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This document and the contents thereof are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person. Recipients of this document who intend to subscribe for and/or purchase GDRs in the Offering are reminded that any such subscription or purchase may only be made on the basis of the information contained in the Prospectus in its final form and any supplementary prospectus.

No representation or warranty, expressed or implied, is made or given by or on behalf of TD Investments Limited, NCB Stockbrokers Limited or any of their respective parent or subsidiary undertakings or the subsidiary undertakings of any such parent undertakings, or any of such person's directors, officers or employees, or any other person, as to the accuracy, completeness or fairness of the information or opinions contained in this document and they accept no responsibility or liability for any such information or opinions.

This document and the Offering are only addressed to and directed at persons in member states of the European Economic Area who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC) ("**Qualified Investors**"). In addition, in the United Kingdom, this document is being distributed only to and is directed only at Qualified Investors (a) who are persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**") or (b) who are high net worth entities falling within Article 49 of the Order, and (c) other persons to whom it may otherwise lawfully be communicated (all such persons together referred to as "**relevant persons**"). Any investment or investment activity to which this document relates is available only to (i) in the United Kingdom, relevant persons, and (ii) in any member state of the European Economic Area other than the United Kingdom, Qualified Investors, and will be engaged in only with such persons and subject to all local laws and regulations in such member state.

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TD Investments Limited and NCB Stockbrokers Limited are acting exclusively for the Company and no one else in connection with the Offering and will not regard any other person (whether or not a recipient of this document) as a client in relation to the Offering and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients or for providing advice in relation to the Offering or any other matter referred to in this document.

Avangardco Investments Public Limited

(incorporated in Cyprus as a public limited company)

Global Offering of 1,250,000 Shares in the form of 12,500,000 Global Depositary Receipts

10 Global Depositary Receipts represent one Share

Offer Price: U.S.$15 per Global Depositary Receipt

This Prospectus relates to an offering by Avangardco Investments Public Limited (the "**Company**" or the "**Issuer**") of 1,250,000 new ordinary shares, with a nominal value of €0.10 per share (the "**Shares**") (the "**Offering**") in the form of global depositary receipts ("**GDRs**"), with ten GDRs representing an interest in one Share of the Company.

The Offering consists of an offering of GDRs outside the United States to certain persons in offshore transactions in reliance on Regulation S ("**Regulation S**") under the US Securities Act of 1933, as amended (the "**Securities Act**"). GDRs are not being made available, in whole or in part, to the public in connection with the Offering.

The Company has granted to Troika Dialog (UK) Limited (the "**Stabilising Manager**") an option (the "**Over-allotment Option**") exercisable within 30 days of the announcement of the offer price to purchase up to 1,875,000 additional GDRs (the "**Additional GDRs**") at the Offer Price referred to above to cover over-allotments, if any, in the Offering and/or to cover short positions relating to stabilisation activities. See "Subscription and Sale".

This document, including the financial information contained herein, comprises a prospectus relating to the Company prepared in accordance with the Prospectus Rules of the United Kingdom Listing Authority (the "**UKLA**") made under section 73A of the Financial Services and Markets Act 2000 (the "**FSMA**"). Application has been made (A) to the UK Financial Services Authority (the "**FSA**") in its capacity as competent authority under the FSMA for a block listing of up to 15,000,000 GDRs, consisting of (i) 12,500,000 GDRs to be issued at the closing of the Offering (the "**Closing Date**"); (ii) up to 1,875,000 Additional GDRs to be issued pursuant to the Over-allotment Option; and (iii) up to 625,000 GDRs to be issued from time to time against the deposit of Shares with The Bank of New York Mellon, as depositary (the "**Depositary**"), to be admitted to the official list of the UKLA (the "**Official List**"); and (B) to the London Stock Exchange plc (the "**London Stock Exchange**") for such GDRs to be admitted to trading under the symbol AVGR on the London Stock Exchange's main regulated market for listed securities (the "**Regulated Market**") and, in particular, on the International Order Book (the "**IOB**"). The Regulated Market is a regulated market for the purposes of Directive 2004/39/EC (the "**Directive on Markets in Financial Instruments**"). Admission to the Official List together with admission to trading on the London Stock Exchange's Main Market constitute admission to official listing on a regulated market ("**Admission**"). Prior to the Closing Date there has not been any public market for the Shares or the GDRs. It is expected that conditional trading through the IOB will commence on a "when issued" basis on or about 30 April 2010, and unconditional trading through the IOB will commence on or about 6 May 2010. To the knowledge of the Company, no securities of the same class of the securities to be offered have previously been admitted to trading on any regulated or equivalent markets. **All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned. No application is currently intended to be made for the GDRs to be admitted to listing or dealt with on any other exchange. The Shares have not been, and are not expected to be, listed on any stock exchange.**

The GDRs offered hereby have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws.

The GDRs are of a specialist nature and should normally only be bought and traded by investors who are particularly knowledgeable in investment matters. See "Risk Factors" beginning on page 9 for a discussion of certain matters that prospective investors should consider prior to making an investment decision.

The GDRs offered hereby are offered by the managers referred to in "Subscription and Sale" (the "**Managers**") or through its selling agents, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. The GDRs will be evidenced by a Master Global Depositary Receipt (the "**Master GDR**") registered in the name of The Bank of New York Depository (Nominees) Limited, as nominee for The Bank of New York Mellon**,** London Branch, as common depositary (the "**Depositary**") for Euroclear Bank N.V./S.A. as operator of the Euroclear system ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"). Except as described herein, beneficial interests in the Master GDR will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their direct and indirect participants. It is expected that delivery of the GDRs will be made on or about 6 May 2010, through Euroclear and Clearstream, Luxembourg.

Global Co-ordinator, Lead Manager and Bookrunner

Troika Dialog

Co-Lead Manager

NCB Stockbrokers Limited

The date of this Prospectus is 30 April 2010The Company accepts responsibility for the information contained in this Prospectus. To the best of the Company's knowledge and belief (having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The contents of the Company's websites do not form any part of this Prospectus.

TD Investments Limited and NCB Stockbrokers Limited are acting exclusively for the Company and no one else in connection with the Offering and will not regard any other person (whether or not a recipient of this document) as a client in relation to the Offering and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients or for providing advice in relation to the Offering or any other matter referred to in this document.

In making an investment decision regarding the GDRs offered hereby, prospective investors must rely on their own examination of the Company and the terms of the Offering, including the merits and risks involved. No person is authorised to give any information or to make any representation in connection with the Offering other than as contained in this Prospectus, and, if given or made, such information or representation must not be relied upon as having been authorised by the Company, the Depositary or the Managers. This Prospectus is being furnished by the Company solely for the purpose of enabling a prospective investor to consider the purchase of the GDRs.

Prospective investors should not consider any information in this Prospectus to be investment, legal or tax advice and should consult their own counsel, accountants and other advisors for legal, tax, business, financial and related advice regarding purchasing the GDRs. The Company is not, and the Managers are not, making any representation to any offeree or purchaser of the GDRs regarding the legality of an investment in the GDRs by such offeree or purchaser under appropriate investment or similar laws.

No representation or warranty, express or implied, is made by the Managers or any of their affiliates or advisors as to the accuracy or completeness of any information contained in this Prospectus, and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by the Managers as to the past or the future. Any reproduction or distribution of this Prospectus, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the GDRs is prohibited, except to the extent that such information is otherwise publicly available.

Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof or that the information contained herein is correct at any time subsequent to such date. Each prospective investor, by accepting delivery of this Prospectus, agrees to the foregoing.

This Prospectus does not constitute an offer to sell, or a solicitation by or on behalf of the Company, the Depositary or the Managers to any person to subscribe for or purchase any of the GDRs in any jurisdiction where it is unlawful for such person to make such an offer or solicitation. The distribution of this Prospectus and the offering or sale of the GDRs in certain jurisdictions is restricted by law. Persons into whose possession this Prospectus may come are required by the Company and the Managers to inform themselves about and to observe such restrictions. No action has been taken by the Company or the Managers that would permit, otherwise than under the Offering, an offer of the GDRs, or possession or distribution of this Prospectus or any other offering material or application form relating to the GDRs in any jurisdiction where action for that purpose is required. This Prospectus may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is not authorised or is unlawful. Further information with regard to restrictions on offers and sales of the GDRs is set forth under "Selling and Transfer Restrictions" and "Terms and Conditions of the Global Depositary Receipts".

In connection with the Offering, TD Investments Limited, NCB Stockbrokers Limited and any of their respective affiliates acting as an investor for its or their own accounts may subscribe for and/or acquire GDRs and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own accounts in the GDRs, any other securities of the Company or other related investments in connection with the Offering or otherwise. Accordingly, references in this Prospectus to the GDRs being offered, subscribed, acquired or otherwise dealt with should be read as including any offer to, or subscription, acquisition or dealing by, TD Investments Limited, NCB Stockbrokers Limited and any of their respective affiliates acting as an investor for its or their own accounts. TD

Investments Limited and NCB Stockbrokers Limited do not intend to disclose the extent of any such investment or transaction otherwise than in accordance with any legal or regulatory obligation to do so.

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED WITH, OR APPROVED OR DISAPPROVED BY, THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION ("SEC") OR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT PASSED ON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

STABILISATION

Troika Dialog (UK) Limited, acting as Stabilising Manager, or any of its agents, may, to the extent permitted by applicable laws, regulations and rules of the London Stock Exchange, at its discretion, engage in transactions that stabilise, support, maintain or otherwise affect the price of the GDRs for a period of 30 calendar days from the date of announcement of the offer price. Specifically, the Stabilising Manager or any of its agents may, for a limited period, over-allot in connection with the Offering or effect transactions with a view to supporting the market price of the GDRs at a higher level than that which might otherwise prevail in the open market. However, there is no obligation on the Stabilising Manager or any of its agents to do this and there can be no assurance that any such activities will be undertaken. To the extent permitted by applicable law, such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise. Such stabilising, if commenced, may be discontinued at any time or end after a limited period. Save as required by law or regulation, none of the Stabilising Manager, any of its agents or the Managers intends to disclose the extent of any stabilisation and/or any over-allotment transactions in connection with the Offering.

NOTICE TO UK AND EEA INVESTORS

This Prospectus and the Offering are only addressed to and directed to persons in member states of the European Economic Area ("**EEA**"), who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive ("**Qualified Investors**"). In addition, in the United Kingdom (the "**UK**"), this Prospectus is being distributed only to, and is directed only at Qualified Investors (i) who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the "**Order**") and Qualified Investors falling within Article 49(2)(a) to (d) of the Order, or (ii) to whom it may otherwise lawfully be communicated (all such persons together being referred to as relevant persons). This Prospectus must not be acted on or relied on (i) in the United Kingdom, by persons who are not relevant persons, and (ii) in any member state of the EEA other than in the United Kingdom, by persons who are not Qualified Investors. The GDRs are only available to, and any investment or investment activity to which this Prospectus relates is available only to (i) in the United Kingdom, relevant persons, and (ii) in any member state of the EEA other than the United Kingdom, Qualified Investors, and will be engaged in only with such persons and subject to all local laws and regulations in such member state.

This Prospectus has been prepared on the basis that once it has been approved under the Prospectus Directive all offers of GDRs will be made pursuant to an exemption under the Prospectus Directive as implemented in member states of the EEA, from the requirement to produce a prospectus for offers of GDRs. Accordingly, any person making or intending to make any offer within the EEA of GDRs which are the subject of the Offering should only do so in circumstances in which no obligation arises for the Company or the Managers to produce a prospectus for such offer. The Company and the Managers have not authorised and do not authorise the making of any offer of GDRs through any financial intermediary, other than offers made which constitute the final placement of GDRs contemplated herein.

NOTICE TO INVESTORS IN RUSSIA

Neither the GDRs, nor the Shares or this Prospectus have been, or are intended to be, registered with the Russian Federal Service for Financial Markets (the "**FSFM**") or any other state bodies that may from time to time be responsible for such registration. Neither the GDRs nor the Shares are intended for "placement" or "public circulation" in Russia. Any information concerning the GDRs or the Shares in this Prospectus is intended for, and addressed to, persons outside Russia. Neither the GDRs nor the Shares are being offered, sold or delivered in Russia or to any Russian resident except to certain "qualified investors" as permitted by Russian law. This Prospectus does not constitute an offer or advertisement for the GDRs or the Shares in Russia, and is not an offer, or an invitation to make offers, to sell, purchase, exchange or otherwise transfer the GDRs or the Shares to any persons in Russia.

NOTICE TO UKRAINIAN INVESTORS

Under Ukrainian law, the GDRs are securities of a foreign issuer. The GDRs are not eligible for initial offering and public circulation in Ukraine. Neither the issue of the GDRs nor a securities prospectus in respect of the GDRs has been, or is intended to be, registered with the State Commission on Securities and the Stock Market of Ukraine. The information provided in this document is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer the GDRs in Ukraine.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("**RSA 421-B**") WITH THE STATE OF NEW HAMPSHIRE, NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE, CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT, NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION, MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus includes "forward-looking statements", which include all statements other than statements of historical facts, including, without limitation, any statements preceded by, followed by or that include the words "targets", "believes", "expects", "aims", "intends", "will", "may", "anticipates", "would", "could" or similar expressions or the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond the Company's control that could cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future. Among the important factors that could cause the Company's actual results, performance or achievements to differ materially from those expressed in such forward-looking statements include those in "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Prospectus. These forward-looking statements speak only as at the date of this Prospectus. The Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based.

Targets for increased production are based on the Group's business plan and relate solely to targeted production capacity. Sales levels cannot be extrapolated from the numbers as they will be entirely dependent on demand for the Group's products and prices in addition to any other factors including taxes, competition and costs of production. Production capacity increases are completely dependent upon completion of various construction projects (including the completion of the Avis and Chornobaivske egg production complexes) which the Group has assumed can be made at the times contemplated by the business plan and at the budgeted costs and that no extraordinary events will occur which might delay construction and/or commencement of production.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Company is incorporated under the laws of Cyprus. Certain persons referred to herein are residents of Ukraine and certain entities referred to herein are organised under the laws of Ukraine or Cyprus. All or a substantial portion of the assets of such persons, entities and the Company are located outside the United States and the United Kingdom. As a result, it may not be possible for investors to effect service of process upon such persons in the United States or the United Kingdom or to enforce against them or the Company judgments obtained in United States courts predicated upon the civil liability provisions of U.S. securities laws. In addition it may be difficult to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon U.S. or U.K. Securities Laws.

In Cyprus, recognition or enforcement of judgments that have been given by, and are enforceable by, the courts of a foreign country with which Cyprus has entered into a bilateral treaty or a convention for reciprocal enforcement of judgments may be conditional upon obtaining an enforcement order in Cyprus. Judgments given in an European Union state and enforceable in that state shall be enforceable in Cyprus on application to the Cypriot court for a declaration of enforceability (Council Regulation (EC) No. 44/2001). If there is no such bilateral treaty or convention entered between Cyprus and the foreign country and the latter is not a member state of the EU, the judgment given by the court of the foreign country for a definite sum of money (not being a sum payable in respect of taxes or other charges of a like nature or in respect of a fine or other penalty) may only be enforced in Cyprus by bringing an action in Cyprus with respect to such judgment, provided that it is a final and conclusive judgment.

Judgments rendered by a court in any jurisdiction outside Ukraine will be recognised and/or enforced by courts in Ukraine only if an international treaty providing for the recognition and enforcement of judgments in civil cases that was ratified by the Ukrainian Parliament exists between Ukraine and the relevant country. If there is such a treaty, the Ukrainian courts may nonetheless refuse to recognise and enforce a foreign judgment on the grounds provided in the relevant treaty and in Ukrainian law in effect on the date on which such recognition and/or enforcement is sought. Furthermore, Ukrainian legislation may be changed by way of, amongst other things, adding further grounds allowing refusal of recognition and/or enforcement of foreign judgements in Ukraine. There is no such treaty in effect between Ukraine, on the one hand, and the United States or the United Kingdom on the other.

In the absence of such international treaty providing for the recognition and enforcement of judgments in civil cases, the Ukrainian courts may only recognise and enforce a foreign court judgment on the basis of the principle of reciprocity. Ukrainian legislation provides that unless proven otherwise, reciprocity is deemed to exist in relations between Ukraine and the country where the judgment was rendered. However, Ukrainian legislation does not provide for any clear rules on the application of the principle of reciprocity and there is no official interpretation or court practice of these provisions of Ukrainian legislation. Accordingly, there can be no assurance that the Ukrainian courts will recognise or enforce a judgment rendered by the United States or the United Kingdom courts on the basis of the principle of reciprocity. Furthermore, the Ukrainian courts might refuse to recognise and/or enforce a foreign court judgement on the basis of the principle of reciprocity on the grounds provided in Ukrainian legislation in effect on the date on which such recognition and/or enforcement is/are sought.

The United Kingdom, Cyprus and Ukraine are, however, parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the ''**New York Convention**''). The courts of Cyprus will recognise as valid any arbitral award and enforce any final, conclusive and enforceable arbitral award obtained by arbitration in accordance with the relevant arbitration provisions of any agreement provided any such enforcement is in accordance with the provisions of the New York Convention. Ukraine is a party to the New York Convention with a reservation to the effect that, with regard to arbitral awards made on the territory of the states which are not party to the New York Convention, it will only apply the New York Convention on a reciprocal basis. Consequently, an arbitral award from an arbitral tribunal in the United Kingdom (which is also a party to the New York Convention) should generally be recognised and enforced in Ukraine on the basis of the rules of the New York Convention, subject to qualifications set out therein and compliance with applicable Ukrainian law. The Underwriting Agreement, the Lock-up Deed and the Relationship Agreement (as defined herein) contain provisions allowing for arbitration of disputes, with London, England, designated as the seat of arbitration. Since the United Kingdom is a party to the New York Convention, arbitral awards in relation to those disputes may be enforced in Ukraine and Cyprus, subject to the terms of the New York Convention and compliance with the applicable rules of local law.

Cyprus has concluded a bilateral treaty with Ukraine for reciprocal recognition and enforcement of court judgments which was signed in Kyiv on 6 September 2004 and ratified in Cyprus by the Ratifying Law No. 8(III) of 2005 (the "**Enforcement Treaty**").

The Enforcement Treaty provides that each contracting party shall recognise and enforce in its territory the following decisions (including amicable settlements approved by courts in civil matters) given in the territory of the other contracting party:

(a) decisions of Courts of Justice in civil matters, including family matters; and

(b) decisions of Courts of Justice in criminal matters concerning damages.

The conditions of recognition and enforcement under the Enforcement Treaty, are the following:

(a) a final judgment, enforceable by means of execution under the law of the contracting party in the territory of which it was given;

(b) in the case of a decision given in the absence of the defendant, he was duly notified of the institution of proceedings and the place, date and time of the hearing in accordance with the law of the contracting party in the territory of which the decision was given;

(c) no decision, which became final, was earlier given on the same subject matter between the same parties by a court of the requested contracting party;

(d) proceedings between the same parties on the same subject-matter were not instituted before a court of the requested contracting party before the proceedings in which the decision in question was given;

(e) the recognition or enforcement of the decision would not be contrary to the public order of the requested contracting party;

(f) the decision or its effects would not be contrary to the fundamental principles and any law of the requested contracting party; and

(g) the decision is not given by a court without jurisdiction.

Neither the United States nor Cyprus currently has a bilateral or other treaty with the other providing for the reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. A final and conclusive judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. federal securities laws, would not be automatically recognised or enforceable in Cyprus. In order to obtain a judgment which is enforceable in Cyprus, the party in whose favour a final and conclusive judgment of a U.S. court has been rendered must file, under principles of common law, its claim as a fresh action with a court of competent jurisdiction of Cyprus to be adjudicated. Under current practice, this party may submit to the Cyprus court, under the fresh action, the final judgment rendered by the U.S. court. If and to the extent that the Cypriot court finds the jurisdiction of the U.S. court to have been based on internationally acceptable grounds and that legal procedures comparable with Cypriot concepts of due process have been followed, the Cypriot court will, in principle, grant the same judgment as the judgment of the U.S. court, unless such judgment would contravene Cypriot principles of public order.

Subject to the foregoing and service of process in accordance with applicable treaties, investors may be able to enforce in Cyprus judgments in civil and commercial matters obtained from U.S. federal or state courts. However, no assurance can be given that those judgments will be enforceable. In addition, even if a Cypriot court has jurisdiction, it is uncertain whether such court will impose civil liability in an original action commenced in Cyprus and predicated solely upon U.S. federal securities laws.

Enforcement in Cyprus could be refused if impeachable for fraud on the part of the party in whose favour the judgment is given or fraud on the part of the court pronouncing the judgment or on the ground that its enforcement or, as the case may be, recognition, would be contrary to public policy.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Certain Defined Terms

In this Prospectus:

"**Avangard**" or the "**Group**" means (i) the Company together with its subsidiaries and the other companies consolidated in its consolidated financial information as at and for the years ended 31 December 2007, 2008 and 2009 (together, the "**Consolidated Financial Information**") at the relevant time or (ii) for dates or periods prior to the formation of the Company, the subsidiaries consolidated in its Consolidated Financial Information at the relevant time;

The "**Company**" means Avangardco Investments Public Limited; and

"**Management**" means the Board of Directors of the Company;

"**CJSC Avangard**" means CJSC "Avangard"; "**Avangard-Agro**" means SC "Avangard-Agro" of CJSC "Avangard"; "**Areal-Snigurivka**" means LLC "Areal-Snigurivka"; "**Avis**" means CJSC "Agrofirma Avis"; "**Bohodukhivska**" means LLC "Torgivelniy Budynok Bohodukhivska Ptakhofabryka"; "**Chernivetska**" means CJSC "Chernivetska Ptakhofabryka"; "**Chervonyi Prapor**" means OJSC "Ptakhohospodarstvo Chervonyi Prapor"; "**Chornobaivske**" means APP CJSC "Chornobaivske"; "**Cross**" means LLC "Cross"; "**Donetska**" means ALLC "Donetska Ptakhofabryka"; "**Gorodenkivska**" means SC "Gorodenkivska Ptakhofabryka" of CJSC "Avangard"; "**Imperovo**" means LLC "Imperovo Foods"; "**Interbusiness**" means PSPC "Interbusiness"; "**Kamyanets-Podilsky**" means LLC "Kamyanets-Podilsky Kombikormovyi Zavod"; "**Kirovskyi**" means OJSC "Kirovskyi"; "**LLC Pershe Travnya**" means LLC "Pershe Travnya Kombikormovyi Zavod"; "**Makarivska**" means LLC "Makarivska Ptakhofabryka"; "**Pershe Travnya**" means OJSC "Ptakhofabryka Pershe Travnya"; "**Ptytsecomplex**" means PPB LLC "Ptytsecomplex"; "**Rohatynska**" means SC "Rohatynska Ptakhofabryka" of CJSC "Avangard"; "**Rohatyn-Korm**" means LLC "Rohatyn-Korm"; "**Slovyany**" means LLC "Slovyany"; "**SC Chervonyi Prapor**" means SC "Ptakhofabryka Chervonyi Prapor" of OJSC "Ptakhohospodarstvo Chervonyi Prapor"; "**SC Chornobaivske**" means SC "Ptakhohospodarstvo Chornobaivske" of APP CJSC "Chornobaivske"; "**SC PF Lozuvatska**" means SC Ptakhofabryka "Lozuvatska"; "**SC PH Lozuvatske**" means SC "Ptakhohospodarstvo Lozuvatske"; "**SC PH Donetske**" means SC "Ptakhohospodarstvo Donetske" of ALLC "Donetska Ptakhofabryka"; "**SC Volnovaske**" means SC "Ptakhohospodarstvo "Volnovaske" of LLC PF "Volnovaska"; "**SC Yuzhnaya-Holding**" means SC "Ptakhohospodarstvo Yuzhnaya Holding"; "**Yuzhnaya-Holding**" means ALLC "Yuzhnaya-Holding"; "**SC Zorya**" means SC "Zorya" of LLC "Cross-P/F Zorya"; "**Volnovaska**" means LLC PF "Volnovaska"; "**Volnovaskyi KHP**" means OJSC "Volnovaskyi Kombinat Khliboproduktiv"; "**Vuhlehirskyi**" means OJSC "Vuhlehirskyi Eskperementalnyi Kombikormovyi Zavod"; and "**Zorya**" means LLC "Cross-P/F Zorya".

Furthermore, in this Prospectus, all references to **"U.S."**, "**US**", "**USA**" or "**United States**" are to the United States of America, all references to "**U.K.**", "**UK**" or "**United Kingdom**" are to the United Kingdom of Great Britain and Northern Ireland and all references to the "**EU**" are to the European Union and its member states as of the date of this Prospectus. All references to the "**CIS**" are to the following countries that formerly comprised the Union of Soviet Socialist Republics and that are now members (or a participating non-member, or an unofficial associate member) of the Commonwealth of Independent States: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. All references to a "**ton**" or to measurements calculated in "**tons**" are to the metric ton unit of measurement, which is equal to 1000 kilogrammes.

