



Annual report for the period  
1st January 2010 – 31st December 2010

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30th June 2011

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# **AGROLIGA GROUP PLC.**

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## **Attachments: Opinion and auditor's report**

## **1. The Letter of the Board of Directors**

Dear Shareholders and Investors,

Last year was the time of new horizons for the Agroliga Group PLC. We were able to benefit from hard work made on the Company's development in 2008. As a result, we were able to improve our results on every level, beginning from revenues, and ending on net profit.

New level of Company was especially visible in revenues, that grew in our new activity – oil refining. The most important fact, however that was this branch of our business is now one of the most important. Together with our agricultural product portfolio, it allowed us to increase significantly both market position and revenues.

However, the fact of good results does not mean that there were no turbulences during the year. The weather conditions in 2009-2010 winter was hard, and most of our winter crops was lost. Then extremely hot summer add a lot of troubles to our fields. But, because of good preparations and excellent specialists we were able to find the benefits there, where most found only losts, and we believe that we will be able to continue so in the future.

The significant improvement of our production structure, growing revenues and incoming investments allow us to think bright about the future. At times when the markets started growing, we are ready to benefit from all of such factors in order to increase gross margins and net profit in 2011. All of these were presented in our public financial forecasts.

We know that a lot of challenges are awaiting for us, but the Company's management and myself are confident and committed to making 2011 a very successful year for shareholders, our employees and suppliers.



Aleksandr Berdnyk

Chairman of the Board of Directors of Agroliga Group PLC

# **AGROLIGA GROUP PLC.**

## **2. The Statement of the Board of Directors**

The Board of Directors of Agroliga Group PLC ("Issuer") declares that, according to their best knowledge, the consolidated annual financial statement and comparative figures have been prepared in accordance with official regulations and the International financial standards.

Consolidated annual financial statement gives a true and fair view of Issuer's financial position and his financial performance including a description of the main threats and risks.

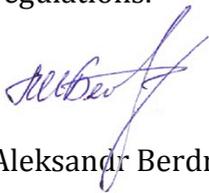


On behalf of the The Board of Directors

Aleksandr Berdnyk

Chairman of the Board of Directors of Agroliga Group PLC

The Board of Directors of Agroliga Group PLC ("Issuer") declares that the authorized entity to audit financial statements, Markos Drakos & Co LTD which audited annual financial statements, was chosen in accordance with the law regulations and that the entity and the auditors, who audited the financial statements fulfilled the requirements to give impartial and independent opinion about report in accordance with applicable national law and regulations.



Aleksandr Berdnyk

Chairman of the Board of Directors of Agroliga Group PLC

## AGROLIGA GROUP PLC.

### 3. Selected financial results

#### 3.1 Profit and loss summary

Figures expressed in Euros have been converted according to the average exchange rate on the balance sheet date:

31.12.2009 .: 1 EUR = 4,1403 PLN

31.12.2010 .: 1 EUR = 4,03425 PLN

Selected Financial Results	PLN (tys.)		EUR (ths)	
	Period from 1.01.2010 to 31.12.2010	Period from 1.01.2009 to 31.12.2009	Period from 1.01.2010 to 31.12.2010	Period from 1.01.2009 to 31.12.2009
Revenues from the sales	22 362	9 995	5 543	2 414
Profit / loss on sale	5 946	3 329	1 474	804
Profit / loss from operating activities	12 353	2 219	3 062	536
Profit / loss Gross	11 845	1 991	2 936	481
Profit / loss net	11 768	2 186	2 917	528
Depreciation	258	294	64	71

#### 3.2 Consolidated balance sheet

Figures expressed in Euros have been converted according to the average exchange rate prevailing at the end of each month in 2009 and 2010 (average rate from 12 months):

31.12.2009 .: 1 EUR = 4,1082 PLN

31.12.2010 .: 1 EUR = 3,9603 PLN

## AGROLIGA GROUP PLC.

Selected financial data from balance sheet	PLN (tys)		EUR (ths)	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Tangible fixed assets	2 245	2 687	567	654
Long-term receivables	0	0	0	0
Current assets	17 940	7 078	4 530	1 723
Short-term receivables	8 297	2 687	2 095	654
Cash and cash equivalents	768	8	194	2
Equity	16 542	7 304	4 177	1 778
Long-term liabilities	277	263	70	64
Short-term liabilities	5 196	3 911	1 312	952

The consolidated statement of comprehensive income and the consolidated statement of financial position are also presented on the basis of the assumption that the Company was incorporated on 1 January 2010 and the acquisition of the subsidiary Group took place on 1 January 2010, as supplementary information. The supplementary information has not been prepared subject to IFRS.

## 4. The annual detailed analysis of 2010 financial results

### The introduction to the Annual Report

# **AGROLIGA GROUP PLC.**

## **Independent auditor's report**

### **To the Members of Agroliga Group Plc.**

#### **Report on the consolidated financial statements**

We have audited the accompanying consolidated financial statements of Agroliga Group Plc. (the "Company") and its subsidiaries ('the Group') on pages 6 to 28, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the period from 23 June 2010 to 31 December 2010, and a summary of significant accounting policies and other explanatory information.

#### *Board of Directors' responsibility for the consolidated financial statements*

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

#### *Auditor's responsibility*

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

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

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

#### *Basis for Qualified Opinion*

We did not observe the counting of inventories as at 31 December 2010. It was impracticable to satisfy ourselves as to those inventory quantities by other audit procedures. Accordingly, we were unable to determine whether any adjustments might be necessary to inventories, cost of revenues, taxation expense, net profit and retained earnings as at and for the period ended 31 December 2010.

#### *Qualified Opinion*

## **AGROLIGA GROUP PLC.**

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to physical inventory quantities, the financial statements give a true and fair view of the financial position of of Agroliga Group Plc. and its subsidiaries Agroliga Group Plc. as at 31 December 2010, and of its financial performance and their cash flows for the period from 23 June 2010 to 31 December 2010 in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

### **Report on other legal and regulatory requirements**

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

- We have obtained all the information and explanations we considered necessary for the purposes of our audit, except that the scope of our work was limited by the matter discussed in the Basis for Qualified Opinion paragraph.
- In our opinion, proper books of account have been kept by the Company, except in the case of inventories discussed in the Basis for Qualified Opinion paragraph.
- The Company's consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required, except in the case of inventories discussed in the Basis for Qualified Opinion paragraph.
- In our opinion, the information given in the report of the Board of Directors on pages 2 to 3 is consistent with the consolidated financial statements.

