events that should be disclosed in these consolidated financial statements according to the standards or prevailing practice.