Presentation of Financial Information

The Consolidated Financial Information of the Company and its subsidiaries included in this Prospectus has been prepared as if the Company and its subsidiaries under common control were a group throughout the period and in accordance with International Financial Reporting Standards, including International Accounting Standards ("**IAS**") and Interpretations issued by the International Accounting Standards Board as adopted by the EU for the purposes of Regulation (EC) No.1606/2002 ("**IFRS**"). The transition date for first time adoption of IFRS is 1 January 2007. Full details of the basis of consolidation are included in the accounting policies on page 81.

This document includes certain non-GAAP measures including EBITDA. EBITDA is a supplemental measure of Avangard's performance and liquidity that is not defined or required by

IFRS and may not be comparable to other similarly titled measures for other companies. For the purposes of this prospectus, "**EBITDA**" means net profit before finance costs, income taxes, depreciation and amortisation, foreign exchange (gains) losses and other (income) expense. Furthermore, EBITDA should not be considered as an alternative to operating profit, net profit or any other performance measures required to be presented under IFRS or as an alternative to cash flow from operating activities as a measure of Avangard's liquidity.

Management intends to use EBITDA in the future to, among other things, assess Avangard's operating performance and make decisions about allocating resources. In addition, Management believes this measure is frequently used by securities analysts, investors and other interested parties in evaluating similar issuers, most of which present EBITDA when reporting their results.

Market and Industry Data

Avangard operates in an industry in which it is difficult to obtain precise industry and market information. The Company has obtained certain market data used in this Prospectus, including, without limitation, information under the captions "Summary", "Industry Overview" and "Business" from a market research report issued in March 2010 (the "**Pro-Consulting Report**"), prepared by the Financial and Analytical Group "Pro-Consulting" LLC ("**Pro-Consulting**"), an independent market research company, and commissioned by Avangard.

In addition, certain information in this Prospectus, including, without limitation, information under the headings "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Industry Overview" has been derived from publicly available information, including industry publications and official data published by certain government and international agencies, including the State Committee on Statistics of Ukraine ("**SCSU**") and the United Nations Food and Agricultural Organisation ("**FAO**"). The Company has relied on the accuracy of such information without carrying out an independent verification thereof. See "Risk Factors—Risks Relating to Ukraine—Official economic data and third party information".

Where the information has been sourced from a third party, this information has been accurately reproduced and, so far as the Company is aware and is able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Such information, data and statistics may be approximations or estimates or use rounded numbers.

In this Prospectus, all references to "UAH" and "hryvnia" are to the currency of Ukraine, all references to "€", "EUR" and "Euro" are to the currency of the participating member states in the third stage of the Economic and Monetary Union of the Treaty Establishing the European Community, and all references to "U.S.$", "U.S. dollar", "United States dollar", "USD" and "dollar" are to the currency of the United States of America. Solely for the convenience of the reader and except as otherwise stated, the Company has presented in this Prospectus translations of some hryvnia amounts into U.S. dollars at a conversion rate of UAH7.985 to U.S.$1.00, which was the rate published by the National Bank of Ukraine (the "**NBU**") on 31 December 2009. No representation is made that the hryvnia or dollar amounts referred to herein could have been or could be converted into hryvnia or dollars, as the case may be, at these rates, at any other particular rate or at all. See "Exchange Rate Information".

Certain figures included in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

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SUMMARY

This summary must be read as an introduction to this Prospectus and any decision to invest in the GDRs should be based on consideration of this Prospectus as a whole. Following the implementation of the Prospectus Directive in each member state of the EU, no civil liability will attach to responsible persons in any such member state solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court in a member state of the EEA, the plaintiff may, under the national legislation of the member state where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated.

Overview

Avangard is one of the leading agroindustrial companies in Ukraine, focusing on the production of shell eggs and egg products. According to the Pro-Consulting Report, Avangard had a market share of approximately 23% of all shell eggs (39% of all industrially produced shell eggs) and 52% of all dry egg products produced in Ukraine in 2009. Avangard's production facilities are located in 14 of the 24 regions of Ukraine and also in the Autonomous Republic of Crimea.

Avangard's flock of laying hens is the largest in Ukraine. As of 31 December 2009, Avangard's flock consisted of 16,121 thousand birds, as compared to 13,985 thousand and 9,556 thousand as of 31 December 2008 and 31 December 2007, respectively.

The Group's revenues and net profit have increased significantly in recent years. In 2009, Avangard had revenues of U.S.$319,855 thousand and net profit of U.S.$133,669 thousand. This compared to revenues of U.S.$302,292 and net profit of U.S.77,283 in 2008 and revenues of U.S.127,788 and net profit of U.S.$30,234 in 2007. In 2009, shell egg sales accounted for approximately 75.2% and egg products sales accounted for approximately 6.9% of Avangard's revenues. Avangard expects its revenues from the egg products segment to increase as a percentage of its total revenues over the next few years as a result of the acquisition of the Imperovo plant in July 2009. In addition to the sale of shell eggs and egg products, Avangard sells laying flock and breeder flock at the end of their production cycle to third parties on a wholesale basis. In 2009, poultry sales accounted for approximately 11.8% of Avangard's revenues.

In 2009, Avangard's total assets were U.S.$844,376 thousand as compared to assets of U.S.$1,019,966 thousand as at 31 December 2008 and U.S.$683,062 thousand as at 31 December 2007.

Avangard's facilities are amongst the most technologically advanced in Ukraine:

- *Shell egg production facilities.* Avangard operates vertically integrated shell egg production facilities comprising 19 farms for laying hens, which produced approximately 3,634 million shell eggs in 2009 as compared to approximately 2,422 million and 1,769 million in 2008 and 2007, respectively. The farms for laying hens are serviced by 3 breeder farms, 9 farms for growing young laying hens, 6 fodder mills and 3 long-term egg storage facilities. Avangard is in the process of a significant expansion of its facilities through the construction of the Avis and Chornobaivske egg production complexes in the Khmelnytsk and Kherson regions, respectively, which are each expected to have an annual design capacity of 840 million shell eggs when fully operational.
- *Egg processing facilities.* Avangard operates facilities for the production of dry egg products at its Imperovo plant located in the Ivano-Frankivsk region, which has a design processing capacity of 3 million shell eggs per day. Management believes that Imperovo is one of the most technologically advanced egg processing facilities in the CIS. Avangard intends to gradually increase Imperovo's processing capacity to 10 million shell eggs per day.

Avangard's shell eggs are either sold for export or sold on a wholesale basis to domestic wholesale customers who purchase Avangard's shell eggs for subsequent resale, to Torhoviy Dim "Ovoline LTD" ("**Ovoline**"), a retail network, and to supermarket chains and other retailers. In 2009, approximately 11% (U.S.$26,241 thousand) of Avangard's shell eggs were sold for export, approximately 83% (U.S.$200,270 thousand) were sold to domestic wholesale customers, approximately 4% (U.S.$8,596 thousand) were sold to Ovoline and approximately 2% (U.S.$5,479 thousand) were sold to supermarket chains and other retailers. Avangard and Ovoline are related

parties which conduct all transactions on market terms. The two parties have entered into a long-term agreement under which Ovoline will only distribute Avangard's shell eggs.

Avangard's egg products are either sold for export or sold on a wholesale basis domestically. In 2009, approximately 47% (U.S.$10,315 thousand) of Avangard's egg products were sold for export and approximately 53% (U.S.$11,649 thousand) were sold domestically.

Avangard does not itself cultivate grain in any significant quantities and has no plans to do so.

Competitive Strengths

Management believes that Avangard benefits from the following competitive strengths:

- Leading market position in a large and growing market for shell eggs and egg products
- Countrywide coverage and diversified sales structure
- Potential for further export growth
- Vertically integrated operations which reduce costs and enhance quality control
- Modern technology
- High biosecurity standards
- Experienced management team and centrally integrated management system
- Strong financial performance

Strategy

Avangard's overall objective is to maintain and expand its position as one of the leading agroindustrial companies in Ukraine, while strengthening its position as the leading Ukrainian egg-production and egg processing company and exporter of shell eggs and egg products. Key elements of its strategy include:

- Increasing its market share in Ukraine
- Expanding egg production capacity
- Expanding export of shell eggs and egg products
- Continuously focusing on the efficiency of the production process
- Continuing development of Avangard's customer base
- Construction of biogas production facilities
- Strengthening of brands
- Expansion into neighbouring countries

Risk Factors

An investment in GDRs is subject to risks relating to Avangard's business and industry, economic, political and social risks associated with Ukraine and risks arising from the nature of GDRs and the markets on which they are expected to be traded, including the risks associated with the following matters:

- Avangard's business is highly dependent on demand and price levels for shell eggs and egg products in Ukraine
- Competition in the egg production industry
- Any failure in Avangard's attempt to establish a market share in export markets for eggs and egg products
- Any decline in shell eggs and egg products consumption
- Any discontinuation of trade barriers from which Avangard currently benefits
- Fluctuations in prices of feed grains
- Outbreaks of bird flu and other livestock diseases
- Product liability claims and product recalls in connection with contamination of Avangard's products
- Any discontinuation of state subsidies from which Avangard currently benefits
- Changes in the Ukrainian tax system may significantly increase Avangard's tax burden

- Avangard is controlled by a majority shareholder whose interests could conflict with those of holders of GDRs
- Any failure by Avangard to generate or raise sufficient capital
- Certain restrictive covenants under the terms of Avangard's indebtedness
- The failure to transfer ownership of the assets leased by Imperovo to the Group
- The Group could be subject to liabilities if it is determined that past actions violated Ukrainian corporate laws or regulations
- Any failure to successfully manage Avangard's planned growth and diversification
- Avangard may be unable to effectively manage inventories
- Any weaknesses in Avangard's accounting and reporting, accounting personnel and its internal controls in preparation of IFRS financial statements
- Loss of the services of Avangard's qualified personnel
- Compliance with changing regulation of corporate governance and public disclosure may cause additional expenditure
- Any failure in Avangard's attempt to launch biogas plants
- Avangard may be subject to penalties imposed by the Antimonopoly Committee of Ukraine
- Avangard's operations could be limited by antitrust laws
- Any failure to comply with environmental, health, safety, veterinary, sanitary and other laws and regulations could result in significant claims and liabilities
- Any failure to obtain, maintain, renew or comply with the terms of the necessary licences and permits needed in connection with Avangard's business operations
- Any inadequacy of Avangard's insurance coverage
- Any failure of Avangard's intragroup transactions and other related party transactions to comply with Ukrainian transfer pricing regulations
- Currency exchange rate fluctuations
- Loss of lease rights to Avangard's land plots or its inability to renew its lease agreements or obtain full ownership rights to land
- Any significant increase in the payments under Avangard's land lease agreements
- Exposure to operational risks
- The impact of special interest groups
- New legislation on animal rights may affect the current working practices of Avangard
- Risks associated with Cyprus tax residency requirements
- Risks associated with the application or interpretation of the Cypriot tax system or in the double tax treaty between Ukraine and Cyprus
- Avangard's dependence on distributions from its subsidiaries
- General risks associated with emerging markets including Ukraine
- Risks relating to the GDRs and the trading market

Use of Proceeds

The Company intends to use the net proceeds of this offering to finance the expansion and diversification of its egg business primarily through capital expenditures (including the completion of the egg production complexes at Avis and Chornobaivske) and potentially the expansion of the processing capacity at Imperovo.

Recent Trends and Developments

Since the beginning of 2010, the Group has entered into export sales contracts for the sale (via a related party intermediary) of approximately 1.2 billion shell eggs to customers in CIS and the Middle East.

The Offering

The Offering comprises of 12,500,000 GDRs, representing 1,250,000 new Shares to be issued by the Company in accordance with the legislation of Cyprus. The GDRs are being offered outside the United States in reliance on Regulation S or another exception from, or transaction not subject to, registration under the Securities Act.

The Company does not expect to pay dividends during the next four to five years.

SUMMARY CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The summary condensed consolidated financial information for Avangard as of 31 December 2007, 2008 and 2009 and for the years then ended has been derived from the Consolidated Financial Information and the Notes related thereto included elsewhere in this Prospectus.

The summary financial information of Avangard reflects the results of the 2007 Acquisitions, 2008 Acquisitions and 2009 Acquisitions (collectively, the "**Acquisitions**") from the date of each acquisition. As a consequence, the results of the Acquisitions (as separately defined in "Management's Discussion and Analysis of Financial Condition and Results of Operations") have only been included from the date the relevant acquisition took place.

This section should be read together with the Consolidated Financial Information and the Notes related thereto included elsewhere in this Prospectus, as well as together with "Management's Discussion and Analysis of Financial Condition and Results of Operations".

	Year ended 31 December		
	2009	**2008**	**2007**
	(U.S.$'000)	**(U.S.$'000)**	**(U.S.$'000)**
COMPREHENSIVE INCOME STATEMENT DATA:			
Continuing Operations			
Revenue	319,855	302,292	127,788
Net change in fair value of biological assets and agricultural produce	7,695	12,690	6,467
Cost of sales	(220,407)	(232,975)	(114,689)
Gross profit	107,143	82,007	19,566
General administrative expenses	(4,933)	(7,932)	(4,986)
Distribution expenses	(3,086)	(4,429)	(4,005)
Income from Government grants and incentives	9,440	39,068	17,187
Income from special VAT treatment	12,291	—	—
Other operating expenses	(4,970)	(6,940)	(2,655)
Other operating income	1,397	120	255
Waiver of amounts due to related parties	22,525	64	7,798
OPERATING PROFIT	139,807	101,958	33,160
Finance income	41,180	26,897	20,868
Finance costs	(46,150)	(52,986)	(22,540)
Profit before tax	134,837	75,869	31,488
Income tax (expense)/benefit	(1,168)	1,414	(1,254)
Profit for the year	133,669	77,283	30,234
Other comprehensive income – effect of translation into presentational currency	(7,441)	(59,998)	—
Total comprehensive income	126,228	17,285	30,234
Attributable to:			
Owners of the parent	124,517	18,050	24,026
Non-controlling interests	1,711	(765)	6,208
STATEMENT OF FINANCIAL POSITION DATA:			
Non-current assets	414,376	483,039	482,553
Current assets	430,000	536,927	200,509
Total assets	844,376	1,019,966	683,062
Equity attributable to equity holders of the parent	352,472	112,097	74,112
Non-controlling interests	8,083	6,406	17,680
Non-current liabilities	99,253	208,169	200,677
Current liabilities	384,568	693,294	390,593

	Year ended 31 December		
	2009	2008	2007
	(U.S.$'000)	(U.S.$'000)	(U.S.$'000)
CASH FLOW DATA:			
Net cash flows from (used in) operating activities	165,660	98,637	(24,010)
Net cash generated by (used in) investing activities	124,627	(337,918)	(249,029)
Net cash (used in) generated from financing activities	(295,469)	238,751	277,099
Cash at the end of the year	1,701	5,786	4,460
OTHER MEASURES:			
EBITDA(1)	152,092	113,738	38,752
Capital expenditure	31,705	328,164	54,192

Notes:

(1) EBITDA represents operating profit before finance costs, income taxes, depreciation and amortisation, foreign exchange (gains) losses and other (income) expense and is calculated as operating profit after adding back depreciation and amortisation. Management intends to use EBITDA in the future to, among other things, assess Avangard's operating performance and make decisions about allocating resources. Management believes this measure is frequently used by securities analysts, investors and other interested parties in evaluating similar issuers, most of which present EBITDA when reporting their results. EBITDA is a supplemental measure of Avangard's performance and is not defined or required by IFRS and may not be comparable to other similarly titled measures for other companies. EBITDA should not be considered as an alternative to operating profit, net profit or any other performance measures required to be presented under IFRS or as an alternative to cash flow from operating activities as a measure of Avangard's liquidity. Reconciliation of EBITDA to operating profit is as follows:

Continuing operations

	Year ended 31 December		
	2009	2008	2007
	(U.S.$'000)	(U.S.$'000)	(U.S.$'000)
Operating profit	139,807	101,958	33,160
Depreciation(1)	12,285	11,780	5,592
EBITDA	152,092	113,738	38,752

Note:

(1) The Group has no intangible assets and so no amortisation is charged in any of the years under consideration.

THE OFFERING

The Offering	The Offering comprises 12,500,000 GDRs, representing 1,250,000 new Shares (the "**Shares**") to be issued by the Company on the Closing Date in accordance with the Articles of Association of the Company in effect after the Closing Date (the "**Articles**") and the applicable legislation of Cyprus. The GDRs are being offered outside the United States in the form of Regulation S GDRs in reliance on Regulation S or another exemption from, or transaction not subject to, registration under the Securities Act.
Over-allotment Option	The Company has granted the Over-allotment Option to the Stabilising Manager, exercisable within 30 days of the announcement of the offer price, to purchase up to 1,875,000 Additional GDRs to cover over-allotments, if any, in the Offering and/or to cover short positions relating to stabilisation activities.
Offer Price	U.S.$15.
The GDRs	Ten GDRs will represent an interest in one Share. The GDRs will be issued and delivered by the Depositary pursuant to the deposit agreement (the "**Deposit Agreement**") to be dated on or about the Closing Date between the Depositary and the Company. The GDRs will be evidenced by the Master GDR.
Use of Proceeds	The Company will receive the net proceeds of the Offering and the net proceeds of the sale of Additional GDRs. Net proceeds to the Company of the Offering will be approximately U.S.$179.3 million, assuming no exercise of the Over-allotment Option, or approximately U.S.$206.4 million, assuming that the Over-allotment Option is exercised in full. The Company intends to use these net proceeds primarily to finance the expansion and diversification of its egg business through capital expenditures (including the completion of construction of the egg production complexes at Avis and Chornobaivske and potentially the expansion of the processing capacity at Imperovo).
Closing Date	The Closing Date is expected to be on or about 6 May 2010.
Depositary	The Bank of New York Mellon.
Lock-up	Each of the Company and Oleg Bakhmatyuk, the Company's controlling beneficial shareholder, has agreed with the Managers that, during the period beginning with the date of the Lock-up Deed dated 30 April 2010 (the "**Lock-up Deed**") and continuing to, and including the date 180 days after the Closing Date, it/he will not offer, lend, sell, transfer, contract to sell, grant any option right or warrant to purchase or allow any encumbrance to be created over or otherwise dispose of any shares or GDRs, or any interest in any shares or GDRs or enter into any transaction with the same economic effect as any of the foregoing, or which has an effect on the market which is similar to that of a sale (or publicly announce any intention to effect such offer, sale or disposal or to enter any such transaction, without the prior written consent of the Managers).
Control of the Company	The Company has four controlling shareholders, each of which is fully owned by Oleg Bakhmatyuk, the Chairman of the Company's Board of Directors, who is also a direct shareholder of the Company. Following the Offering, the controlling shareholders and Oleg Bakhmatyuk will own approximately 80% of the Company's issued and outstanding share capital (or approximately 77.7% if the Over-allotment Option is exercised in full).

Voting Rights	The Shares are subject to applicable provisions of Cypriot corporate law and the Articles. Holders of Shares, including the Depositary, are generally entitled to one vote per Share at shareholders' meetings of the Company. The Depositary will endeavour to exercise on behalf of holders of GDRs, at any meeting of holders of the Shares of which the Depositary receives timely notice, the voting rights relating to whole numbers of Shares underlying the GDRs in accordance with instructions it receives from holders of GDRs. If no voting instructions are received in respect of any GDR, the Depositary may issue a discretionary proxy to a person designated by the Depositary to exercise the voting rights in respect of the Shares underlying such GDRs.
Dividends	Holders of the Shares, including the Depositary, will be entitled to receive amounts (if any) paid by the Company as dividends on the Shares. The Company does not expect to pay dividends during the next four to five years.
Taxation	For a discussion of certain United Kingdom and Cypriot income tax consequences of purchasing and holding the GDRs, see "Taxation".
Listing and Trading	Application has been made (A) to the UKLA for a block listing of up to 15,000,000 GDRs, consisting of (i) 12,500,000 GDRs to be issued at the Closing Date; (ii) up to 1,875,000 Additional GDRs to be issued pursuant to the Over-allotment Option; and (iii) up to 625,000 GDRs to be issued from time to time against the deposit of Shares with the Depositary, to be admitted to the Official List; and (B) to the London Stock Exchange for such GDRs to be admitted to trading under the symbol AVGR on the Regulated Market and, in particular, on the IOB. Prior to the Closing Date, there has not been any public market for the Shares or the GDRs. It is expected that conditional trading of the GDRs through the IOB will commence on a "when issued" basis on or about 30 April 2010, and unconditional trading through the IOB will commence on or about 6 May 2010, the day after the Closing Date. **All dealings in GDRs prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned. The Shares have not been, and are not expected to be, listed on any stock exchange.**
Payment and Settlement	Application will be made to have the GDRs accepted for clearance through the book-entry settlement systems of Euroclear and Clearstream, Luxembourg. Payment for, and delivery of, the GDRs will be made on the Closing Date through the facilities of Euroclear and Clearstream, Luxembourg. The security identification numbers of the GDRs offered hereby are as follows: GDRs CUSIP Number: 05349V 209 GDRs ISIN: US05349V2097 GDRs Common Code: 050166538 London Stock Exchange trading symbol: AVGR

RISK FACTORS

An investment in the GDRs involves a high degree of risk. Prospective investors in the GDRs should carefully consider the principal and material risks described below and the other information contained in this Prospectus before making a decision to invest in the GDRs. Any of the following risks could adversely affect Avangard's business, financial condition and results of operations, in which case the trading price of the GDRs could decline, resulting in the loss of all or part of an investment in the GDRs.

In addition, the description of the principal or material risks set forth below does not purport to be an exhaustive description of all risks that the Group faces. Additional risks that are not known to the Group at this time, or that it currently believes are immaterial, could also have a material adverse effect on the Group's business, financial condition, results of operations or future prospects and the trading price of the GDRs. The order in which the following risks are presented is not intended to be an indication of the probability of their occurrence or the magnitude of their potential effects.

Risks Relating to Avangard

As Avangard's principal products are shell eggs and egg products, its business and financial results are highly dependent on demand and price levels for shell eggs and egg products in Ukraine

In 2007, 2008 and 2009, respectively, sales of shell eggs and egg products accounted for approximately 69.5%, 75.4% and 82.1% of Avangard's total revenues. Accordingly, any factors influencing the supply of, demand for, or price of, shell eggs and egg products in Ukraine and markets to which Avangard exports its products could have a material impact on Avangard's business, results of operations and financial condition. Such factors may include, among others, increased output of such products by other suppliers in Ukraine, livestock diseases, unfavourable fluctuations in the prices for shell eggs and egg products and changes in consumer preferences, both seasonal and long-term. The level of demand for Avangard's egg products may also be impacted by increased imports of egg products into Ukraine.

Prices for shell eggs and egg products are volatile and it is difficult to forecast them with a high level of accuracy. Avangard's average prices for shell eggs and egg products in 2007, 2008 and 2009 were generally higher than Avangard's expectations. However, if prices for shell eggs and egg products drop below Avangard's expectations, especially for prolonged periods, this would have a material adverse effect on Avangard's business, results of operations and financial condition. At the same time, any increases in prices for shell eggs and egg products may result in an adverse impact on demand and Avangard may not be able to mitigate any adverse effects of such increases in prices.

Any of the foregoing factors could negatively affect the demand and/or the price for shell eggs and egg products, which could in turn have a material adverse effect on Avangard's business, results of operations and financial condition.

Competition in the egg production industry could adversely affect Avangard's business

Avangard faces competition from other industrial producers of shell eggs and egg products. Avangard also faces competition from Ukrainian households that produce, and in some instances sell, shell eggs. Avangard may in the future face increased competition from new domestic and foreign entrants into the Ukrainian egg market. New foreign entrants into the Ukrainian egg production market may have greater financial, technical and other resources, more operating experience, more enhanced vertical integration and/or lower cost structures. In addition, Avangard's competitors may succeed in developing a broader product line which could be superior to Avangard's products. These companies may be more successful in selling and marketing these products. Competition in the egg-production industry may force Avangard to reduce prices for its products or could result in a reduction in Avangard's sales which could have a material adverse effect on Avangard's business, results of operations and financial condition.