### **Other matter**

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

Certified Public Accountant and  
Registered Auditor

for and on behalf of

**Markos Drakos & Co Ltd**

**Chartered Accountants**

Nicosia, 30 June 2011

# AGROLIGA GROUP PLC.

## 4.1 Profit and loss statement

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Period from 23 June 2010 to 31 December 2010

	Supplementary information 1/1/10 - 31/12/10	23/6/10 - 31/12 /10
	€'000	€'000
<b>Revenue</b>	<b>5.543</b>	<b>2.884</b>
Cost of sales		
	<u>(4.069)</u>	<u>(2.208)</u>
<b>Gross profit</b>	<b>1.474</b>	<b>676</b>
Negative goodwill on acquisition	1.726	2.525
Other income	268	338
Profit from investing activities	14	8
Selling and distribution expenses	(19)	(8)
Administration expenses	(294)	(165)
Other expenses	<u>(107)</u>	<u>(107)</u>
<b>Operating profit</b>	<b>3.062</b>	<b>3.267</b>
Finance costs		
	<u>(126)</u>	<u>(78)</u>
<b>Profit before tax</b>	<b>2.936</b>	<b>3.189</b>
Tax		
	<u>(19)</u>	<u>(71)</u>

## AGROLIGA GROUP PLC.

Net profit for the period	2.917	3.118
Other comprehensive income	<u>-</u>	<u>-</u>
Total comprehensive income for the period	<u><u>2.917</u></u>	<u><u>3.118</u></u>
Attributable to:		
Equity holders of the parent	2.897	3.109
Non controlling interests	<u>20</u>	<u>9</u>
	<u><u>2.917</u></u>	<u><u>3.118</u></u>

# AGROLIGA GROUP PLC.

## 4.2 Consolidated balance sheet

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION 31 December 2010

	Supplementary information 1/1/10 - 31/12/10	2010
	€'000	€'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	567	567
Biological assets	245	245
Non-current loans receivable	181	181
Deferred tax assets	36	36
	<u>1.029</u>	<u>1.029</u>
<b>Current assets</b>		
Inventories and work in progress	2.069	2.069
Biological assets	172	172
Trade and other receivables	2.095	2.095
Cash at bank and in hand	194	194
	<u>4.530</u>	<u>4.530</u>
<b>Total assets</b>	<u><u>5.559</u></u>	<u><u>5.559</u></u>

# AGROLIGA GROUP PLC.

## EQUITY AND LIABILITIES

### Equity

Share capital	31	31
Share premium	1.046	1.046
Translation reserve	140	(72)
Retained earnings	<u>2.897</u>	<u>3.109</u>
	4.114	4.114

Non controlling interests	<u>63</u>	<u>63</u>
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<b>Total equity</b>	<u>4.177</u>	<u>4.177</u>
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### Non-current liabilities

Deferred tax liabilities	<u>70</u>	<u>70</u>
	<u>70</u>	<u>70</u>

### Current liabilities

Trade and other payables	778	778
Borrowings	516	516
Current tax liabilities	<u>18</u>	<u>18</u>
	<u>1.312</u>	<u>1.312</u>

<b>Total liabilities</b>	<u>1.382</u>	<u>1.382</u>
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<b>Total equity and liabilities</b>	<u>5.559</u>	<u>5.559</u>
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## 4.3 Cash flow statement

### CONSOLIDATED STATEMENT OF CASH FLOWS Period from 23 June 2010 to 31 December 2010

	23/6/10 - 31/12 /10
	T'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
<b>Profit before tax</b>	<b>3.189</b>
Adjustments for:	
Depreciation of property, plant and equipment	33
Exchange difference arising on the translation of non current assets in foreign currencies	(1)
Exchange difference arising on the translation and consolidation of foreign companies' financial statements	(72)
Excess of Group's interest in the net fair value of the subsidiaries' assets and liabilities over cost on acquisition	(2.525)
Impairment charge of property, plant and equipment	106
Interest income	(8)
Interest expense	<u>64</u>
<b>Cash flows from operations before working capital changes</b>	<b>786</b>
Increase in inventories and work in progress	(946)
Increase in trade and other receivables	(609)
Decrease in trade and other payables	(511)

Decrease in biological assets	<u>457</u>
<b>Cash flows used in operations</b>	<b>(823)</b>
Tax paid	<u>(35)</u>
<b>Net cash flows used in operating activities</b>	<b><u>(858)</u></b>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Payment for purchase of property, plant and equipment	<b>(28)</b>
Acquisition of subsidiaries, net cash outflow on acquisition	<b>141</b>
Interest received	<u>8</u>
<b>Net cash flows from investing activities</b>	<b><u>103</u></b>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Proceeds from issue of share capital	<b>1.077</b>
Repayments of borrowings	<b>(64)</b>
Interest paid	<u>(64)</u>
<b>Net cash flows from financing activities</b>	<b><u>949</u></b>
 <b>Net increase in cash and cash equivalents</b>	 <b>194</b>
Cash and cash equivalents:	
At beginning of the period	-
<b>At end of the period</b>	<b><u><u>194</u></u></b>

#### 4.4 Statement of changes in equity

	Attributable to equity holders of the Company						
	Share capital	Share premium	Translation reserve	Retained earnings	Total	Non controlling interests	Total
	Note	€'000	€'000	€'000	€'000	€'000	€'000
<b>Balance at 23 June 2010</b>	-	-	-	-	-	-	-
Net profit for the period	-	-	-	3.109	3.109	9	3.118
Acquisition of subsidiary	-	-	-	-	-	54	54
Issue of share capital	31	1.046	-	-	1.077	-	1.077
Exchange difference arising on the translation and consolidation of foreign companies' financial statements	-	-	(72)	-	(72)	-	(72)
<b>Balance at 31 December 2010</b>	<b>31</b>	<b>1.046</b>	<b>(72)</b>	<b>3.109</b>	<b>4.114</b>	<b>63</b>	<b>4.177</b>

## **5. Guidelines for the annual financial statements**

The consolidated financial report for 2010 year was prepared in accordance with regulations specified by the International Accounting Standards.

## **6. Factors that affect achieved financial results in 2010, and events after the balance sheet date.**

Year 2010 was quite successful period for the Agroliga Group. Market prices for agricultural production were rising all the time, and demand for sunflower oil was high. A financial result of the Group improves accordingly.

Company's financial results in 2010 were influenced by changes in prevailing weather conditions in spring and summer of last year. Summer heat has reduced agricultural harvests. Lower yields and lack of raw material on the market contributed to the increase in prices of agricultural products, which in some way compensated for the loss. However, this did not greatly affect the Company's revenues.

Moreover, due to the need to delay the planned investment on the second line to the refining of oil revenues from this sector of activity were also lower than previously assumed.

After the balance sheet date the Issuer has improved its liquidity through received, in April 2011 the targeted loan to repay all existing obligations of the Company. Currently, the Agroliga's investment plan is implemented according to schedule.

According to the report of the United Nations and the Organization for Economic Cooperation and Development the Ukrainian agro-industrial sector in the next decade will come to the five fastest growing industries in the agri-industrial world. As evaluated of the authors of this report, to the 2019, the agro-industrial sector of Ukraine will increase by 1/3, and its production will increase by 29% - what set Ukrainian agro-industrial sector at the second place (after Brazil) in the global market place of agro-industrial sector. The main growth factors of production agro-industrial in Ukraine

during this period in a report called the rapid pace of urbanization and increased incomes.<sup>1</sup>

## 7. Report on the Group's activities in 2010

The Issuer was established as Public Limited Company in accordance with the Cyprus Company Law, Chapter 113th.

The Issuer was registered in the Register of Companies kept by the Ministry of Commerce, Industry and Tourism of the Republic of Cyprus on the 23 06. 2010 under the number 269325 HE 44U.

Company details:

<b>Company name:</b>	<b>Agroliga Group PLC</b>
<b>Seat:</b>	Nicosia, Cyprus
<b>Address:</b>	2 Romanou Street, Tlais Tower, 6th Floor, Office 601, P. O. Box 28153, 2091, 1070 Nicosia, Cyprus
<b>Telephone:</b>	+38 (057) 719-49-84
<b>Fax:</b>	+38 (057) 719-49-84
<b>E-mail:</b>	info@agroliga.com.ua
<b>www:</b>	www.agroliga.com.ua

The issuer is a holding company and as such does not run a business. Business is run by subsidiaries companies taking part in the Capital Group.

<sup>1</sup> [http://www.agromy.pl/index.php?option=com\\_k2&view=item&id=221%3AUkraina-krajem-o-jednej-z-najwi%C4%99kszej-atrakcyjno%C5%9Bci-inwestycyjnej-sektora-rolnego-na-%C5%9Bwiecie&Itemid=306&tmpl=component&print=1](http://www.agromy.pl/index.php?option=com_k2&view=item&id=221%3AUkraina-krajem-o-jednej-z-najwi%C4%99kszej-atrakcyjno%C5%9Bci-inwestycyjnej-sektora-rolnego-na-%C5%9Bwiecie&Itemid=306&tmpl=component&print=1) [status for 28.06.2011]

The Group operates in three production areas:

- oil production;
- cereal production;
- milk production.

Producing oil and milk, the Group reduces the seasonality of generated revenues. Three lines of business run by the Group partly complete mutual production processes. This results in increasing production efficiency and greater processing of individual goods.

The individual production branches benefit from the components supply.

Below there is detailed diagram that presents the movement between different areas of activity.

## 7.1 The Board of Directors and Employees

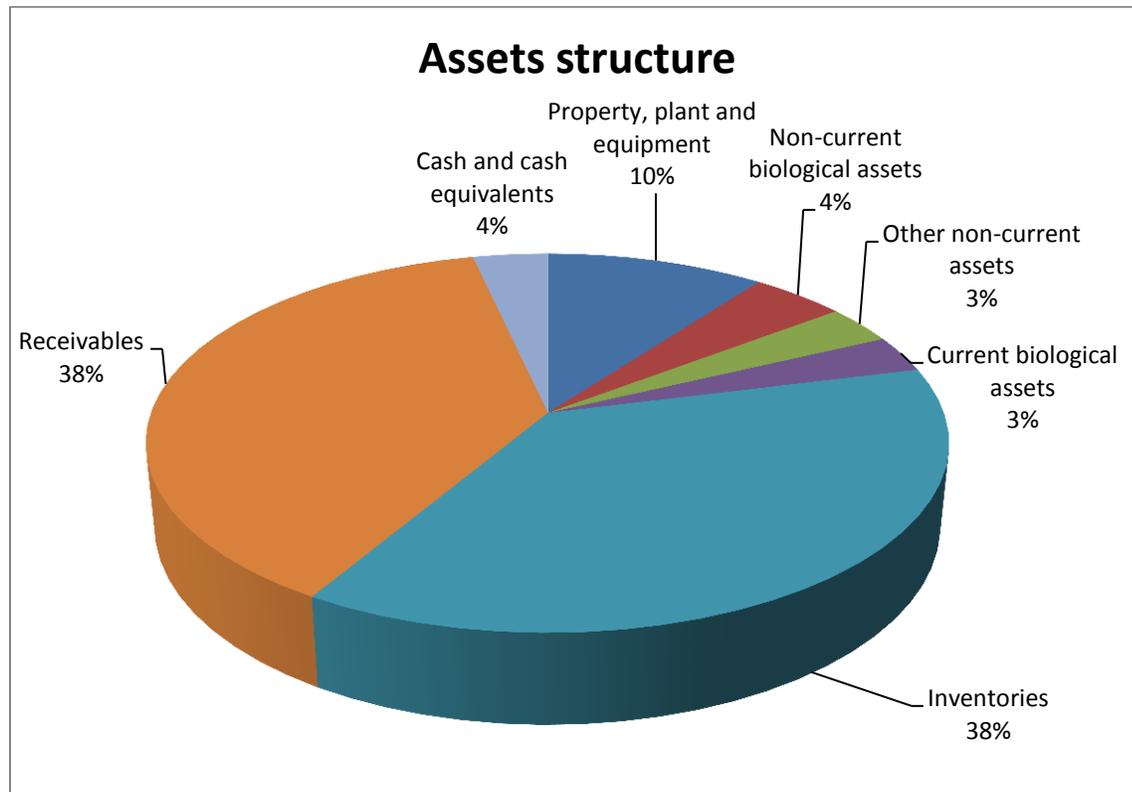
The Board of Directors of Agroliga Group PLC on 31<sup>st</sup> December 2010 consisted of:

First name and surname	Position held	Term	
		From	till
Aleksandr N. Berdnyk	Chairman of the Board of Directors	23 June 2010	First Annual General Meeting
BIZSERVE MANAGEMENT LIMITED	Director	23 June 2010	First Annual General Meeting
BIZSERVE INVESTMENTS LIMITED	Director	23 June 2010	First Annual General Meeting

Aleksandr N. Berdnyk (47) – In 1984 graduated from Institute of Economic and Catering Trade in Kharkov. From 1987 - till 1990 he worked at Kharkov Committee of the CPSU as a deputy director of Economic Department. In 1990 he started a business. He was involved in trade and organization of a garment’s factory . Aleksandr Berdnyk plays a key role as a

Chief Executive of Liga A company and a Chairman of The Board of Directors of Agroliga Group PLC.