Avangard may be unsuccessful in its attempt to increase market share in export markets for its shell eggs and egg products

There is no guarantee that Avangard will be commercially successful in its attempt to break into new export markets for its shell eggs and egg products or that it will be able to achieve a significant market share in such markets or secure reliable sales channels. Furthermore, Ukraine may introduce quotas and/or export tariffs in connection with the sales of shell eggs and egg products outside Ukraine. In addition, other countries may prohibit imports from Ukraine for various reasons, including due to outbreaks of livestock diseases in Ukraine or changes in the political or economic environment, and/or impose import tariffs on Ukrainian shell eggs or egg products.

Avangard is liaising with Ukrainian state authorities in order for it to be able to sell its egg products into the EU. Ukraine is not currently an accredited importer of egg products into the European Union. Avangard's facilities are not currently approved establishments for imports of egg products into the European Union. Although Avangard believes that its production standards are in line with best international practices, Avangard cannot provide any assurance that Ukraine and Avangard's enterprises will be successful in obtaining such accreditation, that such accreditation (if awarded) will not be subsequently recalled or that Avangard will be able to export its egg products into the European Union in the future. If Avangard and Ukraine obtain such accreditation, Avangard cannot provide any assurance that it will not be required to comply with the requirements of the European Council Directive 99/74/EC on the welfare of laying hens or other European industry-related legislation in order to be allowed to export its egg products into the European Union. A requirement to comply with the terms of such directive (including in particular a requirement to use enriched cages) may lead to a significant increase in Avangard's production costs and may, therefore, result in it being unable to compete with other producers in that market.

Any of the foregoing could have a material adverse effect on Avangard's business, results of operations and financial condition.

A decline in shell eggs and egg products consumption or in the consumption of processed food products in total could have a material adverse effect on Avangard's net sales and results of operations

Adverse publicity relating to health concerns and the nutritional value of shell eggs and egg products, contamination of shell eggs and egg products of other egg producers could adversely affect egg consumption and consequently demand for Avangard's shell eggs and processed egg products. Although Avangard believes that such concerns are not currently an issue for Ukrainian consumers, any such decline could have a material adverse effect on Avangard's business, results of operations and financial condition.

Avangard benefits from trade barriers on egg imports into Ukraine, which may be reduced or eliminated

Ukrainian law currently establishes import tariffs of 12% for shell eggs, 5% for hatching eggs, 10% for dry, liquid and frozen yolk egg products and 2% for albumen (dry and other). Due to the higher prices of shell eggs produced in neighbouring countries coupled with relatively high transport costs, Management believes that even if the import tariffs on shell eggs were completely eliminated, this would not significantly increase the import of shell eggs into Ukraine. However, a reduction or elimination of the tariff imposed on processed egg products might lead to a material increase in the amount of such products imported into Ukraine. Ukraine may in the future join customs unions with other countries, which may lead to a material increase of imports from such countries of such products to Ukraine. Such increased competition could raise supply and decrease prices of Avangard's products and have a material adverse effect on Avangard's business, results of operations and financial condition.

Fluctuations in prices of feed grains materially affect Avangard's earnings

A significant portion of the cost of producing shell eggs and egg products is attributable to purchases of feed grains for the production of animal feed. Feed grains such as wheat and corn are the prime ingredients of the animal feed which Avangard primarily uses within the Group. Avangard does not cultivate such commodities itself in significant quantities and has no plans to do so. Although Avangard maintains inventories of feed grains at its fodder mills, Avangard may be unable to adjust the prices at which it sells shell eggs and egg products quickly and extensively enough to offset any increase in feed grain cost. Increases in feed grain costs not accompanied by increases in the sale prices of shell eggs and egg products could have a material adverse effect on Avangard's business, results of operations and financial condition.

The availability of, and the prices for, feed grains are volatile and affected by global weather patterns, crop diseases, the global and local level of supply inventories and demand for feed grains, as well as the agricultural policies of Ukraine and foreign governments and other factors outside Avangard's control. In particular, a sudden and significant change in weather patterns could affect the supply of feed grains, as well as the ability of Avangard and the egg production industry generally to obtain feed grains, grow chickens and produce egg products. Similarly, the general supply/demand relationship globally, as well as actual and perceived changes in this relationship, has a material impact on grain prices.

Any or all of these factors could depress selling prices or increase Avangard's operating costs which could materially affect Avangard's business, results of operations and financial condition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Key Factors Affecting Avangard's Results of Operations—Fluctuations in Prices of Feed Grains".

Outbreaks of livestock diseases could have a material adverse effect on Avangard's business

The productivity and profitability of Avangard's business depends upon the health of the laying hens that produce its eggs and disease control among the population of its laying hens. Outbreaks of livestock diseases could significantly restrict Avangard's ability to conduct its operations. Since 2003, the H5N1 strain of bird flu, which is potentially lethal to humans, has infected poultry flocks and other birds in several countries around the world, including Ukraine. In 2005, 2006 and 2007, several cases of bird flu were reported in wild birds and domestic poultry in the Crimea and Sumy regions of Ukraine. More recently, in the Crimea region of Ukraine, there have been cases of bird flu in domestic birds reported in January 2008 and in wild birds reported in February 2008. Bird flu is highly contagious among birds and can cause sickness or death of some domestic poultry, including chickens, geese, ducks and turkeys. Additionally, in 2006, there were several cases of Newcastle Disease reported at industrial and household chicken farms in the Kharkiv, Chernigiv and Rivne regions of Ukraine. Newcastle Disease is a contagious and fatal viral disease affecting most species of birds. Marek's Disease is a highly contagious viral neoplastic disease in chickens. While no cases of bird flu or Newcastle Disease or Marek's disease have been reported at the farms operated by Ukrainian large-scale industrial poultry producers and the Ukrainian state authorities continue to implement a variety of measures to prevent the further spread of such diseases, there can be no assurance that this will continue to be the case. See "Industry Overview—Recent Developments in the Ukrainian Egg Production Industry".

Although as of the date of this Prospectus, no cases of bird flu, Newcastle Disease or Marek's Disease have been reported within, or in areas in immediate proximity to, Avangard's production facilities, there can be no assurance that this will continue to be the case. Any outbreak of a livestock disease in Ukraine could result in measures such as the following being imposed by Ukrainian governmental authorities:

- restrictions on the movement and/or the sale of its flock or its products by Avangard; and/or
- requirements for Avangard to destroy one or more of its flocks; and/or
- placing Avangard's facilities in quarantine until the threat of disease spreading is eliminated.

Avangard does not maintain insurance to cover the consequences of livestock disease, including those cited above. There is a basis under Ukrainian law for producers to claim government compensation in the case of a compulsory culling of birds. However, applicable Ukrainian law provides the relevant government authorities with the right to refuse a payment of compensation, but it does not specify the grounds on which such refusal could be made. There is no basis for government compensation if measures other than culling are taken.

Irrespective of whether government restrictions are imposed or Avangard is required to destroy one or more of its flocks, any outbreak of disease on the territory of Ukraine or in neighbouring countries could create adverse publicity, which may reduce demand for Avangard's products. Even if there is no outbreak of livestock diseases at Avangard's facilities, negative reactions from potential customers, government authorities, lenders or insurance providers could adversely affect Avangard through a loss of customers, the application of new regulations or livestock culling requirements or the failure to obtain financing. Any of these consequences could have a material adverse effect on Avangard's business, results of operations and financial condition.

Avangard currently sources its breeding flocks from a supplier delivering from Europe. Livestock diseases in EU countries may result in Ukraine banning imports of breeding flocks from affected territories or particular countries prohibiting the export of birds from affected territories. To address the possibility of any such import or export bans, Avangard has discussed with its supplier contingency arrangements for sourcing breeding flocks from the USA, if such need arises. However, there can be no assurance that any such alternative supplies would be readily available to meet Avangard's requirements or at all. Any long-term interruption to supplies of breeding flocks could have a material adverse effect on Avangard's business, results of operations and financial condition.

If Avangard's products become contaminated, it may be subject to product liability claims and product recalls

Avangard's products may be subject to contamination by disease-producing organisms, or pathogens, including listeria monocytogenes, salmonella and generic E.coli. These pathogens are found generally in the environment and there is, therefore, a risk that, as a result of food-processing, they could be present in Avangard's processed products. These pathogens can also be introduced to Avangard's products as a result of improper handling by other food processors, food service providers or consumers. Contamination may also result from tampering by unauthorised third parties, the presence of foreign objects, substances, chemicals and other elements, as well as improperly formulated animal feed purchased from third parties which does not contain a proper mix of ingredients or which does not otherwise have the proper attributes. These risks may be controlled, but may not be eliminated, by adherence to good manufacturing practices and finished product testing. Even if a product is not contaminated when it leaves Avangard's facilities, it may become contaminated as a result of the actions of future handlers. Although Avangard's wholesale customers generally test Avangard's products on collection, subsequent contamination may result in Avangard being required to satisfy the claims of affected consumers. Shipping contaminated products (whether or not advertently) is a violation of Ukrainian law and may lead to an increased risk of exposure to product liability claims, product recalls (which may not entirely mitigate the risk of product liability claims), adverse publicity, fines and increased scrutiny by governmental regulatory agencies. Any of the above could have a material adverse effect on Avangard's reputation, including the demand for Avangard's products, and, therefore, on Avangard's business, results of operations and financial condition.

Shell eggs and egg products that Avangard sells are integrated into products sold by third parties and such third parties may not have adequate quality control standards to assure that such products are not adulterated, contaminated or otherwise defective. Avangard may be subject to claims made by consumers as a result of products manufactured by these third parties.

State subsidies from which Avangard currently benefits could be discontinued

The Ukrainian government provides various types of financial support to agricultural producers.

Amongst other government grants provided by the Ukrainian government to agricultural producers, Ukrainian egg producers receive partial compensation for finance costs under loans from Ukrainian banks based on a special programme adopted by the government of Ukraine for 2009-2013. Each year the government adopts annual plans further detailing the types of loans which qualify for such compensation and the terms and conditions of such compensation. The aggregate amount of this benefit is determined by the annual state budget of Ukraine. Avangard has been receiving this type of state financial support since 2003, and the value of such financial support received by Avangard in 2009 amounted to U.S.$6,261 thousand or approximately 4.7% of Avangard's net profit for 2009. The total value of government grants received by Avangard in 2009 constituted U.S.$9,440 thousand or approximately 7.1% of Avangard's net profit for 2009. Such compensation is allocated to agricultural producers by local state authorities on a competitive basis. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Avangard's Results of Operations—State Support for Agricultural Production in Ukraine—State Subsidies". Any failure by the Ukrainian Parliament to approve state subsidies for Ukrainian agricultural producers in the future, a decrease in the level of state subsidies or failure by Avangard to win tenders organised by local state authorities for such compensation could have a material adverse effect on Avangard's business, results of operations and financial condition.

Changes in the Ukrainian tax system may significantly increase Avangard's tax burden

Agricultural producers in Ukraine, including Avangard, are allowed to retain the difference between the value added tax ("**VAT**") that they charge on their agricultural products (currently at the rate of 20%) and the VAT that they pay on items purchased for their operations, rather than remitting such amounts to the state budget. This VAT benefit was received by Avangard during 2007, 2008 and 2009 and continues to be available to Avangard. The value of this benefit to Avangard in 2009 amounted to U.S.$12,291 thousand or approximately 9.2% of Avangard's net profit for 2009.

As long as Avangard is entitled to retain VAT from the sales of its agricultural products, any reduction of the VAT output rate will result in a decrease of the amounts of output VAT received and retained by Avangard. In addition, any decrease in the difference between the amount of VAT charged on Avangard's agricultural products and the amount of VAT paid by Avangard on items purchased for its operations in a particular period would reduce the amount of the VAT retention benefit received by Avangard in such period. Any of the foregoing changes in respect of the VAT retention benefit could have a material adverse effect on Avangard's business, results of operations and financial condition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Avangard's Results of Operations—State Support for Agricultural Production in Ukraine—State Subsidies".

Under Ukrainian law, producers of agricultural products are permitted to choose between general and special regimes of taxation with respect to certain taxes. In particular, in accordance with the Law of Ukraine "On the Fixed Agricultural Tax" (the "**Law on Fixed Agricultural Tax**"), dated 17 December 1998, agricultural companies engaged in the production, processing and sale of agricultural products may choose to be registered as payers of fixed agricultural tax ("**FAT**"), provided that sales of agricultural goods representing their own production account for more than 75% of their gross revenue. FAT is paid in lieu of corporate income tax, land tax, duties for special use of water objects, municipal tax, duties for geological survey works and duties for trade patents. The amount of FAT payable is calculated as a percentage of the deemed value of all land plots (determined as of 1 July 1995) leased or owned by a taxpayer. In accordance with the Law on Fixed Agricultural Tax, the Group elected when possible to pay FAT in lieu of other taxes in 2003, and currently all the Group's subsidiaries (other than Rohatyn-Korm, Vyhlehirskyi, Volnovaskyi KHP, Kamyanets-Podilsky, LLC Pershe Travnya and Imperovo) pay FAT. Although the FAT regime has been extended for an unlimited period of time, there is no guarantee that the FAT regime will not be discontinued in the future (as had previously been contemplated). Such discontinuance could have a material adverse effect on Avangard's business, results of operations and financial condition.

While the authorities have consistently found Avangard to be in compliance in all material respects with tax laws, it is possible that relevant authorities could, in the future, take differing positions with regard to issues of interpretation, which may have a material adverse effect on Avangard's business, results of operations, and financial condition. Any adverse changes in the application or interpretation of Ukrainian tax law may significantly increase Avangard's tax burden and adversely affect Avangard's business, results of operations and financial condition.

Avangard has been and will continue to be controlled by a majority shareholder whose interests could conflict with those of holders of GDRs

The Company has four controlling shareholders, each of which is fully owned by Oleg Bakhmatyuk, the Chairman of the Company's Board of Directors, who is also a direct shareholder of the Company. Prior to the Offering, the Company's controlling shareholders and Oleg Bakhmatyuk controlled 100% of the Company's issued share capital. Following the Offering, the controlling shareholders and Mr. Bakhmatyuk will continue to own approximately 80% of the Company's issued share capital (or approximately 77.7% if the Over-Allotment Option is exercised in full). As such, the controlling shareholders and Mr. Bakhmatyuk will continue to exercise control over the Company, such as electing or appointing members of the Board of Directors, approving significant transactions, declaring dividends, if any, limiting or waiving pre-emption rights of the Company's shareholders, increasing or decreasing the Company's authorised share capital and influencing other policy decisions. In addition, the controlling shareholders and Mr. Bakhmatyuk may engage in business activities with entities that compete with Avangard or which may involve increased risk for the GDR holders.

Although Mr. Bakhmatyuk, acting on his own behalf and on behalf of the four controlling shareholders, and the Company have entered into a relationship agreement aimed, among other things, at protecting the Company's interests in the case of conflicts of interests, the interests of Mr. Bakhmatyuk and other shareholders and members of Avangard's management (including the chief executive officer, Nataliya Vasylyuk, who is the sister of Mr. Bakhmatyuk) may, in some circumstances, conflict with the interests of holders of GDRs. See "Directors, Corporate Governance and Management—Relationship Agreement". Any such conflicts of interest or transactions could have a material adverse effect on Avangard's business, results of operations and financial condition. See "Directors, Corporate Governance and Management" and "Shareholders and Related Party Transactions".

Avangard, Ovoline and Finansova Initsiatyva LLC (a financial institution which has extended loans to, and taken deposits from, Avangard) are related parties. Avangard currently leases land, production facilities and equipment for Imperovo's operations from Stanislavska Torgova Kompaniya LLC, which is also a related party of Avangard. In addition, all of Avangard's export sales to date have been made through a related party intermediary, Myaso Prykarpattya LLC. Although Avangard seeks to conduct all transactions with such parties on market terms in accordance with relevant Ukrainian law, there can be no assurance that any or all of these transactions have been or will be conducted on market terms, that no conflicts of interest will arise between such parties or that such parties will continue to engage in transactions with Avangard. Any of the foregoing could have a material adverse effect on Avangard's business, results of operations and financial condition. See "Directors, Corporate Governance and Management" and "Shareholders and Related Party Transactions".

Failure to generate or raise sufficient capital may hamper Avangard's development strategy

In order to implement its development strategy, Avangard plans to invest in capital expenditure of approximately U.S.$185 million in 2010 and approximately U.S.$37 million in 2011. Avangard's cash flow from operations, as well as proceeds of the Offering and Avangard's cash balances, may not be sufficient to finance Avangard's planned capital expenditures, including in particular the completion of the Chornobaivske and Avis egg production complexes and the potential expansion of processing capacity at Imperovo. Moreover, additional financing may be required if these projects are not completed on time. Certain circumstances may affect Avangard's ability to raise adequate capital, such as economic conditions, limited access of commercial Ukrainian banks to funding, the terms of existing financing arrangements or any changes thereto, expansion of facilities at a faster rate or higher capital cost than anticipated, slower than anticipated revenue growth, regulatory developments and outbreaks of livestock diseases.

To meet its financing requirements in line with its development strategy, Avangard may need to attract equity investments or incur more debt. It may be difficult for Avangard to obtain debt financing in Ukraine in local currency on commercially acceptable terms in the future. In addition, Ukrainian currency control regulations currently hinder Avangard's ability to obtain hard currency denominated financings from international lenders on favourable terms, because certain payments in foreign currency are subject to prior registration with the NBU. These regulations may be subject to changes and varying interpretations, complicating both the process of determining whether registration is required and the process of obtaining such registration. If Avangard cannot obtain adequate funds to satisfy its future capital requirements, it may need to curtail or discontinue the expansion of its facilities, which could slow Avangard's growth, lead to a loss of market share and otherwise have a material adverse effect on Avangard's business, results of operations and financial condition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources".

Avangard must observe certain financial and other restrictive covenants under the terms of its indebtedness, and any failure to comply with such covenants could put Avangard into default

As at 28 February 2010, Avangard had total short- and long-term borrowings of U.S.$220.478 million.

In July 2008, CJSC Avangard issued bonds due 19 May 2013 (the "**Bonds**"). See "Management's Discussion and Analysis of Financial Condition and Results of Operation—Liquidity and Capital Resources—Capital Resources".

Some of Avangard's debt instruments contain covenants that limit the discretion of Management with respect to specific business matters. For example, these covenants will significantly restrict the ability of some of Avangard's subsidiaries to, among other things:

- incur additional debt;
- pay dividends;
- establish new companies;
- create certain liens;
- transfer or sell assets;
- engage in sale and leaseback transactions; and
- merge or consolidate with other entities.

Compliance with these covenants could materially and adversely affect Avangard's ability to finance its future operations or capital needs or to engage in other business activities that may be in the best interests of Avangard.

In addition, breach of any terms of certain of Avangard's debt instruments could cause a default under the terms of such Avangard's indebtedness, causing some or all of Avangard's indebtedness to become due and payable. Such default could result in Avangard's creditors proceeding against the collateral securing its indebtedness. Such action could materially adversely affect Avangard's business, results of operations or financial condition. If Avangard's indebtedness were to be accelerated, it is uncertain whether Avangard's assets would be sufficient to generate the funds necessary to repay it.

Termination or any changes to the terms of the existing leases in respect of Imperovo's assets and production facilities or failure to successfully complete the reorganisation to transfer all of the currently leased assets and production facilities to Imperovo could affect Avangard's business

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

In March 2010, Stanislavska Torgova Kompaniya LLC commenced a reorganisation procedure to spin off all of the assets and facilities, which are currently leased by Imperovo, to a new entity, controlled by Stanislavska Torgova Kompaniya LLC, which will be formed as a result of the reorganisation, and to subsequently transfer all of the corporate rights in the newly created entity to Imperovo. Such reorganisation is formal in nature and requires a number of corporate procedures to be completed, a number of which are outside Avangard's control. Management believes, in addition, that the transfer of corporate rights of the newly created entity to Imperovo will require the prior approval of the Antimonopoly Committee of Ukraine (the "**AMC**"). Failure to complete such procedures and/or obtain all necessary approvals, and/or to register a newly created entity as a new owner of such assets and production facilities, and/or failure by Imperovo to acquire corporate rights in the newly created entity, could have a material adverse effect on Avangard's business, results of operations and financial condition. Further, no assurances can be provided by Avangard as to the timing of such reorganisation.

The land underlying Imperovo's production facilities was leased by Stanislavska Torgova Kompaniya LLC pursuant to a land lease agreement from the local municipal authorities. Such lease expired in 2009. Under Ukrainian law Stanislavska Torgova Kompaniya LLC, as the current owner of the premises occupied by Imperovo, has a pre-emptive right to lease land plots underlying such premises. Stanislavska Torgova Kompaniya LLC hopes to renew such lease shortly. In the interim Stanislavska Torgova Kompaniya LLC entered into a land plot payment agreement with the local municipal authorities on 25 March 2010 for a term of three years. This agreement, among other things, confirms that Stanislavska Torgova Kompaniya LLC is the *de facto* user of the land plot underlying the Imperovo production facilities. As a result, Management believes it is unlikely that Stanislavska Torgova Kompaniya LLC will not be able to renew its lease with the state local authorities. However, any failure to renew such lease could have a material adverse effect on Avangard's business, results of operations and financial condition. In addition, if the land lease underlying Imperovo's production facilities is renewed by Stanislavska Torgova Kompaniya LLC and the reorganisation in connection with the assets and production facilities, which are currently leased by Imperovo, is successful, Stanislavska Torgova Kompaniya LLC intends to terminate its land lease rights in favour of the newly created entity for it to subsequently enter into a new lease agreement with the local municipal authorities with regards to the land underlying Imperovo's production facilities. Any failure to secure such lease could have a material adverse effect on Avangard's business, results of operations and financial condition.

The Group could be subject to liabilities if it is determined that past actions violated Ukrainian corporate laws or regulations

Ukrainian corporate laws and regulations have developed considerably since Ukraine's transition to a market economy. Some of these laws and regulations contain ambiguities, imprecision and inconsistencies which make compliance with them difficult. As a result, the Group's prior transactions may not have complied with all corporate formalities. In particular, the Group may not have complied with all the technical requirements of Ukrainian corporate law with respect to the sufficiency of net assets, establishment of certain funds, electronic form of certain types of shares, certain transfers of interests in the Group's subsidiaries, reorganisation and incorporation of certain of the Group's subsidiaries, convocation and holding of general shareholders' meetings, withdrawal of participants from limited liability companies, reporting requirements for joint stock companies, privatisation, formation and increase of charter capital, corporate governance and mandatory charter content, as well as the organisational form of certain Group companies.

Non-compliance with these applicable laws and regulations may result in fines, warnings from governmental authorities, orders to remedy the violations, inability to increase share capital of a joint stock company, mandatory winding-up proceedings or requests to unwind a previous transaction. To date, the Group has not received any notice of violation from any third party or governmental authority. Although it does not expect that any party would seek to review or modify any of these transactions or challenge any such irregularities, there can be no assurance that this will not occur. Any successful challenge to past actions by the Group could materially adversely affect the Group's business, results of operations and financial condition.

Avangard may not be successful in effectively managing its planned growth and greater diversification

Avangard has grown rapidly in a short period of time and it is currently undertaking a substantial expansion programme. Avangard is in the process of developing new production facilities, including the Chornobaivske and Avis egg production complexes, and focusing more on the egg products segment following the acquisition of Imperovo. Avangard may also pursue a growth strategy involving the acquisition of other companies engaged in the production of shell eggs and egg products in neighbouring countries. Avangard's success will depend on its ability to successfully manage its growth and diversification and to secure and effectively allocate resources to meet the needs of its expanded and diversified business. Successful management of this growth and diversification may require, among other things:

- stringent control of construction and other costs;
- identification of suitable acquisition opportunities and successful integration and management of any new production complexes and any acquired businesses;
- increased marketing activities and monitoring of sales channels;
- attracting, retaining, motivating and training of skilled personnel; and
- refining and adjusting its accounting and reporting systems.

No assurance can be given that any new production facilities or companies acquired by Avangard in the future will contribute positively to Avangard's business, results of operations or financial condition.

Management of Avangard's growth and diversification has required significant management and operational resources and has increased the overall complexity of Avangard's business, and this trend is likely to continue in the future. Avangard may also become responsible for additional liabilities or obligations associated with the acquired assets and not foreseen at the time of their acquisition. If Avangard fails to manage its planned growth and continuing diversification successfully, this could have a material adverse effect on Avangard's business, results of operations and financial condition.

Avangard may be unable to manage inventories effectively

Profitability in the egg production industry is affected by the prevailing price of shell eggs and egg products, which is primarily determined by supply and demand in the market. Avangard has in the past experienced fluctuations in its earnings due to seasonal demand for shell eggs and to a lesser extent for egg products. In a typical year, the prices for shell eggs generally reach their peak during the autumn and winter months due to increased consumption of shell eggs in cold weather conditions and particular demand around the Christmas holidays, followed by a decrease in prices after Easter until the beginning of July. Prices for shell eggs further fluctuate in response to a natural increase in egg production during the spring and early summer. Although Avangard is able to use its long-term storage facilities to store shell eggs or to process shell eggs into products which can be stored for longer periods of time, or to sell its products at lower prices in response to decreases in demand, Avangard may be unable to effectively manage inventories to address seasonal changes in demand, which could have a material adverse effect on Avangard's business, results of operations and financial condition.

Weaknesses in Avangard's accounting and reporting systems, accounting personnel and its internal controls and procedures relating to the preparation of IFRS financial statements

Similar to many other companies in the emerging markets, Avangard's accounting and reporting systems are not as sophisticated or robust as those of companies organised in jurisdictions with a longer history of compliance with IFRS and the production of complete monthly financial statements for management purposes. The internal audit function of Avangard is not presently fully operational and the lack of established accounting and reporting systems, which have been in operation for an extended period of time, may make Avangard's financial information less timely than that of companies that have implemented these systems over a longer period of time. This could negatively impact the quality of decision making by Avangard's senior management due to delays in producing complete management accounts on a basis consistent with IFRS. To date, Avangard's senior management has largely based its decisions on monthly management accounts and daily reports of key operating data rather than complete IFRS monthly financial statements.

Each of Avangard's Ukrainian subsidiaries prepares separate financial statements under national Ukrainian accounting standards. The treatment of certain items in such national accounting standards such as, for example, with regards to biological assets and taxation, may differ significantly from IFRS. The preparation of IFRS consolidated financial statements involves the consolidation of all subsidiaries' financial statements. This process is complicated and time-consuming and requires significant attention from Avangard's senior accounting personnel at its corporate headquarters and subsidiaries. Avangard's accounting systems and the internal controls and procedures relating to the preparation of the IFRS financial statements are not as advanced as those of companies operating in more developed countries. In particular, in light of Avangard's past and planned growth, there is a risk that preparation of annual or interim IFRS consolidated financial statements may require more time for Avangard than it does for companies in more developed countries.

The preparation of Avangard's IFRS financial statements requires IFRS-experienced accounting personnel. Although Management believes that it has a sufficient number of accounting personnel with experience in IFRS and that Ukraine has a sufficient pool of accounting personnel with IFRS expertise, there is a risk that any inability to hire or to retain qualified accounting staff could have a material adverse effect on Avangard's ability to prepare accurate financial information in a timely manner.

Any of the foregoing could have a material adverse effect on Avangard's business, results of operations and financial condition.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Company or the Group will be unable to comply with its obligations as a company with securities admitted to the Official List.

Avangard is dependent on qualified personnel

Avangard's growth and future success will depend on its continued ability to attract, retain and motivate qualified managerial, veterinarian, sales and marketing personnel. Competition for these types of personnel in Ukraine is relatively high. An inability to hire and retain additional qualified personnel will impair Avangard's ability to continue to expand its business. Avangard is not insured against risks of loss or removal of the key management personnel. Although Avangard has established programmes for attracting and retaining qualified personnel, Avangard cannot provide any assurance that it will be successful in recruiting and retaining a sufficient number of personnel with the requisite skills to replace any personnel that leave and meet the needs of its planned expansion. Avangard has not entered into any non-compete agreements with any of its executive officers (and such agreements might in any event be unenforceable in Ukraine).

The Law of Ukraine "On Joint Stock Companies", dated 17 September 2008, requires joint stock companies to enter into formal employment contracts with members of their executive bodies. The law provides for a two-year transitional period for compliance with such requirement. Although Avangard intends to comply with this requirement, as of the date of this Prospectus, Avangard has not entered into employment contracts with any such members of executive bodies of its Ukranian subsidiaries.

In addition, the absence of formal written contracts with members of senior management could undermine Avangard's ability to retain such personnel and, conversely, could mean that under Ukraine's labour laws, Avangard might have difficulty in terminating the contracts of such personnel unless they agree to termination.

Any of the foregoing factors could materially and adversely affect Avangard's business, results of operations and financial condition. See "Business—Employees".

Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses

Following the Offering, keeping informed of, and remaining in compliance with changing laws, regulations and standards relating to corporate governance and public disclosure, will require an increased amount of Management's attention and external resources and may cause delay in periodic filings. The investments needed for Avangard to comply with evolving corporate governance and public disclosure standards may result in increased general and administrative expense and a diversion of Management's time and attention from revenue-generating activities to compliance activities, Avangard's failure to comply with these standards could lead to adverse regulatory action, which could have a material adverse effect on Avangard's business, results of operations and financial condition.

Avangard may be unsuccessful in its attempt to construct working biogas plants

Each of Avangard's Avis and Chornobaivske egg production complexes is expected to include a biogas plant. The plants are expected to use bird droppings, slaughterhouse waste and other waste of animal origin to produce valuable biological fertilisers, heat energy and biogas (a type of fuel in gas form), which will be used for the production of electricity for sale and to satisfy the power requirements of Avis and Chornobaivske. Avangard will be required to obtain licences for the production, storage and sale of biogas from the Ministry of Fuel and Energy of Ukraine and licences for the production, transfer and supply of electricity from the National Commission for the Regulation of Electroenergetics of Ukraine. Moreover, Avangard will be required to obtain certificates which confirm that biogas produced by such plants qualifies as an alternative fuel in order to be eligible to receive certain benefits, including temporary exemption from corporate income tax for income from the sale of biofuels and in connection with the simultaneous production of electrical and heat energy produced from biofuels. Avangard cannot provide any assurance that it will be successful in obtaining such licences or certificates or that, if awarded, such licences or certificates will not be subsequently recalled. Avangard also cannot provide any assurance that such biogas plants will, if constructed and put into operation, be economically viable or that Avangard will not become responsible for additional liabilities or obligations associated with such plants.

Although Avangard hopes to make sales of the electricity produced from the biogas produced by such facilities into the national Ukrainian grid, including with the use of more advantageous "green" tariffs, it cannot provide any assurance that it will be eligible for such tariffs or that it will be able to make such sales of the electricity at all or that such sales will be on economically advantageous terms. No assurance can be made that Avangard will be eligible to participate in various national or international projects. Although Avangard hopes to make use of the biogas it produces in order to participate in carbon trading programmes, if and when available, it cannot provide any guarantee that it will be able to do so.

Any of the foregoing could have a material adverse effect on Avangard's business, results of operations and financial condition.

Avangard may be subject to penalties imposed by the Antimonopoly Committee of Ukraine

Avangard's business has grown substantially through the acquisition and establishment of companies incorporated and operating in Ukraine. Many of these acquisitions or incorporations of companies required the prior approval of the AMC. Moreover, certain asset acquisitions also required prior approval of the AMC. In recent years, the AMC has sought to increase business transparency and improve the competitive environment in Ukraine through changes to competition legislation and procedures for conducting investigations and through challenges to various anticompetitive practices. Applicable antitrust law restricts companies and individuals from directly or indirectly acquiring control over, or a certain number of shares in, other companies without the prior approval of the AMC where certain financial or market share thresholds are met. The failure to obtain necessary approvals for such transactions could cause Avangard and all Avangard's related entities (including individuals), to be liable for fines in the amount of up to 5% of Avangard's and its related entities' consolidated revenue in the year immediately preceding the year of imposition of the fine, for each failure to obtain necessary approvals. If an acquisition led to a particular market becoming monopolistic or competition being significantly restricted on such market or part thereof, the AMC may seek the invalidation of such transactions by the Ukrainian courts, which, in turn, may lead to the compulsory divestment of the relevant companies. In practice, however, the AMC has never imposed such type of penalty, or imposed the maximum fine.

There is a risk that filings made by Avangard to the AMC could be questioned and determined to be inaccurate or incomplete or that the AMC may discover new violations of antitrust law by Avangard. The filing by Avangard of an inaccurate or incomplete submission to the AMC could result in the imposition of fines in an amount of up to 1% of Avangard's and its related entities' consolidated revenue in the year immediately preceding the year of imposition of the fine. If the inaccuracy or omission was substantial, the AMC could annul the approval that had previously been granted. There can be no assurance regarding the future actions of the Ukrainian state authorities, and the laws and regulations in respect of such matters are vague in certain parts and subject to varying interpretations.

Any penalties imposed by the AMC on Avangard could have a material adverse effect on Avangard's business, results of operations and financial condition. See "Business—Regulatory Compliance—Competition Regulation".

Avangard's operations may be limited by antitrust law

Avangard is the leading producer of shell eggs in Ukraine, with an estimated domestic market share of the shell eggs market of 23% (and an estimated domestic market share of the industrially produced shell eggs market of 39%) and an estimated market share of the dry egg products market of 52% in 2009, according to the Pro-Consulting Report. Although Avangard believes that its operations are in compliance with applicable antitrust law, there can be no certainty that Avangard's activity will not result in the initiation of proceedings or investigations by the AMC. If any proceedings or investigations were to result in decisions against Avangard, Avangard could be prohibited from engaging in certain activities and/or financial penalties could be imposed on Avangard. Such prohibitions or financial penalties could have an adverse effect on Avangard's business, financial condition or Avangard's results of operations. In addition, any potential acquisition by Avangard may be subject to closer scrutiny by the AMC, which may conclude that such acquisition would restrict competition on a given market and prohibit the acquisition. Such a decision could adversely affect Avangard's ability to expand through acquisitions.

Under Ukrainian antitrust law, a company having more than 35% of the relevant market share is considered to have a dominant position on that product market, unless it can prove that high competition exists on such market. Ukrainian law also provides that a company with a market share of 35% or less can also be recognised as having a dominant market position, if such a company does not face high competition on such product market, for example, due to the low market shares of its competitors.

Dominant position status is not itself sanctioned. However, the law applies additional restrictions on companies with a dominant position and the AMC reviews the activities of such companies with particular scrutiny. Ukrainian law does not provide clear guidance as to which particular actions amount to an abuse of a dominant position and the AMC of Ukraine has discretion in this matter. If Avangard is recognised to have a dominant position on the Ukrainian egg production market and the AMC determines that its actions constitute an abuse of that dominant position, any of the foregoing could have a material adverse effect on Avangard's business, results of operations and financial condition.

Avangard may be subject to claims and liabilities under environmental, health, safety, veterinary, sanitary and other laws and regulations, which could be significant

Avangard's operations are subject to various environmental, health, safety, veterinary, sanitary and other laws and regulations, including those governing fire safety, employee safety, sanitary compliance, air emissions, solid waste, the use of water and wastewater discharges, the use of sub-soil in connection with the use of water and the use, storage, treatment and disposal of toxic substances, such as disinfectants. In addition, Avangard's operations are subject to various laws and regulations governing the treatment and disposal of slaughterhouse waste, dead birds and bird manure. The applicable requirements under these laws are subject to amendment, imposition of new or additional requirements and changing interpretations by governmental agencies or courts.

In addition, Avangard anticipates increased regulation by various governmental agencies concerning food safety and quality, grading and marking, the use of medication in fodder formulations, the disposal of animal by-products and wastewater discharges. Furthermore, business operations currently conducted by Avangard or previously conducted by others at property owned or operated by Avangard and the disposal of waste at third party sites expose Avangard to the risk of claims under environmental, health and safety laws and regulations. Avangard could incur material costs or liabilities in connection with claims related to any of the foregoing.

The discovery of presently unknown environmental conditions, changes in environmental, health, safety and other laws and regulations, enforcement of existing or new laws and regulations, failure to comply with all applicable laws and regulations, and other unanticipated events, could give rise to expenditures and liabilities, including fines, penalties, or the suspension of the operation or use of the infringing legal entity, its equipment or its buildings, which could have a material adverse effect on Avangard's business, results of operations and financial condition. See "Business—Regulatory Compliance".

Avangard's business could be adversely affected if it fails to obtain, maintain or renew necessary licences and permits or fails to comply with the terms of its licences and permits

Avangard's business depends on the continuing validity of a variety of licences and permits, the issuance to it of new licences and permits and its compliance with the terms of its existing licences, including licences for the production and sale of pedigree resources such as Avangard's breeder flock and hatching eggs.

Avangard must also obtain approval for all newly introduced technological processes from the Ministry of Agrarian Policy of Ukraine (the "**Agrarian Ministry**"). As of the date of this Prospectus, there are no regulations or procedures in place enabling companies to obtain such approvals and, accordingly, such approvals are not currently being issued. Avangard plans to obtain all necessary permits and approvals as soon as such regulations and procedures are implemented.

Ukrainian law requires that companies which operate artesian wells of depths greater than 20 metres obtain permits for sub-soil use, in addition to permits for special water use. Although Avangard is in compliance with the requirement for water use permits, only one Group company, Donetska, has obtained a permit for sub-soil use. Although Avangard intends to comply with this requirement, as of the date of this Prospectus Avangard has not obtained all of the necessary permits. Avangard could ultimately be penalised for such non-compliance with a suspension of the operation of its production facilities.

In addition, Avangard, as an operator of food production facilities, is required to obtain operational permits regarding food origin and quality issued by local departments of each of the State Committee of Veterinary Medicine of Ukraine ("**SCVM**") and the State Sanitary and Epidemiological Service of Ukraine ("**SSES**"). Not all of the companies in the Group which are engaged in egg-production have obtained operational permits. Those companies within the Group which do not possess operational permits are currently obtaining them. Without such permits, certain of the companies in the Group will not be allowed to produce, process, store, transport or sell shell eggs or egg products. Furthermore, under Ukrainian law, failure to obtain such permits may lead to the suspension of the operation or use of the relevant companies, their equipment or their buildings. In addition, the relevant authority may confiscate equipment and raw materials from infringing companies, as well as goods which have been produced by those companies. Once operational permits are issued, Ukrainian state authorities are authorised to suspend or revoke such permit if a particular facility does not comply with applicable sanitary and veterinary regulations.

Under Ukrainian law, until formally commissioned, newly constructed properties may not be operated. Some of Avangard's production facilities began operating prior to being formally commissioned. Violation of this requirement may in principle lead to the Ukrainian authorities imposing fines of up to 10% of the costs of the construction works. Management believes that the relevant Ukrainian authorities are not likely to impose such fines based on their previous practice in similar cases. However, if imposed, this fine could be significant and could have a material adverse effect on Avangard's business, results of operations and financial condition.

Under Ukrainian law, it is prohibited to commence operation of new or refurbished premises and other facilities, or to lease any premises, without obtaining the relevant permits from the sanitary and epidemiological supervision authorities ("**Sanitary and Epidemiological Permits**") and the fire safety supervision authorities ("**Fire Safety Permits**"). Some of the companies within the Group have not obtained Sanitary and Epidemiological Permits or Fire Safety Permits. Those companies in the Group which do not have the necessary permits are currently applying to obtain the Sanitary and Epidemiological Permits and Fire Safety Permits. The violation of the above requirements may result in the suspension of the operation or use of the infringing legal entity, its equipment or its buildings. In addition, the relevant authority may confiscate equipment and raw materials from infringing companies, as well as goods which have been produced by those companies. Avangard intends to obtain all the necessary permits in the future.

Under Ukrainian law, fodder mills are required to obtain operational permits. Some of Avangard's fodder mills do not have such permits. While the law is unclear on this matter, it is possible that fodder mills operating without operational permits may be ordered by the regional office of the State Department for Veterinary Medicine to suspend their operations until they obtain the relevant operational permits. If Avangard's fodder mills were ordered to suspend their operations, Avangard's business, results of operations and financial condition could be materially adversely affected.

Regulatory authorities exercise considerable discretion in the timing of licence and permit issuance and renewal and in the monitoring of compliance with the terms of licences and permits. In certain circumstances, state authorities in Ukraine may seek to interfere with the issuance of licences and permits, and the licensing and permitting process may also be influenced by political pressure and other extra-legal factors. Avangard has not had any material fines imposed and has not had the operation of any of its companies suspended as the result of non-compliance with all applicable regulatory requirements. Moreover Avangard intends to obtain all the necessary permits, certificates and approvals in the near future. However, there is a risk that licences or permits needed for Avangard's business may not be issued or renewed or that they may not be issued or renewed in a timely fashion or may be subject to onerous conditions. If Avangard is unable to obtain, maintain or renew necessary licences or permits, its business, results of operations and financial condition could be materially adversely affected. See "Business—Licences and Permits".

Avangard's insurance coverage may be inadequate

Avangard's insurance coverage may not adequately protect it from the risks associated with its business. The insurance industry is not yet well developed in Ukraine, and many forms of insurance protection common in more economically developed countries are not yet available in Ukraine on comparable terms or are not reasonably priced, including coverage for business interruption. Under Ukrainian law Avangard is required to maintain a minimum level of insurance; for example, as a supplier of products of animal origin, Avangard is required to be insured against liability for damages to third parties. Avangard currently does not maintain all of the types of mandatory insurance which are required by law because of their lack of availability in the Ukrainian market. There are however no material sanctions for failure to maintain the mandatory insurance required. See "Business—Insurance".

Avangard does not generally have coverage against loss of, or damage to, some of its plant and equipment or losses arising from the interruption of its business. Avangard does not have any insurance coverage in respect of any losses it may incur as a result of an outbreak of any livestock disease. See above "—Outbreaks of livestock diseases could have a material adverse effect on Avangard's business". Nor does it maintain product liability insurance with respect to products of animal origin. In addition, there is no guarantee that Avangard will be able to obtain insurance policies on economically viable terms.

If Avangard is unable to obtain insurance coverage in respect of particular risks, it will be forced to cover any losses or third-party claims out of its own funds. Avangard does not currently maintain separate funds or otherwise set aside reserves to cover such losses or third party claims. If Avangard were to suffer a loss that is not adequately covered by insurance, its business, results of operations and financial condition could be materially adversely affected. See "Business—Insurance".

Avangard's intragroup transactions and other related party transactions are subject to Ukrainian transfer pricing regulations

Ukrainian transfer pricing rules, which became effective in 1997, require that prices between related parties and, under certain circumstances, between unrelated parties, be set on an arm's length basis. Ukrainian tax authorities may make transfer pricing adjustments and impose additional liabilities in respect of transactions between related parties and, as applicable, unrelated parties if the transaction prices differ from market prices. The Ukrainian transfer pricing rules are vaguely drafted and leave a wide scope for interpretation by Ukrainian tax authorities and commercial courts. In addition, to date, there has been only limited guidance as to how these rules are to be applied. Moreover, in the event a transfer pricing adjustment is assessed by Ukrainian tax authorities, the Ukrainian transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction that is subject to adjustment.

There have been and continue to be a significant number of transactions between companies within the Group, as well as with other parties related to Avangard. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Segments and Intragroup Transactions" and "Shareholders and Related Party Transactions". It is not always possible to determine an appropriate market price for such transactions, and the Ukrainian tax authorities' view as to what constitutes a market price may differ from that adopted by Avangard. As a result, there can be no assurance that the Ukrainian tax authorities will not challenge the prices for these transactions and propose adjustments. If such price adjustments are implemented, Avangard's effective tax rate could increase and its future financial results could be materially adversely affected. In addition, Avangard could face significant losses associated with the assessed amount of prior tax underpaid and related interest and penalties, which could have a material adverse effect on Avangard's business, results of operations and financial condition.

Avangard is exposed to currency exchange rate risk

Avangard's operating assets are located in Ukraine, and its revenues and costs are denominated primarily in hryvnia. The hryvnia is not convertible outside Ukraine. Although the proportion of Avangard's finance costs and operating expenditure denominated in foreign currencies was not material in 2009, and has not been in previous periods, some of Avangard's revenues are denominated in foreign currencies, principally dollars and Euro. Avangard's foreign currency revenues consist principally of revenues from export sales of shell eggs and egg products. In addition, the majority of construction costs of the facilities which Avangard is constructing at the Avis and Chornobaivske egg production complexes are payable in foreign currency. During 2009, the hryvnia depreciated against the dollar and the Euro by approximately 3.7% and 5.5% respectively, according to the NBU, which had a negative effect (in hryvnia terms) on Avangard's costs associated with purchases of imported equipment. See below "—Risks Relating to Ukraine—Stability of Ukraine's currency". Any future depreciation of the hryvnia against the Euro or U.S. dollar will increase Avangard's expenses in relation to the construction of the Avis and Chornobaivske egg production complexes in hryvnia terms and could have a material adverse effect on Avangard's business, results of operations and financial condition.

Avangard's rights to its land plots may be challenged and Avangard may not be able to renew its lease agreements

Avangard leases the land plots on which a major part of its production facilities, administrative buildings and staff facilities are situated. The majority of its land plots are leased from local municipal authorities. Any challenge to the validity or enforceability of Avangard's rights to land plots it currently leases or may lease in the future may result in the loss of the respective lease rights. Under the Law of Ukraine "On the Lease of Land", dated 6 October 1998 (the "**Land Lease Law**"), land lease agreements must contain certain mandatory provisions, and in the event that they do not contain such provisions, they may be invalidated by a court. A relatively small number of Avangard's land lease agreements, including land lease agreements between local municipal authorities and Avis and Chornobaivske in relation to the land plots underlying the construction sites at those locations, do not contain all of the required provisions, however, and so there is a consequent risk that, in the event of challenge, they might be invalidated.

In addition, Avangard's land lease agreements are entered into for a limited period of time, ranging from one to 49 years. Although under Ukrainian law Avangard has a pre-emptive right to extend the term of a lease agreement upon its expiry, subject to Avangard's compliance with the terms of the original lease, the lessor's wishing to continue leasing the land and the absence of any other potential lessees offering better terms, there can be no assurance that all lease agreements will be renewed upon their expiry. In addition, Ukrainian legislation requires the lease rights to the land plots held in state or municipal ownership to be allocated through an auction, unless the land plot at hand has buildings on it that are owned by the lessee. Any loss by Avangard of its lease rights to land plots could adversely affect Avangard's business, results of operations and financial condition.

The payments under Avangard's land lease agreements may increase

Under Ukrainian law, the parties to a lease agreement are generally free to determine the amount of payments under a land lease agreement. However, the lease payments in respect of land held in state or municipal ownership may not be lower than the land tax in respect of the relevant land plot, calculated as a percentage of the appraised value of a particular land plot. The lease payments in respect of privately owned land should be at least 3% of the appraised value of the land plot. The appraised value of land plots is reviewed by Ukrainian authorities on an annual basis. Following such review, state or municipal lessors are entitled under Ukrainian law to unilaterally increase the lease payments in respect of the relevant land plot *pro rata* to the new value of such plot. Any increase of the land lease payments above Avangard's current expectations could materially adversely affect Avangard's business, results of operations and financial condition.

Avangard is exposed to operational risks

Avangard is exposed to operational risks, including the risk of equipment breakdown or failure or injury to or death of personnel. In particular, Avangard's manufacturing processes depend on certain critical items of equipment, including animal feed production lines, hatchers, processing lines, and sorting and packing machines, and this equipment may, on occasion, be out of service as a result of unanticipated failures. In the future, Avangard may experience material shutdowns of its production facilities or periods of reduced production as a result of such equipment failures. Avangard may also be subject to interruptions in production related to catastrophic events, such as fires, explosions or natural disasters. Avangard maintains certain controls designed to decrease its operational risk, but does not maintain business interruption insurance. Any interruptions in its production capability may require Avangard to incur significant expenses to remedy the situation, which could materially adversely affect Avangard's business, results of operations and financial condition.

All of Avangard's accounting records are maintained on a variety of IT systems. In addition, Avangard depends on various IT systems for the monitoring, execution and production of orders and for invoicing and payment monitoring. Although Avangard has in place various safeguards such as regular back-ups and remote storage of data, there can be no assurance that its IT systems will function without interruption in the future. Accordingly, the failure of any IT systems could have a material adverse effect on Avangard's business, results of operations and financial condition and further development.

Notwithstanding anything to the contrary in this risk factor, this risk factor should not be taken as implying that either the Company or the Group will be unable to comply with its obligations as a company with securities admitted to the Official List.

Special interest groups may have an adverse impact on the egg production industry's reputation

Changing consumer expectations with regard to the treatment of livestock may result in unfavourable publicity for participants in the industry who do not meet the demands of activists. The unfavourable publicity may adversely affect the entire industry regardless of the practices of any particular producer. Although such activists have not to date had a significant presence in Ukraine, given Avangard's leading position in the production of shell eggs and egg products, the potential for being singled out by special interest pressure groups may increase in the future, diverting Management's time and attention and having an adverse impact on Avangard's business, financial condition and results of operations.

New legislation on animal protection may affect the current working practices used by Avangard

On 11 February 2010, Ukraine's Parliament adopted a draft law which made amendments to the Law of Ukraine "On Protection of Animals from Cruel Treatment", dated 21 February 2006 (the "**Draft Law on Animal Protection**"). The Draft Law on Animal Protection substantially widens the definition of what constitutes cruel treatment to animals, to include transporting animals in a way which may cause suffering and stress, and other actions which cause pain, mutilation, injury, suffering, stress or premature death. The Draft Law on Animal Protection does not however provide for any detailed rules governing the powers of state authorities to investigate alleged instances of cruel treatment to animals, nor does it provide for specific sanctions for persons found to have caused such treatment.