## 7.2. Characteristics of the structure of assets and liabilities of the group

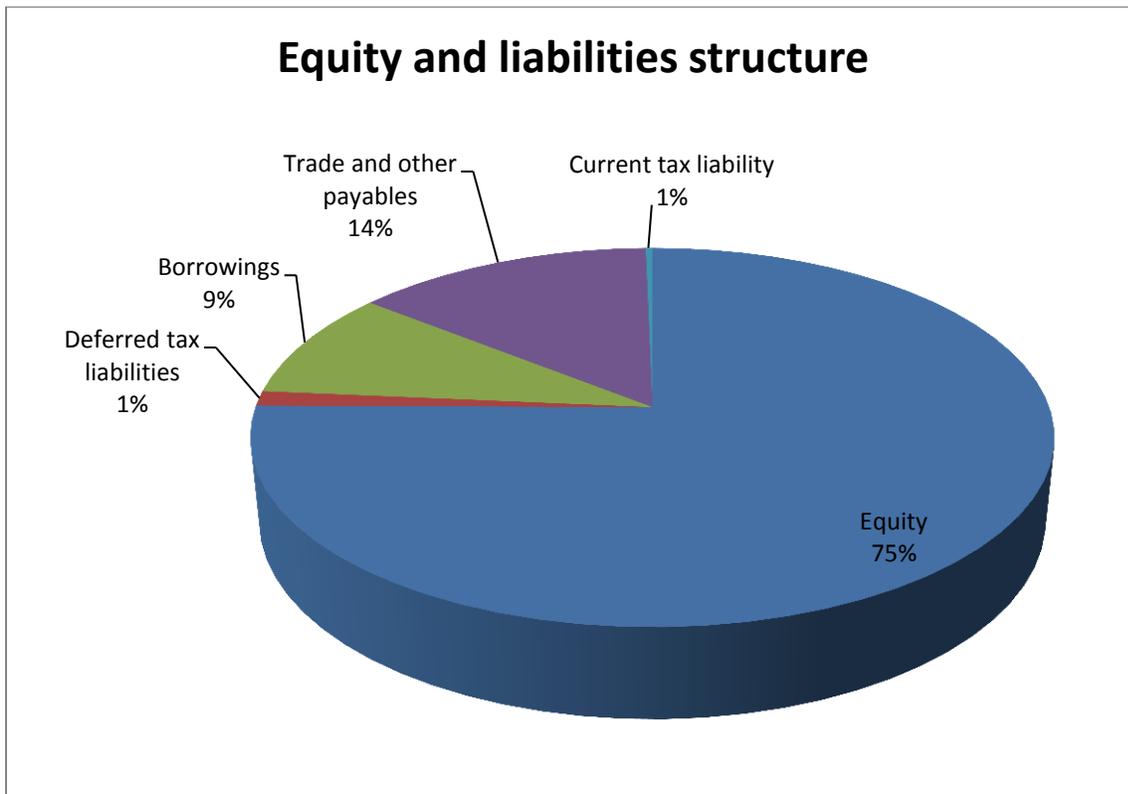


Inventories structure	
Work-in-progress	152
Agricultural products	1 597
Materials of agricultural purpose	56
Spare parts and building materials	34
Fuel	22

Most of inventories are agricultural products – raw materials for our oil refinery and stock of our crops for sale.

About half of the receivables is private placement in progress, as of 31/12/10 shares were issued, but not paid yet. Most of other receivables are short-term, less than year. For other were formed provisions in amount of 15 €'000.

Current biological assets are our winter crops, non-current – our cattle.



As shown at this chart, most our sources is equity.

Trade and other payables are less, than receivables and also mostly short-terms.

Loans and borrowings are about 9% of equity and liabilities and most of it – one-year renewable credit line.

### 7.3 The most important events in 2010

- 1) Group was restructured and become a holding with Cyprus-based mother company. It significantly improves management system, reduce legal risks and make ownership structure clear and transparent.
- 2) Legal due diligence and audit give us a real basis for our activities.
- 3) Oil refinery have been increasing its capacity all the year an give 45% of the Group's revenues.
- 4) At the end of the 2010 was finished successful private placement of 16,67% of the Group's shares for 1 m euro, giving us enough funds for expanding.
- 5) Most significant event after balance date was our entering to the New Connect. Since 11-st of February Agroliga Group is listed at this market.

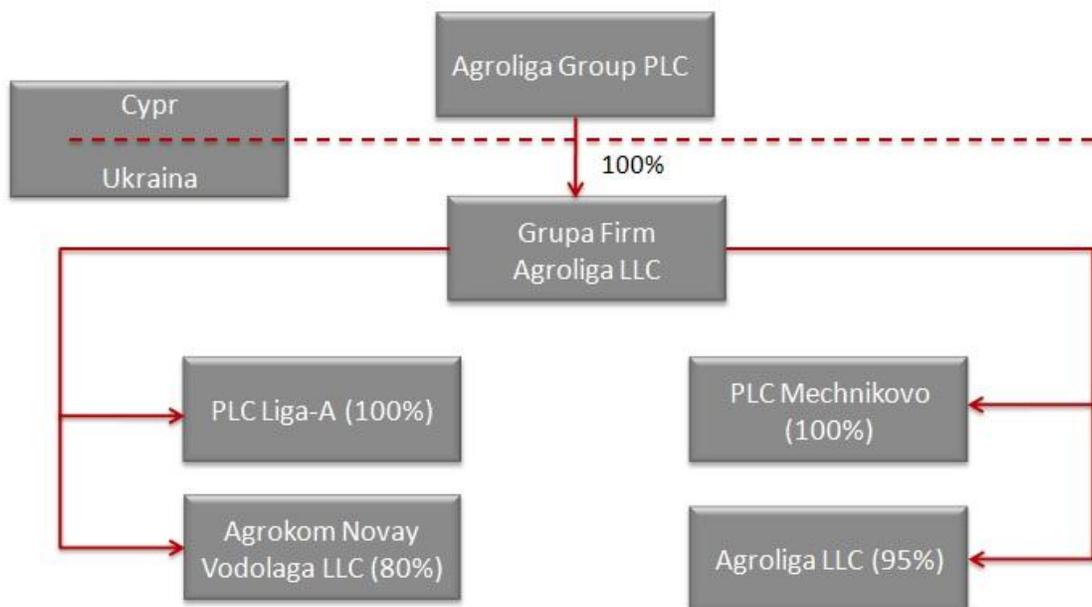
## 7.4. Description of the structure of main equity deposits or main capital investments made within the issuer's group during the financial year;

There were neither significant equity deposits nor capital investments in 2010 year. The group received capital from private placement in February 2011 only.

## 7.5. Description of the organisational changes in the group

During 2010 Group was restructured and become a holding with Cyprus-based mother company for the purposes of management improvement and preparation for the private placement.

The current Group structure is shown at the next chart.



## 7.6 Expected development of the Group

According our strategy, in 2011 there are three main areas of development. At first, we will add a second line to our oil refinery, doubling its power. At second, we are going to expand our milk herd to 200 heads and re-equip our dairy farm. At third, we are expanding our infrastructure, such as oil storages and sunflower warehouses, to match new turnover of production.

## 7.7 Major achievements in research and development

No research and development was made for the reporting year.

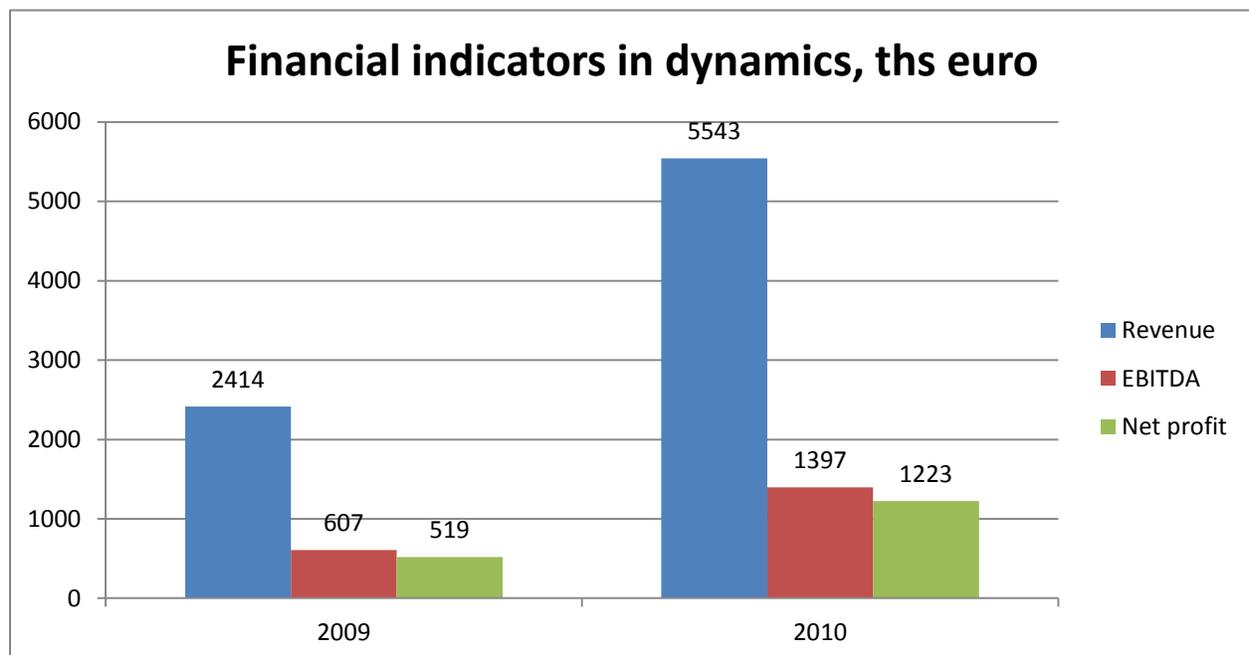
## 7.8 Information on current and expected financial situation of the Issuer