Although the draft law was vetoed by the President on 24 February 2010, it is still possible that the Parliament might overturn this veto and that the Draft Law on Animal Protection might become effective. If this happens, it might be necessary for Avangard to change its current working practices in respect of its flocks in order to comply with the new law, and any such changes could have a material adverse effect on Avangard's business, results of operations and financial condition.

Any failure to observe Cypriot tax residency requirements could materially adversely affect Avangard's business and the value of the GDRs

The Company is incorporated in Cyprus and is currently considered a Cypriot resident for tax purposes. Generally, in order to maintain Cypriot tax residence, management and control of the Company must take place in Cyprus. If the management and control of the Company were to be conducted in a jurisdiction other than Cyprus, the existing tax residence of the Company could be jeopardised. Consequently, the Company must meet all applicable requirements for Cypriot tax residence under the Cypriot tax legislation and the provisions of its Articles.

If management and control of the Company takes place in another jurisdiction, or strategic or significant operational decisions or management activities take place in that jurisdiction, the Company may be subject to tax in that jurisdiction. Whether this is the case will depend upon the tax laws of that other jurisdiction and, in certain cases, the impact of any tax residence ''tie-breaker'' provision in any double tax treaty between Cyprus and that jurisdiction. If the tax residency of the Company were to be challenged and it had failed to observe the Cyprus tax residency requirements, the Company could be subject to tax in its place of tax residency wherever that might be and would be unable to make use of the Cypriot tax treaty network. Taxation of the Company in a jurisdiction other than Cyprus or its inability to make use of the Cypriot tax treaty network could materially adversely affect the Company's business, results of operations and financial condition.

Changes in the double tax treaty between Ukraine and Cyprus may significantly increase Avangard's tax burden

A company that is tax resident in Cyprus is subject to Cypriot taxation and qualifies for benefits available under the Cypriot tax treaty network, including the double tax treaty between the Government of the Union of Soviet Socialist Republics and the Government of Cyprus, dated 29 October 1982, to which Ukraine is a successor and which is still applied in Ukraine (the ''**Double Tax Treaty**''). In addition, an EU parent company may be able to claim tax benefits under European Union tax directives with respect to dividends paid from Cypriot resident companies or gains from the sale of shares in Cypriot resident companies.

There can be no assurance that the Double Tax Treaty between Cyprus and Ukraine will not be renegotiated or revoked. On 16 January 2008, the Cabinet of Ministers of Ukraine (the ''**CMU**'') authorised the Ukrainian Ambassador in the Republic of Cyprus to sign a new Convention between the Government of Ukraine and the Government of Republic of Cyprus for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the ''**Convention**''). In contrast to the currently effective Double Tax Treaty, which exempts dividends, capital gains, interest payments and royalty payments from Ukrainian withholding tax, under the proposed Convention, dividends paid to the Company by its Ukrainian subsidiaries would be taxable at source in Ukraine at 5% of the gross amount of dividends. The proposed Convention also provides for taxation at source in Ukraine of interest at 10% of the gross amount of the interest if the beneficial owner of the interest is a resident of Cyprus. However, these percentages remain subject to ongoing negotiations.

Adverse changes in, or the cancellation of, the Double Tax Treaty or a finding that the Company does not qualify for tax benefits based on the Double Tax Treaty may significantly increase Avangard's tax burden and adversely affect Avangard's business, results of operations and financial condition.

The Company is a holding company and is, therefore, financially dependent on receiving distributions from its subsidiaries

The Company is a holding company and all of its operations are conducted through its subsidiaries. Consequently, it relies on dividends or advances from its subsidiaries, including subsidiaries that are not wholly-owned. The ability of these subsidiaries to pay dividends, and the Company's ability to receive distributions from its investments in other entities are subject to applicable laws and other restrictions. In addition, such dividends and distributions may be subject to withholding and other taxes which may lead to double taxation or other costs to Avangard. These laws, restrictions, taxes and costs could limit the payment of dividends and distributions, which could restrict Avangard's ability to fund its operations, which could in turn have a material adverse effect on Avangard's business, results of operations and financial condition.

The payment of dividends to the Company by its Ukrainian subsidiaries is subject to a number of procedural requirements. The Company's Ukrainian subsidiaries may only pay dividends to the

Company through an investment account or a broker's account in Ukraine in hryvnia. The Company, in turn, is required to submit documents evidencing its investment in shares of its Ukrainian subsidiaries in order to convert the dividends into U.S. dollars or Euro and transfer them outside Ukraine. As a general rule, the 15% Ukrainian withholding tax is withheld at source in Ukraine on payments of dividends to the Company, unless the Company is entitled to the benefits of the Double Tax Treaty.

The dividends distributed to the Company by a Ukrainian subsidiary will be exempt from withholding tax if the Company satisfies the procedural requirements of Ukrainian tax law, by providing the Ukrainian tax authorities with a tax residency certificate attesting to the Company's tax residency in Cyprus. There can be no assurance that further restrictions on the payment of dividends to a non-Ukrainian shareholder will not be applied in Ukraine in the future. See also "—Changes in the double tax treaty between Ukraine and Cyprus may significantly increase Avangard's tax burden" above.

Risks Relating to Ukraine

General

Since obtaining independence in 1991, Ukraine has undergone a substantial political transformation from a constituent republic of the former Union of Soviet Socialist Republics to an independent sovereign state. Concurrently with this transformation, Ukraine is changing from a centrally planned to a market-based economy. The EU granted Ukraine market economy status at the end of 2005. The United States granted Ukraine market economy status in February 2006. Ukraine joined the World Trade Organisation (the "**WTO**") in 2008. Although some progress has been made since independence to reform Ukraine's economy and its political and judicial systems, to some extent Ukraine still lacks the necessary legal infrastructure and regulatory framework that are essential to support market institutions, the effective transition to a market economy and broad-based social and economic reforms. The pace of economic, political and judicial reforms has been adversely affected by political instability caused by continuing disagreement among the Government, the Parliament and the President of Ukraine. Set forth below is a brief description of some of the risks incurred by investing in Ukraine.

Risks associated with emerging markets including Ukraine

An investment in a country such as Ukraine, which achieved independence less than 20 years ago and whose economy is in transition, is subject to substantially greater risks than an investment in a country with a more developed economy and more mature political and legal systems. As a consequence, an investment in Ukraine carries risks that are not typically associated with investing in more mature markets.

These risks may be compounded by incomplete, unreliable or unavailable economic and statistical data on Ukraine, including elements of the information provided in this Prospectus.

Accordingly, investors should exercise particular care in evaluating the risks involved. Generally, investments in emerging markets, such as Ukraine, are only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult their own legal and financial advisors before making a decision with respect to this Prospectus.

Official economic data and third party information

Although a range of government ministries, along with the NBU and the SCSU, produce statistics on Ukraine and its economy, there can be no assurance that these statistics are as accurate or as reliable as those compiled in more developed countries. Prospective investors should be aware that figures relating to Ukraine's GDP and other aggregate figures cited in this document may be subject to some degree of uncertainty and may not be fully in accordance with international standards. Furthermore, standards of accuracy of statistical data may vary from ministry to ministry or from period to period due to the application of different methodologies. In this document, data are presented as provided by the relevant governmental agency or institution to which the data is attributed, and no attempt has been made to reconcile such data to the data compiled by other ministries or by other organisations, such as the International Monetary Fund (the "**IMF**"). Since the first quarter of 2003, Ukraine has produced data in accordance with the IMF's Special Data Dissemination Standard. There can be no assurance, however, that this IMF standard has been fully implemented or correctly applied. The existence of a sizeable unofficial or shadow economy may also affect the accuracy and reliability of statistical information. Prospective investors should be aware that none of these statistics has been independently verified. The Company accepts responsibility only for the correct extraction and reproduction of such information.

Political considerations

In recent years, Ukraine has been experiencing continuous political transformations accompanied by gradual movement towards fully-fledged democracy. However, the establishment of strong democratic institutions is not complete.

Historically, a lack of political consensus in the Ukrainian Parliament (the Verkhovna Rada of Ukraine) has made it difficult for the Government to sustain a stable coalition of parliamentarians to secure the necessary support to adhere to a sustained path of structural reforms intended to foster economic liberalisation and a stable business and legal environment.

The current Parliament was elected at the parliamentary elections held on 30 September 2007. In December 2007, the new Parliament appointed Yuliya Tymoshenko as the Prime Minister of Ukraine and endorsed the coalition Government formed by Blok Nasha Ukrayina – Narodna Samooborona (Our Ukraine – People's Self Defense Bloc) and Yuliya Tymoshenko's Bloc. In September 2008, Our Ukraine – People's Self Defense Bloc announced its withdrawal from the majority coalition, and Speaker of Parliament Arseniy Yatsenyuk officially announced the termination of the majority coalition. On 9 October 2008, the President issued a decree dissolving the Parliament and designating 7 December 2008 as the date for new parliamentary elections. However, this decree was challenged in court and cancelled by a subsequent decree by the President. In December 2008, the Parliament elected its new Speaker, Volodymyr Lytvyn, and a new majority coalition was formed comprising three parliamentary factions: Our Ukraine – People's Self Defense Bloc, Yuliya Tymoshenko's Bloc and the Volodymyr Lytvyn Bloc.

The first round of the recent presidential elections was held on 17 January 2010. As no candidate won 50% or more of the popular vote, the two highest polling candidates, Victor Yanukovych, a leader of Partiya Regioniv (the Party of Regions), and Yuliya Tymoshenko, a leader of Yuliya Tymoshenko's Bloc, took part in the second round of elections. Following the results of the second round held on 7 February 2010, Viktor Yanukovych was elected president. Although Yuliya Tymoshenko initially contested the results of the elections, she subsequently conceded and Viktor Yanukovych was inaugurated as President of Ukraine on 25 February 2010.

On 3 March 2010 the then incumbent Prime Minister Yuliya Tymoshenko was voted out of the Government following a vote of no confidence by the Parliament. On 11 March 2010, factions of the Party of Regions, Volodymyr Lytvyn Bloc and the Communist Party of Ukraine and several other deputies formed a new parliamentary coalition consisting of 235 deputies. On the same day, the Parliament appointed Mykola Azarov, a member of the Party of Regions, as the new Prime Minister of Ukraine and endorsed the new members of the Government. Currently, the Government consists mainly of members of the President's Party of Regions with a few positions being occupied by representatives of other political forces.

On 10 February 2010, the Law of Ukraine "On Regulations of the Verkhovna Rada of Ukraine" (the "**Parliament Regulations Law**") was passed, allowing individual deputies in Parliament to take part in the formation of the majority coalition in Parliament. Prior to this, only parliamentary factions had been permitted to form a majority coalition. In March 2010, two groups of parliamentarians submitted separate applications to the Constitutional Court of Ukraine, one of which requested an official interpretation of certain provisions of the Parliament Regulations Law, while the other questioned the constitutionality of such provisions. On 6 April 2010, the Constitutional Court of Ukraine ruled that the relevant provisions of the Parliament Regulations Law and the Constitution of Ukraine should be interpreted as allowing individual deputies to join the majority coalition. This decision of the Court, however, was issued in response to the request for an official interpretation of the provisions of the Parliament Regulations Law, and the Court did not expressly opine on the constitutionality of such provisions in its decision. Accordingly, no assurance can be given that the Court will not declare the relevant provisions of the Parliament Regulations Law unconstitutional in response to the application of the second group of parliamentarians in future. Such an outcome may result in further political upheaval and instability in Ukraine.

As at the date of this Prospectus, relations between the President, the Government and Parliament, as well as the procedures and rules governing the political process in Ukraine, including formation and dissolution of a coalition and of factions, remain in a state of uncertainty and may be subject to change through the normal process of political alliance-building or, if the required action is taken, through constitutional amendments and decisions of the Constitutional Court of Ukraine.

A number of factors could adversely affect political stability in Ukraine. These could include a termination of the governing coalition, lack of agreement within the factions that form the coalition, court action taken by opposition parliamentarians against decrees and other actions of the President or Government; or court action by the President against parliamentary or governmental resolutions or actions. If political instability continues or heightens, it could have negative effects on the Ukrainian economy and, as a result, materially adversely affect Avangard's business, results of operations, financial condition and prospects.

Economic considerations

The negative impact of the global economic and financial downturn has been compounded by weaknesses in the Ukrainian economy, which is sensitive to external and internal events. In particular, although the Government has generally been committed to economic reform, the implementation of reforms has been impeded by lack of political consensus, controversies over privatisation (including privatisation of land in the agricultural sector and privatisation of large industrial enterprises), restructuring of the energy sector and removal of exemptions and privileges for certain state-owned enterprises or for certain industry sectors. The negative trends in the Ukrainian economy may continue while commodity prices on the external market remain low and access to foreign credit is limited.

Furthermore, future political instability in the executive or legislative branches could hamper efforts to implement necessary reforms. There can be no assurance that the political initiatives necessary to achieve these or any other reforms described elsewhere in this Prospectus will continue, will not be reversed or will achieve their intended aims. Rejection or reversal of reform policies favouring privatisation, industrial restructuring and administrative reform may have negative effects on the economy, generally, and, as a result, on Avangard's business, results of operations and financial condition.

In addition, the current global financial crisis has led to the collapse or bailout of some Ukrainian banks and to significant liquidity constraints for others. The crisis has prompted the government to inject substantial funds into the banking system amid reports of difficulties among Ukrainian banks and other financial institutions. The continuation or worsening of the financial crisis, further insolvencies of Ukrainian banks and the failure to adopt and implement a system of banking regulation that achieves an increased degree of soundness and stability in the nation's banks could have a material adverse effect on the Ukrainian economy.

Stability of Ukraine's currency

In view of the high dollarisation of the Ukrainian economy and increased activity of Ukrainian borrowers on external markets in pre-crisis years, Ukraine has become increasingly exposed to the risk of exchange rate fluctuations. From September 2008 to August 2009, the interbank U.S. dollar/hryvnia exchange rate was subject to significant fluctuations as a result of which the hryvnia depreciated against the major world currencies. Over 2008 the hryvnia lost 52.5% against the dollar and 46.3% against the Euro as compared to year-end 2007 and further depreciated against these currencies in 2009 by 3.7% and 5.5%, respectively. The NBU sought to address the hryvnia instability by taking administrative measures (including certain foreign exchange market restrictions), and used approximately U.S.$15.3 billion of its foreign exchange reserves to support the Ukrainian currency in the last quarter of 2008 and in 2009. The fluctuations in the U.S. dollar/hryvnia exchange rate have negatively affected the ability of Ukrainian borrowers to repay their forex-denominated liabilities to Ukrainian banks (more than 50% of the domestic loans are denominated in foreign currency) as well as to external lenders.

There is a risk of further depreciation of the hryvnia in the near future should export proceeds and foreign capital inflows appear insufficient to cover import demand and external debt redemptions. According to NBU estimates, the total amount of debt to be redeemed in 2010 is approximately U.S.$20 billion.

Inability to obtain financing from external sources could affect Ukraine's ability to meet financing expectations in its budget

Ukraine's internal debt market remains illiquid and underdeveloped as compared with markets in most western countries. In the wake of the emerging market crisis in the autumn of 1998 and until the second half of 2002, loans from multinational organisations such as the European Bank for Reconstruction and Development (the "**EBRD**"), the World Bank, the EU and the IMF comprised Ukraine's only significant sources of external financing.

From 2003 until 2008, the international capital markets were Ukraine's main source of external financing, but they ceased to be available from mid-2008 due to the global economic and financial crisis. As a result, Ukraine sought IMF financing. In November 2008, the IMF approved a two-year Stand-By Arrangement (the "**SBA**") with Ukraine for approximately U.S.$16.4 billion to assist the Ukrainian Government in restoring financial and economic stability. The drawdowns of IMF financing are contingent upon Ukraine's satisfaction of requirements including:

- strengthening the independence of the NBU;
- eliminating exchange rate controls;
- improving the operation of the foreign exchange market, including cancellation of the foreign exchange transactions tax and a more transparent intervention policy;
- preparing a comprehensive bank resolution strategy that will include the resolution of problem banks and the recapitalisation of viable banks to cushion the real economy from a potential credit crunch;
- increasing deposit insurance coverage to UAH150,000;
- strengthening the monitoring of banks, including through enhanced cross-border supervisory co-operation;
- adopting a prudent fiscal stance while accounting for the need for recession-related social expenditures, including higher funding for unemployment insurance and targeted income support; and
- correcting the pricing policies in the energy sector and pursuing a more balanced incomes policy by adjusting the minimum wage, pension, and social transfer increases.

According to the official IMF statements issued upon the second review of Ukraine's economic performance under the SBA in July 2009, which was followed by the release of the U.S.$3.3 billion third tranche of the IMF financing, Ukraine's authorities have succeeded in cutting down on non-priority expenditures and have taken a number of measures to restore viability in the natural gas sector. At the same time, the IMF stressed that further fiscal measures and structural reforms should be implemented to ensure fiscal sustainability and restore confidence in the banking system. As at the date of this Prospectus, the total disbursements under the SBA amounted to approximately U.S.$10.9 billion.

If the international capital markets or syndicated loan markets continue to be unavailable to Ukraine, it would have to rely further to a significant extent on official or multilateral borrowings to finance part of the budget deficit, fund its payment obligations under domestic and international borrowings and support foreign exchange reserves. Additionally, Ukraine has indicated that, as part of its debt management policy, it plans to develop the internal debt market and to reduce its reliance on external debt financing. However, reliance on internal debt and unavailability of external financing may place additional pressure on Ukraine's ability to meet its payment obligations.

External borrowings from multilateral organisations such as the IMF, the EBRD, the World Bank or the EU may be conditional on Ukraine's satisfaction of certain requirements, which may include, among other things, implementation of strategic, institutional and structural reforms, reduction of overdue tax arrears, absence of increase of budgetary arrears, improvement of sovereign debt credit ratings and reduction of overdue indebtedness for electricity and gas. If Ukraine is unable to resort to the international capital markets or syndicated loan markets, a failure by official creditors and multilateral organisations to grant adequate financing could put pressure on Ukraine's budget and foreign exchange reserves.

Ukraine's economy depends heavily on its trade flows with Russia and the rest of the CIS and any major change in relations with Russia could have adverse effects on the economy

Ukraine's economy depends heavily on its trade flows with Russia and the rest of the CIS, largely because Ukraine imports a large proportion of its energy requirements, especially from Russia (or from countries that transport energy-related exports through Russia). In addition, a large share of Ukraine's services receipts comprise of transit charges for oil, gas and ammonia from Russia.

Ukraine, therefore, considers its relations with Russia to be of strategic importance. However, relations between Ukraine and Russia cooled to a certain extent due to factors including:

- disagreements over the prices and methods of payment for gas delivered by the Russian gas supplier OJSC Gazprom ("**Gazprom**") to, or for transportation through, Ukraine;

- unresolved issues relating to the stationing of the Russian Black Sea Fleet in the territory of Ukraine; and
- a Russian ban on imports of meat and milk products from Ukraine and anti-dumping investigations conducted by Russian authorities in relation to certain Ukrainian goods.

Russia has, recently and in the past, threatened to cut off the supply of oil and gas to Ukraine in order to apply pressure on Ukraine to settle outstanding gas debts and maintain the low transit fees for Russian oil and gas through Ukrainian pipelines to European consumers. In line with its threats, Gazprom substantially decreased natural gas supplies to Ukraine in early January 2009, reportedly, due to failure by National Joint Stock Company "Naftogas of Ukraine" ("**Naftogas**"), the Ukrainian state-owned oil and gas company, to timely repay all outstanding debts owed to Gazprom for natural gas supplied to Ukraine for domestic consumption in 2008. Following negotiations between the governments of Russia and Ukraine and the signing of agreements between Naftogas and Gazprom setting out the terms of further natural gas supplies and transit through the territory of Ukraine, Gazprom on 20 January 2009 resumed natural gas supplies to Ukraine and Western Europe.

Prices for natural gas supplied by Gazprom for domestic consumption in Ukraine increased in each of 2006, 2007 and 2008 from U.S.$50 per 1,000 cubic metres as of 1 January 2005 to U.S.$179.5 per 1,000 cubic metres as of 1 January 2008. Pursuant to the recent agreements signed between Naftogas and Gazprom on 19 January 2009 for natural gas supplies and transit in 2009 through 2019, a price for natural gas supplied to Ukraine for domestic consumption and a tariff for transit of natural gas through the territory of Ukraine is to be determined pursuant to formulas set out in the agreements. The average annual price for natural gas supplied for domestic consumption in Ukraine in 2009 was approximately U.S.$229 per 1,000 cubic metres.

On 21 April 2010, the Presidents of Ukraine and Russia reached agreement on two outstanding issues: the price of natural gas imported into Ukraine from Russia and the term for which the Russian Black Sea Fleet will remain stationed on Ukrainian territory. As a result of such agreement, existing gas supply agreements have been amended to the effect that Gazprom will supply natural gas to Ukraine at a discounted price. If the price of gas is equal to or greater than U.S.$330 per 1,000 cubic metres of gas, a discount of U.S.$100 per 1,000 cubic metres of gas will apply, and if the price is less than U.S.$330 per 1,000 cubic metres, a discount of 30% of the original price will apply. Furthermore, the Presidents of both countries agreed to extend the term for which the Russian Black Sea Fleet will be stationed in Ukraine for 25 years, with a right to prolong the term for a further five years. On 27 April 2010 this agreement was ratified by the Ukrainian Parliament and on 28 April 2010 by the Russian Parliament.

Currently, approximately 20% of Ukrainian exports of goods go to Russia, while much of Russia's exports of energy resources are delivered to the EU via Ukraine. Russia's increases in the price for natural gas have adversely affected the pace of economic growth of Ukraine due to the considerable dependence of the Ukrainian economy on Russian exports of energy resources. Furthermore, although the gas price increases have increased pressure for reforms in the energy sector and modernisation of major energy-consuming industries of Ukraine through the implementation of energy-efficient technologies and the modernisation of production facilities, there can be no assurance that these reforms will be implemented successfully.

Political relations between Russia and Ukraine, which became further strained in 2009, may adversely affect economic relations between the two countries. In August 2009, the presidents of the Russian Federation and Ukraine exchanged letters with regard to the most crucial issues affecting Ukraine-Russia relations, such as Ukraine's intention to join NATO and to cooperate more closely with the EU, Ukraine's support of Georgia, and efforts taken by the Ukrainian Government to reconsider the common Ukraine-Russia history.

Although following the recent election of President Yanukovych Ukraine's relations with Russia are generally expected to improve, if bilateral trade relations were to deteriorate, if Russia were to stop transiting a large portion of its oil and gas through Ukraine or if Russia halted supplies of natural gas to Ukraine, Ukraine's balance of payments and foreign currency reserves could be materially and adversely affected. Any further adverse changes in Ukraine's relations with Russia, in particular any such changes adversely affecting supplies of energy resources from Russia to Ukraine or Ukraine's revenues derived from transit charges for Russian oil and gas, may have negative effects on the Ukrainian economy as a whole and thus on Avangard's business, results of operations, financial condition and prospects.

Ukraine's relationships with western governments and institutions

Ukraine continues to pursue the objectives of achieving a closer relationship with the EU, and joined the WTO on 16 May 2008. With effect from 30 December 2005, Ukraine was given market economy status by the EU, though without any immediate prospect of EU membership for Ukraine. Any major changes in Ukraine's relations with western governments and institutions, in particular any such changes adversely affecting the ability of Ukrainian manufacturers to access or to fully compete in world export markets, could have negative effects on the Ukrainian economy as a whole and thus on Avangard's business, results of operations and financial condition.

The Ukrainian economy is sensitive to fluctuations in the global economy

As an open economy Ukraine is vulnerable to market downturns and economic slowdowns elsewhere in the world. In addition, because Ukraine is a major producer and exporter of metal and agricultural products, the Ukrainian economy is especially vulnerable to fluctuations in world commodity prices and/or the imposition of import tariffs by the United States, the EU or other major export markets. Any such developments may have negative effects on the economy of Ukraine, which in turn may adversely affect Avangard's business, results of operations and financial condition.