In the 2010 Agroliga Group PLC reached EUR 5,543,000 revenues. Compared to the previous year, it is an increased to about 130% up. Net profit of the Cyprus group in 2010 is calculated as EUR 2,917,000, but 59% of it were formed as goodwill from the consolidation of the group, which occurred 23/06/2010, and cannot be compared with previous financial data.

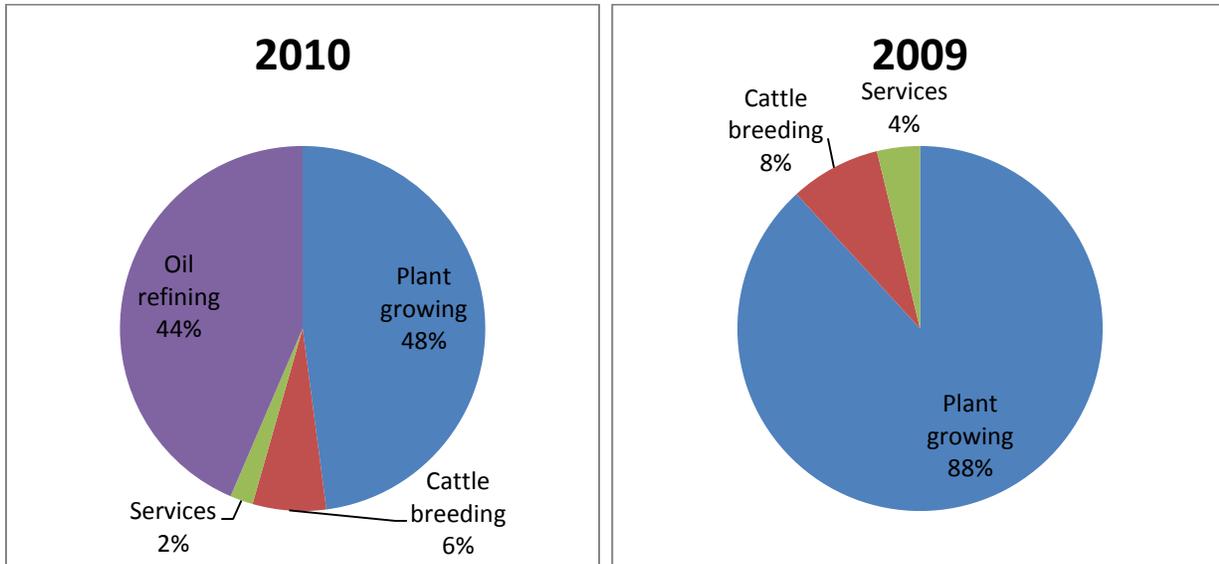
Net profit from the operations in Ukraine is 1,223,000 and 132% up to 2009 year.

The Company realized forecast in the 123,78% of revenue, and 92,23% at the level of net profit.

EBITDA from operations in Ukraine grew by 130% and amounted to 1,397,000 euro compared to 607,000 euro in 2009.



Moreover, in 2010 has been changed revenue structure of the Issuer. Compared with a year earlier, the share of plant breeding has been reduced by 40 percentage points (from 88% to 48%), in return, there were proceeds from oil refining. At the same time has reduced the share of services and cattle breeding. Revenue structure is shown in the chart below.



## 7.9 Purchase of own shares

In 2010, the Company did not purchase its own shares.

## 7.10 The branches office owned by the Issuer

Except our agricultural divisions and oil refinery in Kharkov district, there are no branches offices.

## 7.11 Information on financial instruments and associated risk

- Ukraine's political instability

Ukraine is a developing country of unstable political situation. The political crisis in 2009 between the President Viktor Yanukovich and the Prime Minister Yulia Tymoshenko

resulted in blocking a number of acts and declining the economic situation of the country. The campaign preceding the presidential election strengthened the escalating conflict. As a result of winning the second round of elections was the President of Ukraine, Viktor Yanukovich. On 11 March 2010 the parliament voted to censure Yulia Tymoshenko and thereby the government was dissolved. On the same day the Parliament appointed Mykola Azarov, a member of the Party of Regions, for the new prime minister and approved the new composition of the government. Currently, most government members are representatives of the Party of Regions, a political party from which derives the President Yanukovich, and a few representatives of other political groups.

Any circumstances and changes affecting the stability of the government, may be associated with the reversal from the reforms policy that supports the economic development. It may adversely affect the economic situation in Ukraine.

- The investment risk on the emerging markets

Investments on the emerging markets, that includes Ukraine, are associated with increased political, economic and legal risk in comparison to the developed markets. Moreover, the situation on emerging markets may change at a much greater rate than on developed ones. In addition, any tendency that negatively impacts the price of financial instruments may push the investors to withdraw the capital and move it to a more stable, developed markets. Ongoing financial problems that have lasted since 2008, caused by economic slowdown and increasing risk associated with investing in emerging economies, had a negative input on the economy of Ukraine because of decreasing the inflow of foreign capital.

- Sensitivity of the Ukrainian economy to fluctuations of the global economy

The Ukrainian economy is vulnerable to a slump on the global markets and the negative fluctuations to the global economy. Furthermore, because of the great contribution of Ukraine in the world production and exports system of agricultural products and metals, the economy is vulnerable to fluctuations concerning the prices of these products on the global markets.

Inability to smoothly adjust to changing conditions of the market concerning these products may adversely affect the economic situation in Ukraine as well as the financial results of the Group.

- The legal system of Ukraine

Ukraine has undergone several transformations since gaining the independence in 1991. Currently it has been transformed from a centrally planned economy to a market economy. Economic changes involve a number of other changes to adjust to the new resource management system. Despite the great efforts made by the government, Ukraine has been more exposed to negative consequences of market processes than developed countries.

In 2005, Ukraine enacted the Civil Code, Commercial Code, the Code of Civil Procedure, Administrative Procedure Code, the Law concerning a registration property rights to real estate, private international law act, the act concerning various forms of protections, and the income tax law. Introduced legislations often contradict to each other, and allow too much room for personal interpretations that causes conflicts between laws, regulations, and natural and legal bodies applying the law.

Risk connected with the legal standards in Ukraine comes of the lack of precision in the rules, laws and regulations resulting in freely interpretation. This creates favourable conditions for the developing processes of corruption, money laundering and other abuses.

- The risk of losing the confidence of foreign investors

Corruption and money laundering have been recognized by the International Monetary Fund for a problem that severely plagued Ukraine. According to the current regulations on prevention against introduction the property values to the financial turnover coming from illegal or undisclosed sources, the National Bank of Ukraine, other state bodies and entities involved in their execution, have been obliged to monitor the financial transitions.

The introduction of these regulations in February 2004 allowed to remove Ukraine from the list of refusing to cooperate countries, and in February 2006, investigation concerning money laundering were suspended too. However, there is still a risk that in future there will be evidence of money laundering found and that it may cause losing the confidence of foreign investors. In turn it will reduce the possibility of obtaining foreign capital to finance

business operations and investments. This situation may significantly influence our operating results and financial position of the Group.

- The judicial system in Ukraine

All the resulting legal relations in the country are subjected to the competence of the judiciary. In Ukraine, the exclusive administration of justice have the Constitutional Court and the General Courts. The Constitution guarantees the independence and integrity of judges and forbids them to exert any pressure.

One of the main problems of the Ukrainian justice system is underfunding and the derivative problem is its dependence on other branches connected with power authority, corruption and shortages. In addition, there has been increase in complexity and hierarchy resulting in a slowdown of justice. Despite constitutional guarantees of judicial system, Ukraine is still struggling with the problem of independence and autonomy, and is vulnerable to economic and political influences. In spite of impartiality of the Ukrainian Constitutional Court, the complicated procedures that prevent the efficient and effective removal of contradictions between the constitution and other legal acts have been a main concern. In Ukraine, the precedent does not function as a source of law. It means that in similar situations, the court may issue different rulings. Court decisions are passed to the regulatory authorities but the process is a long-term enforcement of sentences. The control of enforcement of sentences is left to the discretion of the courts.

Generally, above-mentioned factors causes that the Ukrainian law courts is difficult to predict, and the effectiveness regarding asserting the rights, despite the court decision, may not always been prove effectively.

- Ukrainian tax system

Fixed agricultural tax

According to Ukrainian law, agricultural producers can choose between general and specific tax system. In accordance with the law on fixed agricultural tax, a company engaged in the production, processing and sale of agricultural products may apply for registration as a permanent agricultural tax payers (hereinafter "SPR"). SPR is paid in particular to replace the income tax, property tax and local taxes.

According to 2 Article of the Act of fixed agricultural tax, payers of SPR can be private person or legal one that run registered business based on legal laws concerning organizational and legal form. This applies to farms and other agricultural enterprises engaged in animal husbandry, processing and marketing of agricultural production and fish farms engaged in breeding and catching fish in the inner regions of water (lakes, ponds and other water tanks). However, the basic requirement for achieving SPR is the level of revenues from sales of agricultural commodities or their products from own production .It must represent at least 75% of revenues in the total gross revenue, calculated for the preceding accounting period (tax). The object of SPR taxation is an agricultural area. The amount of tax is calculated as a percentage of the value of their own land and leased by the Company.

## VAT

The Ukrainian government allows some agricultural producers to choose a special system for calculating the VAT provided for agriculture, forestry and fish farms. A special system of VAT was introduced in 2005.

To use a special counting system a company should carry out economic activities in agriculture, forestry and inland fisheries, and yet fulfill the requirements for agricultural enterprises at the same time. The company must also have legal status. Regarding the applicability of using the special VAT scheme, "the VAT Act" puts similar requirements to those posed by Law on the SPR. The agricultural enterprises are those ones which sale income of agricultural products from own production or services constitute at least 75% of revenues in the total gross revenue, calculated for the previous annual period (fiscal). A special scheme for calculating the VAT lies in the fact that the sum of VAT from supplied agricultural goods and services is not subject to lead to a budget. It is available to companies that may use it to demand refund the amount of tax (input) to the supplier for the materials delivered by him and other means used for farming. Any surplus can be used for other purposes related to agricultural production. This means that the positive difference between the tax and accrued tax is not, as in the case of ordinary tax payers, paid into the budget, but remains at the disposal of agricultural enterprise and is used for production purposes. Given the above, one can assume that a special system of calculating the VAT, as provided for businesses in the agricultural sector in "Tax Regulatuin" and SPR

have been set up in order to create conducive conditions for agriculture development in Ukraine.

Special VAT system was introduced in 2010 but so far it has not been developed any appropriate model to use it.

Using it in practice depends on tax authorities as well as tax payers in the agricultural sector. VAT applied to those not meeting the above criteria regarding the amount of sale of goods and services is 20%.

In case of changing the regulations enabling companies of paying VAT or SPR, companies belonging to the group of the Issuer will be obliged to pay VAT and SPR according to general rules, as well as other taxes and duties, which may have negative impact on the Group's activities, financial position and financial results.

- Risks associated with the status of tax resident of Cyprus

The Issuer was formed and registered in Cyprus. A company whose management and supervisory bodies can be found in Cyprus, is a resident of Cyprus. The Issuer is subjected to Cypriot law tax regulation and may be qualified for benefits and privileges resulting from Cyprus law, including an agreement on avoidance of double taxation between the Government of the Soviet Socialist Republic Union, whose legal successor is Ukraine and the Government of Cyprus on 29 October 1982. In the case when the majority of the Board of Directors is not tax resident in Cyprus, or the actual management and control are not exercised in Cyprus, there is a risk that the Cypriot tax authorities may cancel the Company's resident status in Cyprus. The other treat is that the treaty for the avoidance of double taxation between Cyprus and Ukraine could be changed. Unfavourable changes in the treaty may significantly influence the tax obligations of the Issuer. It may also negatively affect the costs of his activities and financial results.

- The risk of the dependence the Group's revenue on export policy

The priority tasks of Ukraine Government regarding foreign trade policy concerning agricultural products is to ensure national food security, protect consumers from rising prices, providing material for domestic manufactures. In the past there were export quotas introduced on various production assortments. These steps help Ukraine become a world

leader in agricultural production. In October 2010, the Government of Ukraine decided to use export quotas regarding cereals. Ukraine will reduce total exports of wheat, barley and maize to 3.8 million tonnes to the end of this year. Group has already sold or made agreements regarding the sale of this year harvest, therefore, introduced export quotas and price changes will not affect the Group's financial results.

- Lack of credibility of data and statistics regarding Ukraine.

Official statistics and data published by the Ukrainian authorities may be less reliable and accurate than in developed countries. Verification of official data and statistics has not been carried out, therefore the information in the Information Document may be incomplete. Potential investors should be aware that some statistics was taken from the Ukrainian government sources that had not been prepared specifically for this document.

- Risks associated with the land lease

Group currently leases the land on which run businnes. Leases contract are signed for a specified period and it involves cyclic renegotiating leases condition before extension of the contract. Because of increasing competition in the Ukrainian agro food sector, there is a great interest in buying and renting land on the area rent by Group, which may lead to rising up lease costs and land prices. Group can not ensure that all leases contracts will be renewed on terms beneficial for the group, which may lead to increased costs associated with the leasing of land.