Corruption and money laundering may have an adverse effect on the Ukrainian economy

External analysts have identified corruption and money laundering as problems in Ukraine. In accordance with Ukrainian anti-money laundering legislation, which came into force in Ukraine in June 2003, the NBU and other state authorities, as well as various entities performing financial transactions, are now required to monitor certain financial transactions more closely for evidence of money laundering. As a result of the implementation of this legislation, Ukraine was removed from the list of non-cooperative countries and territories by the Financial Action Task Force on Money Laundering ("**FATF**") in February 2004, and in January 2006 FATF suspended the formal monitoring of Ukraine. In early June 2009, the Parliament adopted several laws setting forth a general framework for the prevention and counteraction of corruption in Ukraine. In particular, the laws contain provisions relating to measures to prevent corruption, introduce a more detailed regulation of responsibility for involvement in corruption (including the responsibility of legal entities) and provide for international cooperation in combating corruption. Although the newly adopted legislation is expected to facilitate anti-corruption efforts in Ukraine upon its entry into force on 1 January 2011, there can be no assurance that the laws will be effectively applied and implemented by the relevant supervising authorities in Ukraine. However, any future allegations of corruption in Ukraine or evidence of money laundering could have a negative effect on the ability of Ukraine to attract foreign investment and thus have a negative effect on the economy of Ukraine which in turn may adversely affect Avangard's business, results of operations and financial condition.

Ukraine's legal system

Since independence in 1991, the Ukrainian legal system has been developing to support the country's transition from a planned to a market-based economy. However, Ukraine's legal system is subject to greater risks and uncertainties than a more mature legal system. In particular, risks associated with the Ukrainian legal system include: (i) inconsistencies between and among the Constitution of Ukraine and various laws, presidential decrees, governmental, ministerial and local orders, decisions, resolutions and other acts; (ii) provisions in the laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted; (iii) difficulty in predicting the outcome of judicial application of Ukrainian legislation due to, amongst other factors, a general inconsistency in the judicial interpretation of such legislation in the same or similar cases; and (iv) the fact that not all Ukrainian resolutions, orders and decrees and other similar acts are readily available to the public or available in understandably organised form. These and other factors that impact Ukraine's legal system make an investment in the GDRs subject to greater risks and uncertainties than an investment in a country with a more mature legal system.

Ukraine's judicial system

The independence of the judicial system and its immunity from economic and political influences in Ukraine remain questionable. Although the Constitutional Court of Ukraine is the only body authorised to exercise constitutional jurisdiction and has mostly proven impartial in its judgments, the system of constitutional jurisdiction itself remains too complicated to ensure smooth and effective removal of discrepancies between the Constitution of Ukraine on the one hand and various laws of Ukraine on the other hand.

The court system is also understaffed and underfunded. Because Ukraine is a civil law jurisdiction, judicial decisions under Ukrainian law have no precedential effect. For the same reason, courts themselves are generally not bound by earlier decisions taken under the same or similar circumstances, which can result in the inconsistent application of Ukrainian law to resolve the same or similar disputes. Not all Ukrainian law is readily available to the public or organised in a manner that facilitates understanding. Furthermore, judicial decisions are not always readily available and, therefore, their role as guidelines in interpreting applicable Ukrainian law to the public at large is limited. However, according to a law "On Access to Court Decisions", which became effective on 1 June 2006, decisions of courts of general jurisdiction in civil, economic, administrative and criminal matters became generally available to the public from 1 January 2007, although the relevant registry of the court decisions is still being upgraded. In addition, the Ukrainian judicial system became more complicated and hierarchical as a result of the recent judicial reforms. The generally perceived result of these reforms is that the Ukrainian judicial system has become even slower than before.

Enforcement of court orders and judgments can in practice be very difficult in Ukraine. The State Execution Service (the "**SES**"), a body independent of the Ukrainian courts, is responsible for the enforcement of court orders and judgments in Ukraine. Often, enforcement procedures are very time-consuming and may fail for a variety of reasons, including the defendant lacking sufficient bank account funds, the complexity of auction procedures for the sale of the defendant's property or the defendant undergoing bankruptcy proceedings. In addition, the SES has limited authority to enforce court orders and judgments quickly and effectively. Ukrainian enforcement agencies are bound by the method of execution envisaged by the relevant court order or judgment and may not independently change such method even if it proves to be inefficient or unrealisable. Furthermore, notwithstanding successful execution of a court order or judgment, a higher court could reverse the court order or judgment and require that the relevant funds or property be restored to the defendant. Moreover, in practice, the procedures employed by the SES do not always comply with applicable legal requirements, resulting in delays or failure in enforcement of court orders or judgments.

These uncertainties also extend to certain rights, including investor rights. In Ukraine, there is no established history of investor rights or responsibility to investors and in certain cases, the courts may not enforce these rights. In the event courts take a consistent approach in protecting rights of investors granted under applicable Ukrainian law, the legislature of Ukraine may attempt legislatively to overrule any such court decisions by adopting changes to or cancelling the existing laws or regulations with retroactive effect.

All of these factors make judicial decisions in Ukraine difficult to predict and effective redress uncertain. In addition, court claims are often used in the furtherance of political aims. Avangard may be subject to such claims and may not be able to receive a fair hearing. Finally, court orders are not always enforced or followed by law enforcement institutions. The uncertainties relating to the judicial system could have a negative effect on the Ukrainian economy and thus on Avangard's business, results of operations and financial condition.

Ukraine's tax system

Ukraine currently has a number of laws related to various taxes imposed by both central and local authorities. Applicable taxes include value-added tax, corporate income tax (profits tax), customs duties, payroll taxes and other taxes. Since these tax laws have a relatively short history of use in conditions of a rapidly changing economic environment, as compared to more developed market economies, they are subject to frequent changes and amendments which can result in unusual complexities for the Company and its business generally. Furthermore, frequent changes or lack of conformity with other pieces of legislation in some cases result in a lack of clear regulations for taxpayers and tax administrators to comply with.

Differing opinions regarding legal interpretations often exist both among and within governmental ministries and organisations, including the tax authorities, creating uncertainties and areas of conflict. Tax declarations/returns, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are authorised by law to impose substantial fines, penalties and interest charges. These circumstances generally create tax risks in Ukraine more significant than typically found in countries with more developed tax systems. Generally, the Ukrainian tax authorities may re-assess tax liabilities of taxpayers only within a period of three years after the filing of the relevant tax return. However, this statutory limitation period may not be observed or may be extended in certain circumstances. Moreover, the fact that a period has been reviewed does not exempt this period, or any tax declaration or return applicable to that period, from further review.

While the authorities have consistently found Avangard to be in compliance in all material respects with tax laws, it is possible that relevant authorities could, in the future, take differing positions with regard to interpretative issues, which may have a material adverse effect on Avangard's business, results of operations, and financial condition.

Disclosure and reporting requirements and fiduciary duties

Avangard's operations are conducted entirely through Ukrainian companies. Corporate governance, disclosure and reporting requirements have only recently been enacted in Ukraine. Anti-fraud legislation has only recently been adapted to the requirements of a market economy and remains largely untested. Most Ukrainian companies do not have corporate governance procedures that are in line with generally accepted international standards and corporate governance requirements (including those introduced in the United Kingdom). The concept of fiduciary duties of management or members of the board to their companies or shareholders remains undeveloped in Ukraine. Violations of disclosure and reporting requirements or breaches of fiduciary duties by the Company's Ukrainian subsidiaries or their management could significantly affect the receipt of material information or result in inappropriate management decisions, which may have a material adverse effect on Avangard's business, results of operations, and financial condition.

Shareholder liability under Ukrainian law could cause the Company to become liable for the obligations of its Ukrainian subsidiaries

The Civil Code of Ukraine, dated 16 January 2003 (the "**Civil Code**"), Commercial Code of Ukraine, dated 16 January 2003 (the "**Commercial Code**"), and the Law of Ukraine "On Companies", dated 19 September 1991, provide that shareholders in a Ukrainian joint stock company or limited liability company are not liable for the obligations of the company and bear only the risk of loss of their investment. This may not be the case, however, when one person (an "**effective parent**") is capable of determining decisions made by another (a "**subsidiary**"). A company is deemed to be the "effective parent" when it either:

(i) can block those decisions of the subsidiary which require a qualified majority of votes; or

(ii) can direct the actions of the subsidiary, if the effective parent has the majority of votes in the subsidiary.

An effective parent which exercises effective control over the subsidiary may incur secondary liability with respect to the obligations and liabilities of the subsidiary to the latter's creditors in the event that the subsidiary, due to the fault of the effective parent, becomes insolvent and is adjudged bankrupt. Secondary liability implies that the assets of the effective parent may be used to satisfy the subsidiary's liabilities to its creditors, if the subsidiary's own assets are insufficient. Furthermore, if, on the instructions of the effective parent, the subsidiary enters into or performs a transaction on terms that are unfavourable to this subsidiary, the effective parent will be required to compensate the subsidiary for any losses it incurred.

Accordingly, in the Company's position as an effective parent, it could be liable in some cases for the debts of its subsidiaries in Ukraine in cases where such subsidiaries have become insolvent due to the fault of the effective parent. In recent years, Ukrainian courts have found the effective parent to be liable in such circumstances. If any of the companies of the Group are declared insolvent and the Company is found liable for such insolvency as the effective parent, this could have a material adverse effect on Avangard's business, results of operations and financial condition.

Risks Relating to the GDRs and the Trading Market

Because there has been no prior active public trading market for the GDRs, the Offering may not result in an active or liquid trading market for the GDRs, and their price may be highly volatile

Before the Offering, there has been no public trading market for the GDRs or for the Company's ordinary shares. Although the GDRs will be admitted to trading on the London Stock Exchange, an active, liquid trading market may not develop or be sustained after the Offering. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If an actual liquid trading market for the GDRs does not develop, the price of the GDRs may be more volatile and it may be difficult to complete a buy or sell order for the GDRs.

The trading prices of the GDRs may be subject to wide fluctuations in response to many factors, including:

- variations in the Company's operating results and those of other poultry or egg processing companies;
- variations in national and industry growth rates;
- actual or anticipated announcements of new products or services by the Company or its competitors;
- changes in governmental legislation or regulation;
- general economic, political or regulatory conditions within the Company's business sector or in Ukraine;
- international events;
- outbreaks of bird flu or other livestock diseases in Ukraine and worldwide; or
- extreme price and volume fluctuations on the Ukrainian or other emerging market stock exchanges.

In addition, the market price of the GDRs may decline below the offering price, which will be determined by the results of the book building exercise being conducted by the Managers.

Future sales of shares or GDRs may affect the market price of the GDRs

Sales, or the possibility of sales, by the Company or its controlling majority shareholder of a substantial number of GDRs or of the Company's ordinary shares in the public markets following the Offering could have an adverse effect on the trading prices of the GDRs or could affect the Company's ability to obtain further capital through an offering of equity securities. Subsequent equity offerings or issuances by the Company may also reduce the percentage ownership of shares by its existing shareholders. Moreover, the Company may issue new shares that have rights, preferences or privileges senior to those of the Shares.

The shares underlying the GDRs are not listed and may be illiquid

Unlike many other GDRs traded on the London Stock Exchange, the Company's ordinary shares are neither listed nor traded on any stock exchange, and the Company does not intend to apply for the listing or admission to trading of its ordinary shares on any stock exchange. As a result, a withdrawal of Shares by a holder of GDRs, whether by election or due to certain events described under "Terms and Conditions of the Global Depositary Receipts—Termination of Deposit Agreement", will result in that holder obtaining securities that are significantly less liquid than the GDRs and the price of those Shares may be discounted as a result of such withdrawal.

GDR holders have no legal interest in the underlying shares

GDR holders acquire the beneficial, and not the legal, interest in the underlying ordinary shares of the Company, which the Depositary holds on trust for them, under the terms of the Deposit Agreement. The intended effect of the trust is to ring-fence the shares in the hands of the Depositary by conferring a property interest on GDR holders as beneficiaries.

The interest of the GDR holders as beneficiaries in trust assets (the Shares) is indirect, in the sense that in the normal course they do not have any direct recourse to the Shares nor do they have any direct right of action against the Company. The Company will however enter into a deed poll in favour of GDR holders. See "Terms and Conditions of the Global Depositary Receipts".

There may be limitations on voting by GDR holders

Holders of GDRs will have no direct voting rights with respect to the Shares represented by the GDRs. They will have a right to instruct the Depositary how to exercise those rights, subject to the provisions of the Deposit Agreement. However, there are practical limitations upon their ability to exercise voting rights due to additional procedural steps involved in the Company's communication with holders. GDR holders will not receive notices of meetings directly from the Company, but from the Depositary, which has undertaken to mail to GDR holders notices of meetings, copies of voting materials and a statement as to the manner in which instructions may be given by holders. As a result, the process of exercising voting rights may take longer for holders of GDRs than for holders of Shares. In addition, there is a possibility that a holder will not receive voting materials or otherwise learn of a meeting of shareholders in time to enable the holder to return voting instructions to the Depositary in a timely manner. In the event that the Depositary does not receive voting instructions from a holder either because no voting instructions were returned to the Depositary or because the voting instructions are incomplete, illegible or unclear, the holder shall be deemed to have instructed the Depositary to give a discretionary proxy to a person designated by the Company with respect to such Shares, and the Depositary shall give a discretionary proxy to a person designated by the Company to vote such Shares. See "Terms and Conditions of the Global Depositary Receipts".

Holders of the GDRs may not be able to benefit from certain UK anti-takeover protections

As the Company is incorporated in Cyprus, it is subject to Cypriot law. As at the date of this Prospectus, Cypriot law does not contain any requirement for a mandatory offer to be made by a person acquiring control of a Cypriot company if such company is not listed on a regulated market in Cyprus. The Company is not listed on a regulated market in Cyprus. Consequently, a prospective bidder acquiring GDRs may gain control of the Company in circumstances in which no requirement for a mandatory offer is triggered in respect of the Company under the takeover protection regime applicable to it. The Company is not subject to the United Kingdom City Code on Takeovers and Mergers (the "**City Code**") and consequently any person intending to acquire all or a substantial part of the Company's issued share capital will not be obliged to comply with the requirements of the City Code. As a result, some holders of GDRs may not be given the opportunity to receive treatment equal to what may be received, in the event of an offer made by a potential bidder with a view to gaining control of the Company or by certain other holders of GDRs or, as the case may be, Shares at the relevant time. As a result, a bid for, or creeping acquisition of control over, the Company is presently unregulated. See "Share Capital and Certain Requirements of Cypriot Legislation—Potential Mandatory Offer Rules".

Holders of the GDRs may not be able to benefit from pre-emptive rights and may be diluted

The Companies Law, Cap. 113, which is the applicable corporate law in Cyprus (the "**Cyprus Companies Law**"), and the Articles grant to holders of Shares pre-emptive rights on further issues of shares in the capital of the Company. The current authorised share capital of the Company would allow for the issue of a further 250,000 Shares if the Over-allotment Option is not exercised, and for the issue of a further 62,500 Shares if the Over-allotment Option is exercised in full. The holders of the GDRs may be diluted if the pre-emption rights of existing shareholders are disapplied or restricted in pursuance of the applicable legislation.

The Articles of the Company provide that any issues of new shares over and above the authorised share capital of the Company must be approved by the Company's shareholders and that the Company's shareholders shall have pre-emptive rights on such new issues. However, the Company's shareholders can resolve to allow the Board of Directors to dispense with such rights by a special shareholders' resolution. Accordingly, the pre-emptive rights of the Company's shareholders may not be applied and the holders of GDRs may be diluted.

Negative perception in relation to Avangard's flock breeding and growing practices may affect the market price of the GDRs

In recent years, public opinion in various countries, especially in Western Europe, has been leaning against breeding and growing practices for battery chicken. While to date there is no evidence that the consumer preferences of the Ukrainian population may be negatively influenced by such practices, no assurance can be given that the perceptions of investors outside Ukraine will not prevent them from investing in GDRs. Any negative shift in investors' opinion of Avangard's breeding and growing practices may negatively impact the market price for GDRs.

USE OF PROCEEDS

The Company will receive the net proceeds of the Offering and the net proceeds of the sale of Additional GDRs. The net proceeds to the Company of the Offering will be approximately U.S.$179.3 million, assuming no exercise of the Over-allotment Option, or U.S.$206.4 million, assuming that the Over-allotment Option is exercised in full. Total underwriting commissions, taxes, fees and expenses payable by the Company from the proceeds of the Offering are approximately U.S.$8.2 million, assuming no exercise of the Over-allotment Option, or up to approximately U.S.$9.3 million, assuming that the Over-allotment Option is exercised in full. The Company intends to use these net proceeds primarily to finance the expansion and diversification of its egg business through capital expenditures (including the completion of construction of the Avis and Chornobaivske egg production complexes and, potentially, the expansion of the processing capacity of Imperovo).

DIVIDEND POLICY

Since its formation on 23 October 2007, the Company has not declared or paid dividends in respect of any of its outstanding share capital.

The distribution of profits and payment of dividends by the Company are subject to compliance with the Cyprus Companies Act and the Articles.

Section 169A of the Cyprus Companies Act provides that, except in cases of reductions of subscribed capital, no distribution (such as dividends or interest relating to shares) to shareholders may be made by a public company when on the closing date of the last financial year the net assets as already set out in the company's annual accounts are, or following such a distribution would become, lower than the amount of the subscribed capital plus those reserves which may not be distributed under the law or the statutes.

Section 169A of the Cyprus Companies Act provides further that the amount of a distribution made by a public company to shareholders may not exceed the amount of profits at the end of the last financial year, plus any profits brought forward and sums drawn from reserves available for this purpose, less any losses brought forward and sums placed to reserve. Dividends may only be paid out of profits and the amount of a dividend may not be higher than that recommended by the Board of Directors.

As a holding company, the level of the Company's stand-alone income and its ability to pay dividends depend primarily on the receipt of dividends and distributions from its Ukrainian subsidiaries. The payment of dividends by such Ukrainian subsidiaries is contingent upon the sufficiency of their earnings, cash flows and distributable reserves.

The Company does not expect to pay dividends during the next four to five years. This expectation is based in part on the Company's planned capital expenditures during this period. The Company may pay dividends at some future date, dependent upon its generation of sustainable profits, cash flow, capital, investment requirements and it being commercially prudent to do so. Any payment of dividends by the Company is subject to, among other considerations, the Company's results of operations and prospects, its planned and committed capital expenditures, the availability and cost of funds from external sources and other relevant considerations. See also "Risk Factors—Risks Relating to Avangard—The Company is a holding company and is, therefore, financially dependent on receiving distributions from its subsidiaries".

All of the shares of the Company, including the shares represented by the GDRs, carry equal dividend rights as of the moment of their acquisition.

To the extent that dividends are declared and paid by the Company, owners of GDRs on the relevant record date will be entitled to receive dividends payable in respect of Shares underlying the GDRs, subject to the terms of the Deposit Agreement. Cash dividends may be paid to the Depositary in Euro and, except as otherwise described under "Terms and Conditions of the Global Depositary Receipts—Conversion of Foreign Currency", will be converted into U.S. dollars by the Depositary and paid to holders of GDRs net of currency conversion expenses.

EXCHANGE RATE INFORMATION

The table below sets forth, for the periods indicated, the period-end, average and high and low official rates set by the NBU, in each case for the purchase of hryvnia, all expressed in hryvnia per U.S. dollar. The NBU's hryvnia/U.S. dollar exchange rate as reported on 28 April 2010 was UAH7.93 to the U.S. dollar.

Year	Period end	Average(1)	High	Low
2005	5.05	5.11	5.31	5.05
2006	5.05	5.05	5.05	5.05
2007	5.05	5.05	5.05	5.05
2008	7.70	5.39	7.88	4.84
2009	7.99	7.81	8.01	7.61

Month	Period end	Average(2)	High	Low
January 2010	8.00	7.99	8.01	7.99
February 2010	7.99	7.99	8.01	7.99
March 2010	7.93	7.96	7.99	7.93
April 2010 (through 28 April)	7.93	7.93	7.93	7.92

Source: NBU.

Notes:

(1) The average of the exchange rates on the last day of each full month during the year.

(2) The average of the exchange rates on the first and last day of each month.

Fluctuations in the exchange rates between the hryvnia and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future. No representation is made that the hryvnia amounts referred to in this Prospectus could have been or could be converted into U.S. dollars at the above exchange rates or at any other rate.

Under Ukrainian law, the NBU is authorised to intervene to maintain the exchange rate of hryvnia to foreign currencies within a corridor, which is established on an annual basis for a particular foreign currency.

CAPITAL RESOURCES

The following table sets forth, as of 31 December 2009, actual short and long-term borrowings and total capitalisation of Avangard, extracted or derived from the Consolidated Financial Information as adjusted for the Offering, assuming that the Over-allotment Option is exercised in full.

	31 December 2009	
	Actual	**As Adjusted**
	(U.S.$'000)	**(U.S.$'000)**
Bonds (current liabilities)	24,249	24,249
Short-term borrowings (including current portion of long-term borrowings)	161,184	161,184
Long-term borrowings, net of current portion	92,117	92,117
Total debt	**277,550**	**277,550**
Equity:		
Share capital and premium	644	207,008
Capital contribution reserve	115,858	115,858
Retained earnings	300,107	300,107
Currency translation reserve	(64,137)	(64,137)
Non-controlling interests	8,083	8,083
Total equity	360,555	566,919
Total capital resources[1]	**638,105**	844,469

Notes:
(1) Total capitalisation, being long-term borrowings, net of current portion, plus total equity, amounts to U.S.$452,672 thousand.

Except as described above in relation to the Offering, there has been no material change in total capitalisation and indebtedness (including in respect of contingent liabilities and guarantees) of the Company since 31 December 2009.

DILUTION

The Company's consolidated net tangible book value as of 31 December 2009 was approximately U.S.$352.5 million, resulting in a consolidated net tangible book value per Share of U.S.$70.5. Consolidated net tangible book value per Share represents the amount of the Company's total tangible assets less total liabilities and non-controlling interest, divided by the number of shares outstanding.

Dilution in net tangible book value per Share represents the difference between the amount per Share (represented by GDRs) paid by purchasers of GDRs in the Offering and the net tangible book value per Share immediately after the completion of the Offering. After giving effect to the sale by the Company of 1,437,500 Shares (represented by GDRs) in the Offering (assuming that the Over-allotment Option is exercised in full) at the offering price of U.S.$15 per GDR and after deducting the underwriting commission and estimated offering expenses payable by the Company, the Company's net tangible book value as of 31 December 2009, as adjusted, would have been U.S.$558.8 million, or U.S.$86.8 per share. This represents an immediate increase in net tangible book value of U.S.$16.3 per share to existing shareholders and an immediate dilution of U.S.$63.2 per Share to new investors purchasing GDRs in the Offering.

	U.S.$
Offer price per GDR(1)	15
Net tangible book value per Share immediately before the Offering(2)	70.5
Increase in net tangible book value per Share attributable to investors in the Offering	16.3
Net tangible book value per Share immediately after the Offering	86.8
Dilution per Share to investors in the Offering	63.2

Note:

(1) Based on a ratio of ten GDRs per one Share, the implied market price per Share is U.S.$150.

(2) Based on 31 December 2009.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial information set forth below shows the Company's historical consolidated financial information as of 31 December 2007, 2008 and 2009 and for the years then ended as if the Company were formed on 1 January 2007. Such financial information has been extracted or derived from the Consolidated Financial Information and related Notes included elsewhere in this Prospectus. This section should be read together with the Consolidated Financial Information and related Notes included elsewhere in this Prospectus, as well as together with "Management's Discussion and Analysis of Financial Condition and Results of Operations".

	Year ended 31 December		
	2009	**2008**	**2007**
	(U.S.$'000)	**(U.S.$'000)**	**(U.S.$'000)**
COMPREHENSIVE INCOME STATEMENT DATA[1]:			
Continuing Operations			
Revenue	319,855	302,292	127,788
Net change in fair value of biological assets	7,695	12,690	6,467
Cost of sales	(220,407)	(232,975)	(114,689)
Gross profit	107,143	82,007	19,566
General administrative expenses	(4,933)	(7,932)	(4,986)
Distribution costs	(3,086)	(4,429)	(4,005)
Income from Government grants and incentives	9,440	39,068	17,187
Income from special VAT treatment	12,291	—	—
Other operating expenses	(4,970)	(6,940)	(2,655)
Other operating income	1,397	120	255
Waiver of amounts due to related parties	22,525	64	7,798
Operating profit	139,807	101,958	33,160
Finance income	41,180	26,897	20,868
Finance costs	(46,150)	(52,986)	(22,540)
Profit before income tax	134,837	75,869	31,488
Income tax (expense)/benefit	(1,168)	1,414	(1,254)
Net profit for the year	133,669	77,283	30,234
Other comprehensive income – effect of translation into presentational currency	(7,441)	(59,998)	—
Total comprehensive income	126,228	17,285	30,234
Attributable to:			
Equity holders of the parent	124,517	18,050	24,026
Minority interest	1,711	(765)	6,208

	31 December		
	2009	2008	2007
	(U.S.$'000)	(U.S.$'000)	(U.S.$'000)
STATEMENT OF FINANCIAL POSITION DATA[(2)]:			
Non-current assets:			
Property, plant and equipment, net	375,426	368,264	213,529
Financial assets available for sale	40	41	29,766
Non-current biological assets	21,546	9,185	21,343
Financial assets – long-term bank deposits	504	49,351	107,627
Deferred income tax assets	230	830	—
Other non-current assets	16,630	55,368	110,288
Total non-current assets	414,376	483,039	482,553
Current assets:			
Inventories	92,757	47,076	12,688
Prepaid income tax	35	5	—
Trade and other receivables	90,923	163,498	102,359
Current biological assets	44,910	47,935	18,075
Short-term financial assets	199,648	272,535	62,927
Cash and cash equivalents	1,727	5,878	4,460
Total current assets	430,000	536,927	200,509
Total assets	844,376	1,019,966	683,062
Equity attributable to equity holders of the parent:			
Share capital	644	644	3
Capital contributions reserve	115,858	—	—
Retained earnings	300,107	168,151	74,109
Currency translation reserve	(64,137)	(56,968)	—
Total attributable to the equity holders of the parent	352,472	112,097	74,112
Non-controlling interests	8,083	6,406	17,680
Total equity	360,555	118,503	91,792
Non-current liabilities:			
Financial liabilities	92,117	201,020	189,340
Deferred tax liabilities	1,173	650	1,201
Deferred income (non-current portion)	5,963	6,499	10,136
Total non-current liabilities	99,253	208,169	200,677
Current liabilities:			
Financial liabilities	185,433	313,299	227,074
Trade and other payables	199,128	379,995	163,513
Accounts payable for income tax	7	—	6
Total current liabilities	384,568	693,294	390,593
Total liabilities	483,821	901,463	591,270
Total liabilities and shareholders' equity	844,376	1,019,966	683,062

	31 December		
	2009	2008	2007
	(U.S.$'000)	(U.S.$'000)	(U.S.$'000)
CASH FLOW DATA[1]:			
Operating activities:			
Cash flows from operating activities before working capital changes	121,310	109,546	55,734
Net working capital movements	96,179	43,773	(53,770)
Interest paid	(51,781)	(54,653)	(25,909)
Income tax paid	(48)	(29)	(65)
Net cash flows generated from (used by) operating activities	165,660	98,637	(24,010)
Investing activities:			
Purchases of property, plant and equipment	(3,370)	(256,411)	(146,372)
Proceeds from disposals of property, plant and equipment	—	284	165
Effect of acquisitions of subsidiaries	28	—	—
Increase/(decrease) in bank deposits	126,200	(137,632)	(93,924)
Acquisition of investments	—	—	(29,766)
Disposal of investments	—	28,993	—
Interest received	1,769	26,848	20,868
Net cash generated by (used in) investing activities	124,627	(337,918)	(249,029)

	31 December		
	2009	2008	2007
	(U.S.$'000)	(U.S.$'000)	(U.S.$'000)
Financing activities:			
Increase in share capital	—	641	—
Proceeds from loans received	15,511	469,156	293,775
Repayment of bank loans	(308,016)	(256,800)	(16,676)
Proceeds from/(repayment of) short-term bonds	(2,964)	25,754	—
Net cash (used in) generated from financing activities	(295,469)	228,751	277,099
Effects of translation into presentation currency	1,097	1,856	—
Net increase/(decrease) in cash and cash equivalents	(4,085)	1,326	4,060
Cash and cash equivalents, at beginning of the period	5,786	4,460	400
Cash and cash equivalents, at end of the period	1,701	5,786	4,460
OTHER MEASURES:			
EBITDA[3]	152,092	113,738	38,752

Notes:

(1) Data for the year ended 31 December 2007 include the results of operations and cash flows from the 2007 Acquisitions from the date of acquisition, data for the year ended 31 December 2008 include the results of operations and cash flows from the 2008 Acquisitions from the date of acquisition and data for the year ended 31 December 2009 include the results of operations and cash flows from the 2009 Acquisition from the date of acquisition.

(2) The consolidated statement of financial position data as of 31 December 2007 includes the impact of the 2007 Acquisitions, the consolidated statement of financial position data as of 31 December 2008 includes the impact of the 2008 Acquisitions and the consolidated statement of financial position data as of 31 December 2009 includes the impact of the 2009 Acquisitions.

(3) EBITDA represents net profit before finance costs, income taxes, depreciation and amortisation, foreign exchange (gains) losses and other (income) expense. Management intends to use EBITDA in the future to, among other things, assess Avangard's operating performance and make decisions about allocating resources. Management believes this measure is frequently used by securities analysts, investors and other interested parties in evaluating similar issuers, most of which present EBITDA when reporting their results. EBITDA is a supplemental measure of Avangard's performance and is not defined or required by IFRS and may not be comparable to other similarly titled measures for other companies. EBITDA should not be considered as an alternative to operating profit, net profit or any other performance measures required to be presented under IFRS or as an alternative to cash flow from operating activities as a measure of Avangard's liquidity.

Reconciliation of operating profit to EBITDA is as follows:

Continuing operations

	Year ended 31 December		
	2009	**2008**	**2007**
	(U.S.$'000)	**(U.S.$'000)**	**(U.S.$'000)**
Operating profit	139,807	101,958	33,160
Depreciation[1]	12,285	11,780	5,592
EBITDA	152,092	113,738	38,752

Note:
(1) the Group has no intangible assets and so no amortisation is charged in any of the years.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of Avangard's financial condition and results of operations as of and for the years ended 31 December 2007, 2008 and 2009 should be read together with the Consolidated Financial Information and the Notes thereto and the other information included elsewhere in this Prospectus. The Consolidated Financial Information has been prepared in accordance with IFRS. This section contains forward-looking statements that involve risks and uncertainties. Avangard's actual results may differ materially from those discussed in such forward-looking statements as a result of various factors, including those discussed under ''Risk Factors'' and ''Cautionary Note Regarding Forward-Looking Statements''.

Overview

Avangard is one of the leading agroindustrial companies in Ukraine, focusing on the production of shell eggs and egg products. According to the Pro-Consulting Report, Avangard had a market share of approximately 23% of all shell eggs (39% of industrially produced shell eggs) and 52% of all dry egg products produced in Ukraine in 2009.

Avangard's shell eggs are either sold for export or sold on a wholesale basis to domestic wholesale customers who purchase Avangard's shell eggs for subsequent resale, to Ovoline and to supermarket chains and other retailers. In 2009, approximately 11% (U.S.$26,241 thousand) of Avangard's revenues from shell eggs arose from sales for export, approximately 83% (U.S.$200,270 thousand) were sales to domestic wholesale customers, approximately 4% (U.S.$8,596 thousand) were sales to Ovoline and approximately 2% (U.S.$5,479 thousand) were sales to supermarket chains and other retailers. (All export sales were made through a related party intermediary.) Avangard and Ovoline are related parties which conduct all transactions on market terms.

Avangard's egg products are either sold for export or sold on a wholesale basis domestically. In 2009, approximately 47% (U.S.$10,315 thousand) of Avangard's egg products were sold for export and approximately 53% (U.S.$11,649 thousand) were sold domestically. (All export sales were made through a related party intermediary.)

Avangard's business is divided into the following five segments (all figures and percentages relate to continuing operations):

- *Shell Egg* – This segment, comprising the production and sale of shell eggs, generated total revenues in 2009 of U.S.$240,586 thousand or 75.2% of Avangard's total revenues. These revenues exclude intersegment sales of shell eggs to the egg products segment. Avangard expects the percentage of its revenues from the shell egg segment to decrease (after intragroup eliminations) over the next few years as an increased proportion of Avangard's shell eggs are expected to be used in the production of processed egg products.

- *Poultry* – This segment, comprising the production and sale of poultry (including one-day old laying hens, young laying hens and breeder chickens and laying hens at the end of their production cycle), generated total revenues in 2009 of U.S.$37,746 thousand or 11.8% of Avangard's total revenues. Avangard expects its revenues from its poultry segment to decrease as a percentage of its total revenues over the next few years as it will cease sales of one day-old laying hens, young laying hens and breeder chickens, using all capacity for the increase of own flocks of laying hens.

- *Animal Feed* – This segment, comprising the production and sale of animal feed, generated total revenues in 2009 of U.S.$15,515 thousand or 4.9% of Avangard's total revenues. These revenues exclude intersegment sales to the shell egg and poultry segments. Avangard expects its revenues from the animal feed segment (after intragroup elimination) to remain relatively low as a percentage of its total revenues over the next few years as the Group will continue to consume the majority of the animal feed it produces.

- *Egg Products* – This segment, comprising the production and sale of egg products, generated total revenues in 2009 of U.S.$21,964 thousand or 6.9% of Avangard's total revenues. Imperovo, which operates the Group's egg processing plant, was acquired by the Group in July 2009. Avangard expects its revenues from its egg products segment to increase as a percentage of its total revenues over the next few years as a result of this acquisition, and 2010 will include a full year of Imperovo's results for the first time.

- *Other Activities* – This segment, comprising the production and sale of goods and services, sale of slaughtered poultry and sale of poultry manure generated total revenues in 2009 of U.S.$4,044 thousand or 1.3% of Avangard's total revenues.

During the years under review, Avangard has been rapidly expanding its production capacity, and increases in Avangard's revenues over these periods have been achieved from increases in output through own investment and strategic acquisitions. Avangard's shell egg production volume increased from approximately 1,769 million pieces in 2007 to 2,422 million and 3,634 million in 2008 and 2009, respectively. Avangard continued to expand its production capacities during 2009 bringing the total capacity of rearing facilities to 18.9 million heads of laying hens, which provides a production capability of more than 5.2 billion shell eggs per year. In 2010, Avangard intends to gradually increase its laying hen flock to utilise these expanded production capacities. Avangard is significantly expanding its facilities through the construction of the Avis and Chornobaivske egg production complexes in the Khmelnytsk and Kherson regions which, once fully operational by the end of 2011, according to the current construction schedule are expected to have an annual combined production capacity in the region of 1.68 billion shell eggs.

For the years ended 31 December 2007, 2008 and 2009, respectively, Avangard had total revenues of U.S.$127,788 thousand, U.S.$302,292 thousand and U.S.$319,855 thousand, and net profit after tax of U.S.$30,234 thousand, U.S.$77,283 thousand and U.S.$133,669 thousand. Avangard's gross profit margins were 15.3%, 27.1% and 33.5% in 2007, 2008 and 2009, respectively. The lower margins in 2007 reflected increases in grain prices (the main component of feed) in that year that were not immediately passed on to the price of eggs.

Management believes that Avangard has been able to achieve higher gross profit margins over the period covered by its historical financial information as a result of factors including:

- synergies from Avangard's high level of vertical integration, especially due to the ability of Avangard to produce animal feed in its own feed mills; none of Avangard's competitors are vertically integrated to the same degree;
- the modern technology used by Avangard which reduces losses and wastages in the production process, minimises the scope for human error and reduces labour costs;
- the use of the Hy-Line breeder flocks supplied by Hy-Line International (UK) Limited ("**Hy-Line International**") which Avangard believes to enhance productivity;
- the cheaper costs of inputs from which Avangard is able to benefit because of volume discounts and long-standing relationships with suppliers;
- Avangard's ability to optimise inventory levels of both inputs such as grain and outputs such as shell eggs, so that it can buy and sell at the appropriate time; and
- the slight price differential which Avangard believes it is able to charge in certain regions of Ukraine due to the strength of its regional brands, its reputation for quality and ability to supply products to large customers.

Avangard's net profit margins in the periods under review have also been positively affected by the recognition of government grants income and special VAT treatment received by Avangard, although the contribution of this decreased in 2009 relative to the previous two years both in absolute and percentage terms.

Acquisitions and Formations of New Companies

During the periods presented in the Consolidated Financial Information, the following Group companies joined the Group through the establishment of direct or indirect control over them by Avangard. These acquisitions and formations affect the period-to-period comparability of the Group's Consolidated Financial Information.

2009 Acquisitions (the "**2009 Acquisitions**")

- ***Imperovo.*** In December 2009, Avangard acquired a 100% participatory interest in Imperovo from the LLC "Cherkasy Ptakhoprodukt", a company affiliated to the Group, for a cash consideration of UAH40 thousand, which was equal to the nominal value of the participatory interest reflected in the company's charter.
- ***LLC Pershe Travnya.*** In December 2009, the Group obtained direct control through acquisition by its subsidiary company OJSC "Ptakhofabryka Pershe Travnya", of a 99% participatory interest in LLC Pershe Travnya for a cash consideration of UAH60 thousand.

2008 Acquisitions (the "**2008 Acquisitions**")

- ***Interbusiness***. In March 2008, the Group obtained *de facto* control through acquisition by an affiliated individual, Ms. L.I. Kukuyetu, of a 100% participatory interest in Interbusiness from Mr. Isaev, for a cash consideration of UAH112 thousand, which was equal to the nominal value of the participatory interest reflected in the company's charter.

- ***Areal-Snigurivka.*** In April 2008, the Group obtained *de facto* control through acquisition by its related company LLC "Areal Ptakhoprodukt", of a 100% participatory interest in Areal-Snigurivka from Mr. A.I. Haida, for no consideration.

2007 Acquisitions (the "**2007 Acquisitions**")

- ***Bohodukhivska.*** In December 2007, the Group obtained *de facto* control through acquisition by its related company LLC "Agromash Ltd", of a 100% participatory interest in Bohodukhivska from Mr. G.N. Gura and Ms. N.A. Gura, for a cash consideration of UAH24 thousand.

- ***Ptytsecomplex.*** In December 2007, the Group obtained *de facto* control through acquisition by its related company LLC "Imperovo", of a 100% participatory interest in Ptytsecomplex by way of acquisition of a 40% participatory interest in Ptytsecomplex from an unaffiliated individual, Mr. I. M. Ivanyas, for a cash consideration of UAH202 thousand, acquisition of a 10% participatory interest from Mr. S. I. Ivanyas, for a cash consideration of UAH51 thousand, and acquisition of the remaining 50% from an unaffiliated individual, Mr. M. Dzhurovich, for a cash consideration of UAH253 thousand.

- ***Zorya.*** In May 2007, the Group obtained *de facto* control through acquisition by its related company LLC "Investment Company Agrotsentr", of a 89.4% participatory interest in Zorya from Cross, for a cash consideration of UAH15 thousand. Through Zorya, Avangard also obtained control over SC Zorya, a 100%-owned subsidiary of Zorya, as described below.

- ***Yuzhnaya-Holding.*** In March 2007, the Group obtained *de facto* control through acquisition by its affiliated company LLC "Consultinggroupcompany", of a 100% participatory interest in Yuzhnaya-Holding from the LLC "Pershyi Ivano-Frankivskyi Likero-Horilchanyi Zavod", for a cash consideration of UAH5,750 thousand. Through Yuzhnaya-Holding, Avangard also obtained control over SC Yuzhnaya-Holding, a 100%-owned subsidiary of Yuzhnaya-Holding, as described below.

- ***Pershe Travnya.*** In January 2007, the Group obtained *de facto* control through acquisition by related company CJSC "Investment Company Invest-Resours", of 93% of shares in Pershe Travnya from Mr. V.V. Besarab, Mr. V.M. Denisenko and Mr. O.S. Astionenko for a cash consideration of UAH43 thousand.

- ***Chervonyi Prapor.*** In January 2007, the Group obtained *de facto* control through acquisition by its related company CJSC "Investment Company Invest-Resours" of 86.02% of shares in Chervonyi Prapor from the LLC Financial Group "Partner" for a cash consideration of UAH10,758 thousand. Through Chervonyi Prapor, the Group also obtained direct control over SC Chervonyi Prapor, a 100%-owned subsidiary of Chervonyi Prapor, as described below.

- ***Vuhlehirskyi.*** In January 2007, the Group obtained *de facto* control through acquisition by its related company CJSC "Investment Company Invest-Resours" of 79.2% of shares in Vuhlehirskyi from the LLC Financial Group "Partner" for a cash consideration of UAH750 thousand.

- ***Volnovaskyi KHP.*** In February 2007, the Group obtained *de facto* control through acquisition by its related company CJSC "Investment Company Invest-Resours" of 72.4% of shares in Vuhlehirskyi from the LLC Financial Group "Partner" for a cash consideration of UAH390 thousand.

- ***Volnovaska.*** In May 2007, the Group obtained *de facto* control through acquisition by its related company LLC Postachkrymagro, of a 98% participatory interest in Volnovaska from the LLC Khvylya for a cash consideration of UAH5,750 thousand. Through Volnovaska, the Group also obtained direct control over SC Volnovaske, a 100%-owned subsidiary of Volnovaska, as described below. Through Volnovaska, the Group also obtained direct control over Cross, a 100%-owned subsidiary of Volnovaska.

- ***SC PH Lozuvatske.*** In December 2007, the Group obtained *de facto* control through acquisition by its related company LLC "Spetsagropostach LTD" of a 100% participatory interest in SC PH Lozuvatske from the LLC "Prykarpatskaya Finansova Korporatsiya Company IF" LLC for a total cash consideration of UAH1000.

Segments and Intragroup Transactions

The Group applies IFRS 8 "Operating Segments" to the disclosure of information on business segments in the Consolidated Financial Information. Intragroup transactions are eliminated within the Consolidated Financial Information. Due to the high level of vertical integration within Avangard's operations, there are a significant number of transactions between Avangard's subsidiaries, shown as intersegment eliminations in the table below.

	Year ended 31 December	
	2008 Amount	**2009 Amount**
Intersegment eliminations:	**(U.S.$'000)**	**(U.S.$'000)**
Shell egg	11,266	15,233
Poultry	300	5,145
Animal feed	73,202	53,143
Egg products	—	4,794
Total	**84,768**	**78,315**

The most significant category of intragroup sales is the animal feed segment's sale of animal feed to the shell egg segment. These sales constituted 67.9% of all intersegment sales in 2009 as compared to 86.4% in 2008. Although the amount of such intersegment sales is likely to vary cyclically with the build-up of inventories, Management expects this to remain high as feed requirements are inextricably linked to the production of eggs and rearing of hens.

The shell egg segment sells shell eggs to the egg products segment for processing. Intersegment sales by the shell egg segment represented 19.5% of all intersegment sales in 2009 as compared to 13.3% in 2008. Management expects this to increase further in the next few years due to the anticipated increase in importance to the Group of the egg products segment.

Management believes that the prices at which products are sold among its segments are generally consistent with average market prices and thus are in accordance with the relevant Ukrainian transfer pricing rules. See "Risk Factors—Risks Relating to Avangard—Avangard's intragroup transactions and other related party transactions are subject to Ukrainian transfer pricing regulations".

Consolidation of Companies After 1 January 2007

The following table sets out the companies which have become part of Avangard since 1 January 2007 and which were not already consolidated in Avangard at the time of the acquisition or establishment, together with the date of consolidation.

				Beneficial Ownership at 31 December		
Company	**Function**	**Acquisition/ Start-up**	**Consolidation Date**	**2007**	**2008**	**2009**
Chervonyi Prapor	Farm for laying hens	Acquisition	2007	86.01%	97.7%	97.7%
SC Chervonyi Prapor	Farm for young laying hens	Start-up	2007	86.01%	97.7%	97.7%
SC Yuzhnaya-Holding	Farm for young laying hens	Start-up	2007	100%	100%	100%
SC Volnovaske	Farm for young laying hens	Start-up	2007	99.9%	99.9%	99.9%
SC Zorya	Farm for young laying hens	Start-up	2007	89.4%	89.4%	89.4%
SC PH Donetske	Farm for young laying hens	Start-up	2007	99.9%	99.9%	99.9%
SC Chornobaivske	Farm for young laying hens	Start-up	2007	60.4%	97.3%	97.3%
SC PF Lozuvatska	Farm for laying hens and fodder mill	Acquisition	2007	100%	100%	100%
SC PH Lozuvatske	Farm for young laying hens	Acquisition	2007	100%	100%	100%
Volnovaska	Farm for laying hens	Acquisition	2007	99.9%	99.9%	99.9%
Volnovaskyi KHP	Fodder mill	Acquisition	2007	72.4%	72.4%	72.4%
Vuhlehirskyi	Fodder mill	Acquisition	2007	79.2%	79.2%	79.2%
Pershe Travnya	Farm for laying hens and fodder mill	Acquisition	2007	92.7%	92.7%	92.7%
Yuzhnaya-Holding	Farm for young laying hens	Acquisition	2007	100%	100%	100%
Zorya	Farm for laying hens	Acquisition	2007	89.4%	89.4%	89.4%
Ptytsecomplex	Breeder farm and farm for laying hens	Acquisition	2007	100%	100%	100%
Cross	Dormant	Acquisition	2007	99.9%	99.9%	99.9%
Bohodukhivska	Farm for laying hens	Acquisition	2008	—	100%	100%
Areal-Snigurivka	Farm for laying hens	Acquisition	2008	—	100%	100%
Interbusiness	Farm for laying hens	Acquisition	2008	—	100%	100%
LLC Pershe Travnya	Fodder mill	Acquisition	2009	—	—	92.7%
Imperovo	Egg processing plant	Acquisition	2009	—	—	100%

All of the acquisitions in the foregoing table, other than SC Chervonyi Prapor, SC Yuzhnaya-Holding, SC Volnovaske, SC Zorya, SC PH Donetske and SC Chornobaivske, have been made from third parties.

The results of all the above acquisitions were included in the Consolidated Financial Information from the dates referred to above. The above dates reflect the consolidation of the above companies into the Group. In some instances the legal acquisitions by the Group occurred at a later date.

Key Factors Affecting Avangard's Results of Operations

Fluctuations in Market Price for Shell Eggs and Egg Products

The average sales price for Avangard's shell eggs was UAH0.25 per piece, UAH0.48 per piece and UAH0.56 per piece in 2007, 2008 and 2009, respectively (excluding VAT). Average market prices for shell eggs in Ukraine increased between 2007 and 2009 due to a number of factors, including increases in grain prices in 2007 and early 2008, growth of internal demand for shell eggs and increases of exports in 2009 which created additional price pressure in that year.

Prices for shell eggs in Ukraine are at present significantly lower than prices in neighbouring countries (which are in turn lower than prices in Western Europe). Management expects that the prices of shell eggs will follow the pattern of growth of disposable income in Ukraine and will gradually converge with Central European levels.

The average sales price for Avangard's egg products increased from UAH15.05 thousand per ton in 2007 to UAH23.63 thousand and UAH52.69 thousand in 2008 and 2009, respectively. The significant price increase in 2009 was driven by the acquisition of Imperovo into the Group, whose egg products are of a higher quality than those which the Group had previously produced, thereby realising a higher price. Additional drivers of egg products price growth were the increase in prices of shell eggs as a key raw material in the production of egg products, and also general inflation.

Fluctuations in Prices of Feed Grains

Feed grain prices represent a significant portion of the cost to produce shell eggs, and fluctuations in feed grain prices have a significant effect on egg producers. The cost of feed grain is affected by a number of supply and demand factors such as crop production and weather, and other factors over which Avangard has no or little control.

Avangard consumes feed grains, such as corn and wheat, in its operations. Avangard does not cultivate such commodities itself in significant quantities and has no plans to do so. To reduce its exposure to price changes in the feed grains market, Avangard sources feed grains from domestic suppliers. A significant portion of the cost of producing Avangard's shell eggs and other egg products is currently attributable to purchases of the ingredients of animal feed. Avangard has therefore historically been vulnerable to price volatility and breaks in the supply chain for feed grain inputs, which generally follow the trends of the world commodities markets. To reduce its exposure to price changes in the feed grains market, Avangard maintains a three to four month supply of inventories of feed grains at its fodder mills. Part of the Group's feed is purchased from a related party, which helps mitigate supply risk. Purchases are made at market prices.

The following table sets forth the average market prices for feed grains consumed by Avangard as at the dates indicated below. During 2008, feed grain prices in Ukraine decreased significantly in U.S. dollar terms, led by favourable world market prices on commodities and the devaluation of the domestic currency against the U.S. dollar at the end of the year. Market prices of feed grain increased in 2009 following a recovery after the economic crisis and convergence with the foreign currency denominated world prices. However, they have not to date returned to the peak levels reached in 2007.

	26 October 2007	31 October 2008	30 October 2009
Prices for feed grains		**(U.S.$ per ton)[1]**	
Fodder corn	203.96	86.80	127.50
Fodder wheat	195.05	85.06	112.50

Notes:
(1) Excluding VAT.

Demand for Shell Eggs and Egg Products in the Ukrainian Market

The level of demand for industrially produced shell eggs and egg products in Ukraine may fluctuate from time to time for various reasons including, among others, increased output of such products by other suppliers in Ukraine, fluctuations in the prices for such products and changes in consumer preferences, both seasonal and long-term. The level of demand for egg products in Ukraine may also be impacted by increased imports of egg products into Ukraine.