There is also a risk that tenants will not want to extend the lease for Subsidiaries the Issuer's Subsidiaries will not be able to carry out production operations at its current level and will be forced to seek new clients and move crops to other areas. In addition, in accordance with Ukrainian legislation, the sides of lease agreement have full discretion regarding setting the prices. However, where the lease relates to municipal or state land, lease fee can not be less than the property tax for the relevant plot, calculated as a percentage of the value of the property. The Ukrainian authorities verify the value of the land and may unilaterally change the price for the lease of state and municipal land. Any increase of leasing fees above the current expectations of the Group, may have an negative impact on Group's business, operating results and financial condition.

In order to avoid the risk associated with leasing of the land, the Group intends to purchase the land from existing tenants. The Group has pre-emption right regarding the leased the right parcels, as defined in the agreements of the lease. However, due to limitations of the right to land trade, it can not be completed till the moratorium expire date, ie 2012. Until that time, there may be further changes in the laws and regulations relating to land ownership, which may limit Group's ability to obtain full ownership of leased land.

- The risk of dependence revenues of the Issuer on the financial results of subsidiaries  
The issuer is a holding company and as such does not run a business. Business is run by subsidiaries, Agroliga LLC, A Division, Novaya Agrokomb Vologda and Mechnikovo.

The Issuer will earn revenue from the dividend and may pay dividends only so far as it will be paid from subsidiaries or or from the proceeds raised from the sale of assets.

The revenues of the subsidiary come off the quantities of sold products, the price level and the level of operating expenses of the Issuer group. There is a risk that as a result of difficulty in selling goods and products or reduce in the production, subsidiaries will not achieve the financial results of a certain level. Therefore, there is a risk that due to the lower level of revenues generated by the subsidiaries, dividends will not be paid.

- Risk associated with availability of raw materials

Group activity is dependable on the effects of oil production, milk, sunflower and cereals. Group, as an investment, intends to develop activity connected with oil production. To achieve that, Group plans to modernize the oil company, by installing a second production line. Because of this, group will be able to restrict the share of unprocessed agricultural products. Group intends to increase the share of finished oil in sales to 80-85%, while the milk to about 10%. Receiving the raw materials on time does not depend on the Group, however, due to the large number of providers, the risk associated with a lack of production connected with shortages of raw material, is significantly reduced. But we can not exclude that in the future as a result of unforeseen events such as natural disasters, the amount of available material could be limited, which may reduce the production efficiency and limit the Group's revenue.

- The risk of changes in market prices

The sales prices of products manufactured by the Group are variable, and their level is determined by market conditions. Among the main factors affecting the prices level is the availability of commodity on the market, weather, biological factors, yields and government regulations. In case of changing any of the factors there is a risk of decreasing in revenue or increasing the operating costs, which can directly result achieved Group's activities

- The risk of occurrence of extraordinary events

Groups is subjected to the risk of extraordinary events, in particular the theft or loss property. In order to reduce the risk of extraordinary events and their consequences, the Group insured the buildings, vehicles and machinery and equipment. The risk can not be excluded that in the case of fortuitous event, despite the insurance, group will not be able to resume operations immediately after the occurrence of an event and it could have a negative impact on business.

- Risks associated with the machine park

Technology used in crop and animal production is constantly changing. It requires the using the latest and most effective ways of production. Development of new technologies can play a key role in the competitiveness of the Group and its financial performance, and hence the value of the Issuer to investors. Lack of access to new technologies may significantly affect the Group's operations and reduce its competitiveness. There is a risk that despite the great emphasis on ensuring good conditions of machinery, equipment, buildings and building, a fault may occur, and the repair will be long or too costly. And it might result in limiting use of it or completely excluding the machine from service. This may cause a reduction in production. In order to secure continuity of machinery, equipment and buildings, the Group has set up a workshop where skilled workers are engaged in maintenance and reparation of machines. Additionally, procedure of conducting periodic reviews was introduced as well as the procedure in case of disturbances or failures in the operation of machinery and equipment. Additionally, the Group signed a contract to insure the machines.

- Risks associated with suppliers

The Group's activity depends on the supply of agricultural products, machinery, seeds, fertilizers and other products required to conduct business. Supplier selection criteria, in addition to price and quality, are also time and delivery, payment terms, additional services offered services, relevant certificates and compliance with the production ecology requirements. Supplier agreements are signed every year taking into consideration the prices and the situation on the agricultural market in Ukraine and in the world. If the Group will not be able to obtain sufficient quantities of products or equipment from the suppliers offered on agreed price, or if the supplier fails to comply with the terms of the agreement, it may affect the financial results of the Group. There is a risk that the Group may have difficulty with the signing the agreements foregarding purchasing the necessary quantities of raw materials. However, the risk is limited due to long-term cooperation with suppliers and customers.

- Risks associated with recipients

In terms of milk production, the main Group's customer is Achtyrskij Cheese Manufactory which buys almost 80% of the total milk production. The remaining 20% is bought by six independent customers. Currently, demand for milk far exceeds supply, and existing customers are interested in purchasing greater quantities of milk than are delivered. In this context, there is a possibility of rapid change of recipients, which greatly reduces the dependence on the main buyer of milk, which is Achtyrskij Cheese Manufactory.

If there is a change in the current market conditions, it may be a risk that after ending or limiting the cooperation with Achtyrskij Cheese, the Group will not be able to find a new customer in a short time on terms as much favourable as the previous ones and it could impact negatively revenues of the Group. Income reduction could result in decreasing profit targets, that in turn could negatively affect the possibility of achieving the strategic objectives of the Group.

This risk is minimized by taking long-term cooperation, maintaining good relationships with existing customers and providing high quality products to customers.

It should be also noted, that in the case of other activities, there is a wide diversity of customers and there is no risk of dependence. Additionally, the Group has carried the sales

of pre-payment conditions which reduces the risks associated with the sale. The Issuer has put a strong emphasis on minimizing the costs of his activities as well as subsidiaries companies which results in lower prices and greater competitiveness.

- Risks associated with key staff

High performance of the Group and its development depends on management effectiveness and other key employees. If he loses the main key people, the Issuer could be left without experienced staff with knowledge regarding operational activity. At the same time, due to the uncertain economic situation worldwide and in Ukraine, the demand for skilled workers is very high. Because of the risk connected with inflation there might be financial difficulties regarding paying wages to key employees in accordance with their requirements and to keep them in the Group. It is impossible to ensure that there will not be any loss of employee of considerable importance for the Group. It could have negative consequences on the business activities, implementation strategy and consequently the financial position and financial results.

In order to reduce the risk of key employees leaving, the Group identified the key employees and implemented an incentive program that has been still developed and adjusted to market conditions. The program consists of two factor groups: material and immaterial. In particular, the Group introduced a competitive salary with bonus system for good performance at work and benefits package.

- The risk of transporting raw materials and finished products

Risks associated with transportation of goods is limited, because Group had applied sale on Ex Works terms, that makes the number of its own means of transport less meaningful for operational activities. Procurement of raw material (sunflower seeds) for plant producing sunflower oil is used on DDP (Delivered Duty Paid) terms. Thanks to that, all costs and risks associated with the supply of raw material is charged to the vendor. There is no necessity to make regular journeys between distant production places. And for irregular operations, the Group has own sufficient transport fleets and leased one (14 units including two tanks for the transportation of milk). Because of steps taken by the Group, the risk associated with transport has been minimized.

- The risk of severe weather conditions

Weather conditions affect agriculture much more than any other part of the economy. Occurrence of any of the following weather conditions such as floods, droughts, prolonged cold weather or hurricanes, may negatively affect harvest on this area. In particular this may cause a declining in the quality of crops and reduce the crops obtained by the Group and by other companies in this sector, which results in less availability of raw material on the market, and consequently higher prices. Therefore, there is a risk that the lack of the possibility of obtaining the raw material in quantity and quality meeting the production requirements could limit the production. The Group might not be able to implement its production plan and consequently it may directly result in a reduction of income and profitability of the Group.

- Risks associated with animal husbandry

In 2009, nearly 10% of Group revenues comes from animal husbandry and milk production. Livestock are vulnerable to viral infections, metabolic diseases, inflammation udder, foot lameness, deficiency of vitamins and minerals. These diseases may limit or restrict the quantity of milk production. The Issuer has taken any action to meet the highest standards of husbandry sanitary facilities that minimizes the risk of spreading the infectious diseases among the culture. Additionally the routine vaccinations and health checks of animals have often been made as well as isolation of sick individuals. The use of proper diet prevents from deficiencies and metabolic diseases, but also increases the resistance of animals to viral disease and bacterial infections.

- Risks associated with crop

Diseases of crops and pests can cause substantial losses to yields, and thus worsen the economic results. The Group has minimized the risk of crop losses due to using appropriate mechanisms for cultivation and their storage. The Group employs experienced workers, who have gained the knowledge of the symptoms that cause the crop diseases. They have also the ability of choosing the right formulation to decrease the threat or minimize the effects of diseases or pests. Additionally, the Group meets required standards regarding

storage conditions and transportation of products, which reduces the occurrence of losses at this point.

- The risk of changes in interest rates

Currently the Group does not bear a high risk of financing investments associated with increased rates, because its debts has been maintained at a low level. In the near future, the Group is going to increase the credit liabilities. But we can not exclude that as a result of increased demand for capital, the Group might increase the financial commitment in financial institutions regarding loans or advances or make use of credit or granted credit line. Because of current economic situation in Ukraine, the risk may appear that in the absence of the availability of credit at low interest rates, the Group will be forced to use high percentage credits or loans. The increase in credit costs and operating credit obligations may adversely affect the Group's operations, and thus the financial result.

- Risks associated with competition

Expanding of the market and steady demand for agricultural products in the world has caused increasing interest in investing in the development of existing entities, as well as the setting of new businesses involved in agricultural production. Group competes with other agricultural enterprises in Ukraine, to a less extent with the foreign importers of raw materials and products for the Ukrainian market and foreign entities caring out activities in Ukraine. The main competitive factors in agriculture is the price and quality.

Increased competition on the Ukrainian market may lead to reduction on prices, or decreased production. Change in price or volume of production may have an adverse impact on operating results and financial position of the Group. The Group is not going to participate in the competition by reducing prices below the levels of profitability. Group strategy focuses on building more stable market position and providing high quality products.

### **7.11 Adopted aims and methods of financial risk management, including methods of securing the essential types of planned transactions for which hedge accounting is applied.**

In the past financial year the Company did not include contracts for financial instruments, not taken out loans in foreign currency. That it was not applied hedge accounting.

### **7.12 Application of corporate governance in the case of entities whose securities are introduced to trading on a regulated market of the European Economic Area**

The securities of Agroliga Group PLC have not been introduced to trading on any regulated market of the European Economic Area in connection with the above, the Issuer is not obliged to apply the principles of corporate governance of these companies.

## **8. Financial forecasts and the opinion of the Board of Directors about presented financial results.**

In the Information Document dated January 24<sup>th</sup>, 2011, the Issuer presented the following financial forecasts for 2010:

- sales revenue: EUR 4, 478, 000
- net profit: EUR 1, 326, 000

At the end of 2010, the Issuer has reached 5,543,000 EURO of sales revenue and 2,917,000 EURO of net profit (1,223,000 EURO of net profit in Ukraine) This means that the Company realized forecast in the 123,78% of revenue, and 92,23% at the level of net profit.

## **9. Shareholding structure**

Shareholder	Number of shares	Number of votes	Share in share capital and votes on the General Meeting
Iryna Poplavska	128.135	128.135	41, 66%
Oleksandr Berdnyk	128.135	128.135	41, 66%
Others	51.290	51.290	16, 68%
<b>Total</b>	<b>307.560</b>	<b>307.560</b>	<b>100, 00%</b>

## 10. Dividend Policy

In accordance with the Company Law Cap. 113, the competent authority that adopts a resolution concerning the distribution of profit (or loss refund) and dividend payment is the General Meeting. The General Meeting, sets the amount of dividend, a day of setting the rights for dividend and a day of the dividend payment date in the Resolution concerning a distribution of profit for the last financial year .

The Issuer's The Board of Directors will recommend not to pay dividends to shareholders for the next 4 years. Profits will be reinvested in order to optimise the development of the Company. For the coming years, final decision regarding dividends payment will depend on the investment requirements of the Group and its demand for funds.

The Issuer long-term goal is to provide shareholders with return on investments, which is at least equal to the return on alternative investments of similar risk profile. This return should consist of a cash payment in dividends and increased value of Company Shares.

## **11. Information on application of the Corporate Governance rules,**

The Issuer published the declaration regarding application of the " Best Practices of NewConnect Listed Companies" in EBI report No 4 / 2011 on 22 February 2011.

According to the declaration of the Issuer, following practices aren't applied:

### **Rule 9**

In the annual report the issuer should publish:

- information about the total amount of remuneration of all members of the Board of Directors

Issuer will not apply this rule. In the opinion of the Issuer, total amount of remuneration for all members of the Board of Directors isn't relevant information for investors and doesn't affect their investment decisions.

- information about the remuneration paid by the issuer to the Authorized Advisor in respect of all services provided to the issuer.

Issuer will not apply this rule. The remuneration is regulated by an Agreement with Authorized Adviser and is confidential information. The issuer cannot publish such data without Authorized Adviser permission.

### **Rule 11**

An issuer in co- operation with the Authorized Adviser should organize meetings with investors, analysts and the media open to the public at least 2 times per year.

Issuer will not apply this rule. Due to the fact that those meeting are not popular among shareholders, and costs of preparation are relatively high, the Issuer does not intend to apply this practices.

### **Rule 16**

An issuer should publish monthly reports within 14 days after the end of each month.

Monthly reports should include at least the following:

- environment which, in the opinion of the issuer, could in future have significant effects to the financial standing and the financial results of the issuer;
- list of all information published by the issuer in the form of current reports in the reporting period;
- information about achievement of the goals of an issue if they were achieved at least partly in the reporting period;
- dates important to investors including events planned in the coming month concerning the issuer and important from the perspective of investor rights, including in particular dates of publication of periodic reports, planned General Meetings, opening of subscriptions, meetings with investors or analysts and expected dates of publication of analytical reports.

The Issuer believes that the proper performance of information obligations (publication of information on the websites of the Company and NewConnect) is sufficient and is not necessary to provide monthly reports.

## **Attachments: Opinion and auditor's report**