Management believes that demand for shell eggs in Ukraine may continue to increase slightly from its current level as per capita consumption of eggs in Ukraine fell dramatically during the economic crisis the country was subject to following the break-up of the Soviet Union and has still not returned to Soviet levels (although it has recently shown modest annual increases). However, Management believes that a more significant factor will be the gradual replacement of household production of shell eggs in Ukraine by industrial production. See "Industry Overview—Production of Eggs in Ukraine".

Management also believes that demand for egg products in Ukraine will continue to increase from its current levels due to a number of factors, including the currently low levels of consumption of egg products in Ukraine compared with other European countries, increasing general income levels among the Ukrainian population, the growth of the food industry, which is increasingly using egg products in the production of mayonnaise, mayonnaise-based sauces, bread and other baked goods, sausages and semi-finished fish products, the undersupply of egg products and the limited availability of substitute products in Ukraine. See "Industry Overview—World Production of Egg Products".

Due to the high demand for Avangard's shell eggs and egg products, it is generally able to sell all of its production. Management does not therefore believe that Avangard's sales are currently subject to significant demand constraints.

Seasonality

In a typical year, the demand for shell eggs reaches its peak during the autumn and winter months, followed by a decrease in demand during late spring until the beginning of July. There is also a natural increase in shell egg production during the spring and early summer, particularly among household producers. However, Avangard has a relatively continuous production cycle associated with the production of shell eggs. In response to seasonal and other short-term decreases in the demand for shell eggs, Avangard seeks to mitigate the effects of short-term decreases in demand by storing some of the shell eggs it produces, which can generally be stored for up to 180 days. In addition, since acquiring the Imperovo processing plant in 2009, Avangard also reduces the effects of short-term decreases in demand by processing more shell eggs as egg products, which can be stored for longer periods of time, and which are less susceptible to seasonal fluctuations in demand than shell eggs. Management believes that at present seasonality does not significantly impact Avangard's business, results of operations and financial condition.

Inflation and other Macroeconomic Factors in Ukraine

Avangard's results of operations and financial condition are dependent on levels of price inflation in Ukraine. Management believes that there is a correlation between income levels in Ukraine and the consumption of shell eggs and egg products.

Real GDP in Ukraine decreased by 15.1% in 2009, following increases of 2.3% in 2008 and 7.9% in 2007. The GDP decline in 2009 was primarily attributable to the impact of the global economic crisis which hit Ukraine through a fall in external demand for export products and the reversal of foreign capital inflows. At the same time, disposable household income following a period of sustained growth since 2000 showed a decrease of 8.5% in real terms in 2009.

The table below sets out the key macroeconomic indicators for Ukraine for the years ended 31 December 2007, 2008 and 2009.

	Year ended 31 December		
	2007	2008	2009
Real GDP (% change)(1)	7.9%	2.3%	(15.1%)
Nominal GDP (UAH billion)	721.0	948.0	915.0
Nominal GDP (% change)	32.5%	31.5%	(3.5%)
Consumer price index, end of period(2)	16.6%	22.3%	12.3%
Real disposable household income (% change)(3)	14.8%	7.6%	(8.5%)

Source: SCSU

Notes:

(1) The SCSU calculates real GDP for a particular year by dividing nominal GDP for such year by the relevant consumer price index. The real GDP percentage change for a particular year indicates the percentage change compared to the previous year.

(2) The consumer price index is the change in weighted prices for consumer goods and services compared with the same period of the previous year.

(3) Real disposable household income shows the percentage change in disposable household income adjusted for consumer inflation as compared to the previous year.

State Support for Agricultural Production in Ukraine

In view of the importance of the agricultural sector to the national economy as well as the need to improve living conditions in rural areas, support of the agricultural sector is a major priority for the Ukrainian government. During the periods under review, state support to the agricultural sector was provided in various forms, including special tax regimes, tax privileges, direct subsidies and compensations. Grants and other privileges to the agricultural sector are established by the Parliament of Ukraine, as well as by the Agrarian Ministry, the Ministry of Finance, the State Committee of the Water Industry, customs authorities and local state district administrations, among other government departments and agencies.

Following its accession to the WTO in May 2008, Ukraine is able to provide the so-called "amber box" subsidies, which are capped on an annual basis at (i) 5% of the overall agricultural production value generated in Ukraine in the relevant year, plus (ii) 5% of the overall production value of a particular product generated in Ukraine in the relevant year (if subsidies are provided to a particular product), plus (iii) up to an additional UAH3.043 billion (approximately U.S.$381.1 million). This type of subsidy may be provided in the form of direct financial aid to agricultural producers as well as tax exemptions and minimum price support. Based on Ukraine's 2008 overall agricultural output as reported by the SCSU, the upper limit of "amber box" subsidies in 2009, excluding product-specific support, was equal to approximately UAH10.585 billion (U.S.$1,325.6 million). This was approximately 2.9 times higher than direct state subsidies to the Ukrainian agricultural sector set under the 2009 Budget Law of approximately UAH3.7 billion (U.S.$463.4 million).

In 2007, 2008 and 2009, Avangard benefited from various forms of state support, which resulted in significant tax savings for Avangard as well as Avangard receiving government grants and VAT support. The importance of such government grants as a percentage of sales decreased for Avangard in 2009. See below, "Results of Operations—Government Grants and Incentives". The principal tax benefits and state support programmes from which Avangard has benefited are summarised below.

FAT Regime

All Avangard's subsidiaries (other than Rohatyn-Korm, Vyhlehirskyi, Volnovaskyi KHP, Kamyanets-Podilsky, LLC Pershe Travnya and Imperovo) are exempt from Ukrainian corporate profits tax and pay FAT in accordance with the Law on Fixed Agricultural Tax. FAT is paid in lieu of corporate profits tax, land tax, duties for special use of water, municipal tax, duties for geological survey works and duties for trade patents. The amount of FAT is calculated as a percentage of the deemed value of all land plots (determined as of 1 July 1995) leased or owned by a taxpayer. FAT expenses are recorded under general administrative expenses and were not material in each of the periods under review. The FAT has been extended for an unlimited period of time. If the FAT regime is discontinued in the future, Avangard would be required to pay corporate profits tax at the standard rate (currently 25%) for Ukrainian companies, as well as certain other taxes and duties. See Note 20 to the Consolidated Financial Information.

State Subsidies

In 2007, 2008 and 2009, respectively, Avangard benefitted from a total of U.S.$17,187 thousand, U.S.$39,068 thousand and U.S.$9,440 thousand in government grants income, the majority of which in each case relates to compensation for finance costs (see below). Total government grants contributed 54.6%, 51.5% and 7.0% as a percentage of net profit before tax in 2007, 2008 and 2009, respectively. In addition, in 2009 Avangard received income of U.S.$12,291 thousand in the form of special VAT treatment (which represents 9.1% of net profit before tax for that year). The grants received were of the following principal types:

Government VAT refunds for the agricultural industry.

According to the Law of Ukraine "On Value Added Tax", dated 3 April 1997 (the "**VAT Law**"), Ukrainian agricultural companies are entitled to retain the difference between the input VAT they pay on purchases for their operations and the VAT they charge on the sale of products (at the rate of 20%). In 2007 and 2008, the retained amounts were transferred to special bank accounts and could be used to pay for goods and services related to the Group's agricultural activities. In 2009, the law was changed so that the amounts so retained could be used for any business purposes of the company. Following this change to the law, the value of this benefit was treated in the Consolidated Financial Information as income from special VAT treatment rather than income from government grants. The amount of such benefit in 2009 was U.S.$12,291 thousand. This VAT refund benefit was received by Avangard during 2007, 2008 and 2009 and continues to be available to Avangard.

Compensation for finance costs under loans from Ukrainian banks.

Some of Avangard's Ukrainian subsidiaries receive partial compensation of interest expense under loans received from Ukrainian commercial banks.

Avangard does not receive direct government grants related to breeding programmes or government grants related to the processing of animal products, because its operations do not qualify for such assistance.

Foreign Currency Exchange Rates and Interest Rates

Avangard's operating assets are located in Ukraine, and its revenues and costs are denominated primarily in hryvnia. The Consolidated Financial Information is, however, presented solely in dollars. Changes in the dollar/hryvnia exchange rate, particularly in 2008 and 2009, has had a significant impact on the results reported in the Consolidated Financial Information and any future fluctuations could materially affect the dollar reported results, even if the impact on local currency results is insignificant.

Certain of Avangard's revenues, production costs and finance costs are denominated in foreign currencies, principally euros and dollars, although to date this has been relatively limited.

Avangard's foreign currency revenues consist principally of revenues from export sales of shell eggs and egg products. Avangard's foreign currency expenditures consist principally of the cost of purchasing breeder flocks. All of Avangard's breeder flocks are imported from outside Ukraine and purchased with foreign currency. In addition, much of the equipment used in Avangard's business is imported from outside Ukraine and is purchased with foreign currency.

Out of Avangard's short-term debt balance of U.S.$145,531 thousand at 31 December 2009, U.S.$144,806 thousand (99.5%) was hryvnia denominated. U.S.$85,092 thousand (97.9%) of Avangard's long-term debt balance of U.S.$85,975 thousand at 31 December 2009 was hryvnia denominated (the remainder is Swiss franc denominated debt of approximately U.S.$883 thousand).

In accordance with market practice in Ukraine, Avangard does not use any hedging instruments to hedge against currency exchange rate fluctuations, and Management does not in any case believe this to be required given Avangard's limited foreign currency exposure at functional currency level.

Avangard is not exposed to interest rate fluctuation risk as all of its borrowings have a fixed interest rate. As a result, short-term fluctuations in interest rates have historically had no impact on Avangard's results of operations. Any material changes in interest rates could affect fair values of financial instruments, which may in turn affect results.

Components of Principal Income Statement Items

Revenues

Shell Egg Segment

Avangard's revenues in the shell egg segment are generated by sales of shell eggs, accounting for 75.2% of Avangard's total revenues in 2009.

As described in "—Key Factors Affecting Avangard's Results of Operations—Demand for Shell Eggs and Egg Products in the Ukranian Market", because of the continuing high demand for Avangard's shell eggs, it is generally able to sell all of its production. As a result, the Group's revenues are primarily driven by the output capacity of its production facilities. Avangard's egg production volume increased to approximately 3,634 million pieces in 2009 from 2,422 million in 2008 and approximately 1,769 million in 2007 following the increase in the flock at the Group's farms for laying hens. Avangard continued to expand its productions capacity during 2009 bringing the total capacity to 18.9 million heads of laying hens, which provides a production capability of more than 5.2 billion shell eggs per annum.

Avangard's revenues are also affected by market prices for shell eggs. The average sales price for Avangard's shell eggs was UAH0.25, UAH0.48 and UAH0.56 per piece in 2007, 2008 and 2009, respectively (excluding VAT).

Animal Feed Segment

Avangard presently uses the majority of the animal feed it produces in its own operations. As Avangard has six fodder mills, compared to 19 farms for laying hens located throughout Ukraine, some of its animal feed demand is met by third party suppliers in the regions where Avangard has no fodder mills. Surplus animal feed is sold to third parties, which accounted for 4.9 % of Avangard's total revenues in 2009.

Poultry Segment

Avangard's revenues in its poultry segment are generated from sales of one-day old laying hens, young laying hens and breeder flock and laying flock at the end of their production cycle. Sales of poultry accounted for 11.8% of Avangard's total revenues in 2009. The sales of laying flock at the end of the production cycle accounted for a larger part of this segment's sales in this period. The decrease in revenues in this segment from U.S.$60,364 thousand in 2008 to U.S.$37,746 thousand in 2009 was caused by both lower quantities of day-old laying hens and young laying hens being sold to third parties as the company used its breeder capacity to increase its own laying hens flock. Sales were also significantly affected by the continued devaluation of the Ukrainian currency against the U.S. dollar in this period.

Egg Products Segment

Avangard's revenues in its egg products segment are generated from sales of dry egg products, including dry egg, yolk and albumen powder. These operations were largely acquired by Avangard in 2009 through its acquisition of Imperovo. Prior to such date, Avangard had a limited capability to process egg products at its other facilities.

As Imperovo was acquired in July 2009 and consolidated as from that date, the revenues from these operations are only reflected in Avangard's income statement as from that date. Sales of egg products accounted for 6.9% of Avangard's total revenues in 2009. These operations were acquired as part of the Group's vertical integration strategy whereby it can add value to the product further up the supply chain. This also helps mitigate seasonal fluctuations in the shell eggs market as the Group effectively stores surplus supply for use in the processing business in the low seasons, such as summer. Such products also have longer storage life.

Other Activities Segment

Avangard's revenues in its other activities segment are generated from sales of slaughtered poultry, the sale of poultry manure and the provision of certain services to third parties, such as the mixing of animal feed and transportation of shell eggs. Other activities accounted for 1.3% of Avangard's total revenues in 2009.

Net Change in Fair Value of Biological Assets and Agricultural Produce

The net change in fair value of biological assets and agricultural produce represents the revaluation, in line with IAS 41 "Agriculture", of Avangard's livestock at the end of each reporting period. The groups of biological assets that undergo the revaluation to arrive at fair value are laying hens (commercial poultry), young laying hens (replacement poultry) and other biological assets. The Group uses discounted cash flow techniques as at each revaluation date.

The changes in value of biological assets are included in the Comprehensive Income Statement and the increases in 2007, 2008 and 2009 were U.S.$6,467 thousand, U.S.$12,690 thousand, and U.S.$7,695 thousand, respectively.

Cost of Sales

Avangard's cost of sales consists of costs of raw materials, payroll and related expenses for employees at production facilities, depreciation, services provided by third parties and other expenses. In the years under review, cost of sales from year to year has generally increased as production volumes have increased. Given the high costs required to build, maintain and operate laying hens growing and egg processing facilities, Avangard's per-unit costs are significantly affected by its production volumes. Higher production volumes generally lead to lower per-unit costs, resulting in a lower cost of sales as a percentage of revenues, which decreased from 90% in 2007 to 69% in 2009.

Avangard's raw material expenses primarily consist of the cost of purchasing animal feed, grain and other inputs which Avangard mixes itself into animal feed. It also includes the cost of packaging for shell eggs and egg products, vaccines and fuel.

Avangard's payroll and related expenses primarily consist of salaries and annual bonus paid to personnel employed at Avangard's production facilities and payroll contributions to the state pension fund in respect of such employees as well as other contributions.

Depreciation costs for Avangard are primarily attributable to buildings, equipment and other property, plant and equipment at Avangard's production facilities, Avangard's vehicle fleet, which is used in the production process, (such as for transporting raw materials) and office equipment.

Services provided by third parties consumed in Avangard's production operations include principally the costs of rental payments and the utility costs for electricity, natural gas and water used in Avangard's production process.

Changes in the balances of finished products for Avangard relate primarily to inventories of inputs which are internally produced and subsequently consumed in the production process. The primary component of this is animal feed.

Avangard's other expenses within costs of sales consist primarily of repairs and maintenance expenditure.

Shell Egg Segment

Avangard's raw material expenses for the shell egg segment primarily consist of the cost of purchasing animal feed, grain and other inputs which Avangard mixes itself into animal feed. It also includes the cost of packaging for shell eggs and egg products, vaccines and fuel.

Animal feed is the major component, accounting for approximately 72% of the cost of shell egg sales in 2009, while grains, being the key raw material in the production of shell eggs, were approximately 36-42% of animal feed cost.

Avangard typically uses wheat and corn as the main components in the production of animal feed, which is prepared according to specific recipes for different types of flock, including young laying hens, laying hens, breeders, one-day chickens, and even for laying hens at different age and productivity stages.

Avangard has its own parental laying hens flock at breeder facilities, used to produce hatching eggs for the development of the laying hens flock. The costs of production of hatching eggs are comprised of animal feed and the costs of purchasing and maintaining one-day breeders that develop into a parental flock.

Other major raw materials used in the production of shell eggs include packaging for shell eggs and egg products, vaccines and fuel.

Poultry Segment

Avangard's poultry segment costs primarily relate to the cost of animal feed, payroll and related expenses, one-day breeder chickens, and utilities. Costs are allocated to the poultry segment until the hens are 150 days old, after which hens are moved to the laying site and costs are allocated to the shell egg segment.

Animal Feed Segment

Avangard effectively manages the cost of animal feed as part of its vertical integration strategy. Animal feed is produced at Avangard's own fodder mills and is partly purchased from third party suppliers in cases where supplying animal feed from Avangard's own fodder mills would not be feasible because of the large distance it would have to be transported. In 2009 Avangard covered approximately 75% of its animal feed needs, purchasing the remaining amount from third party suppliers while simultaneously selling excess animal feed to outside buyers. The cost of animal feed, used in the main production of shell eggs, is attributed to the cost of the shell egg segment, poultry segment and egg products segment. However, the cost of animal feed sold to third parties is reflected in the animal feed segment.

The composition of animal feed, and therefore its cost, depends on the age and particular breed of birds being given such feed.

Egg Products

The main component of egg products costs is the cost of processed eggs. Other costs include payroll and related expenses, equipment and machinery maintenance costs, depreciation, utilities and packaging.

General Administrative Expenses

Avangard's general administrative expenses consist of salaries and wages of administration personnel, services provided by third parties, depreciation, repairs and maintenance costs, tax expenses (other than income tax), material usage and other expenses.

Avangard's salaries and wages of administrative personnel primarily consist of salaries paid to administration employees and payroll contributions to the state pension fund in respect of such employees as well as other contributions.

Costs of services provided by third parties primarily consist of communications, auditors and consultancy expenses, legal and consultancy expenses, employee training expenses, bank service charges and utility costs related to administration.

Depreciation expense primarily relates to the depreciation of fixed assets used in Avangard's administration, such as its corporate headquarters building and equipment.

Other expenses in relation to Avangard's administration activities include repairs and maintenance, the cost of business trips outside Ukraine, events and business functions and administrative materials for printing. Tax expenses other than income tax included in this grouping relate primarily to FAT and local taxes. FAT expenses were not material in the periods under review.

General administrative expenses decreased in 2009 in comparison to the previous year, mainly due to the devaluation of the hryvnia against the U.S. dollar.

Distribution Expenses

Avangard's distribution expenses consist of salaries and wages of distribution personnel, transport expenses, depreciation, services provided by third parties, packing materials, repairs and maintenance costs and other expenses.

Government Grants and Other Incentives

Government grants recognised as income consist of VAT refunds for the agricultural industry, partial compensation of interest for loans received by agricultural enterprises and partial compensation of complex agricultural equipment costs. See "—Key Factors Affecting Avangard's Results of Operations—State Support for Agricultural Production in Ukraine—State Subsidies" above.

Other Operating Expenses

Other operating expenses primarily consist of losses on disposal of current and non-current assets, impairment of non-current assets and current assets, losses from exchange differences, changes in provision for doubtful debts, fines and penalties and income from special VAT treatment.

Other Operating Income

Other operating income primarily consists of profits on disposals of current and non-current assets, income received from waiver of liabilities, income from exchange differences, changes in provision for doubtful debts and income from special VAT treatment.

Provision for doubtful debts consists of general reserves for accounts receivable based on aging analysis and individual assessment of the recoverability of accounts receivable and prepayments to suppliers by Avangard.

Waiver of amounts due to related parties

In 2009, the Group benefited from the waiver of U.S.$22,525 thousand of loans from related parties. Of this amount, U.S.$18,307 thousand was as a result of trading of certain subsidiaries through related party trading companies which are not part of the Group, to mitigate the risks associated with that trading. The waiver for these amounts is effectively the Group's participation in the profit in those transactions. The remainder related to an arrangement with former corporate shareholders of subsidiaries as part of a financial restructuring.

Financial Income

The Group's financial income includes interest income from bank deposits.

Financial Expenses

Avangard's finance expenses consist of interest expense on Avangard's bank indebtedness (net of capitalised interest), the cost of finance leases and interest incurred on the Bonds.

Income Tax Expense

Current income tax expense consists of expenses for income taxes paid by the Ukrainian companies in Avangard that do not pay FAT in accordance with the Law on Fixed Agricultural Tax. Such companies paid corporate income tax at a rate of 25% in each of 2007, 2008 and 2009. The corporate income tax rate for 2010 is 25%. To reduce the Group's tax expense, it elects to pay FAT rather than corporate income tax with respect to all eligible subsidiaries. FAT expenses are recorded under general administrative expenses and were not material in each of the periods under review.

Deferred tax assets and liabilities arise on temporary differences between the bases of assets and liabilities under Ukrainian tax principles and IFRS.

Effect of Translation into Presentation Currency

There were no effects of translation into the presentation currency in 2007 because the hryvnia/dollar exchange rate was fixed throughout the year. However, 2008 saw the start of a prolonged period of volatility in the exchange rate, resulting in a significant net devaluation of the hryvnia against the dollar. During 2009 the exchange rate began to stabilise. The consequent negative effect of translation into presentation currency in 2009 was U.S.$7,441 thousand, or 5.6% of the profit for the year after tax, which was a decrease from U.S.$59,998 thousand, or 77.6% of the profit for the year, in 2008, as a result of the stabilisation of the hryvnia against the dollar after a prolonged period of devaluation.

Net Profit Attributable to Non-Controlling Interests

Net profit attributable to non-controlling interests was U.S.$6,208 thousand, U.S.$2,535 thousand and U.S.$1,713 thousand for 2007, 2008 and 2009, respectively. Net profit attributable to non-controlling interests consists of the share of minority shareholders in the profits of Avangard's subsidiaries which are less than wholly-owned. See "General Information". Minority interests are calculated by reference to the net income and net assets of the relevant subsidiary applying effective ownership stakes of the minority shareholders. Minority interests in the periods discussed have principally represented interests owned directly or indirectly by minority shareholders.

Events after the balance sheet date

Since the beginning of 2010, the Group has entered into export sales contracts for the sale (via a related party intermediary) of approximately 1.2 billion shell eggs to customers in CIS and the Middle East.

On 30 March 2010, Slovyany and Pershe Travnya entered into two supply contracts for females and males of parent stock of "Hy-Line W-36" and "Hy-Line Brown" breeds in the amounts of EUR3,130,000 and EUR570,000. The term of these contracts is 3 years.

Results of Operations

The following table summarises Avangard's results of operations for the years ended 31 December 2007, 2008 and 2009.

	Year ended 31 December					
	2009		2008		2007	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue	Amount	Percentage of total revenue
	(U.S.$'000)	(%)	(U.S.$'000)	(%)	(U.S.$'000)	(%)
Continuing Operations						
Revenue	319,855		302,292		127,788	
Net change in fair value of biological assets and agricultural produce	7,695	2.4	12,690	4.2	6,467	5.1
Cost of sales	(220,407)	(68.9)	(232,975)	(77.1)	(114,689)	(90.0)
Gross profit	107,143	33.5	82,007	27.1	19,566	15.3
General administrative expenses	(4,933)	(1.5)	(7,932)	(2.6)	(4,986)	(3.9)
Distribution expenses	(3,086)	(1.0)	(4,429)	(1.5)	(4,005)	(3.1)
Income from Government grants and incentives	9,440	3.0	39,068	12.9	17,817	13.4
Income from special VAT treatment	12,291	3.8				
Other operating expenses	(4,970)	(1.6)	(6,940)	(2.3)	(2,655)	(2.1)
Other operating income	1,397	0.4	120	0.1	255	0.2
Waiver of amounts due to related parties	22,525	7.0	64	—	7,798	6.1
Operating profit	139,807	43.7	101,958	10.7	33,160	25.9
Other income/(expense), net						
Financial income	41,180	12.9	26,897	8.9	20,868	16.3
Financial expenses	(46,150)	(14.4)	(52,986)	(17.5)	(22,540)	17.6
Profit before income tax	134,837	42.2	75,869	25.1	31,488	24.6
Income tax (expense)/benefit	(1,168)	0.4	1,414	(0.5)	(1,254)	0.1
Net profit for the year	133,669	41.8	77,283	25.6	30,234	23,7
Attributable to:						
Owners of the parent	131,956	41.3	74,748	24.7	24,026	18.8
Minority interest	1,713	0.5	2,535	0.8	6,208	4.9
	133,669	41.8	77,283	25.6	30,234	23.7

Revenue

Avangard's total revenue increased by 5.8% to U.S.$319,855 thousand in 2009 from U.S.$302,291 thousand in 2008. The shell egg segment accounted for U.S.$240,586 thousand, or approximately 75.2% of Avangard's total revenues, in 2009. The poultry segment accounted for U.S.$37,746 thousand, or approximately 11.8% of Avangard's total revenues, in 2009. The animal feed segment accounted for U.S.$15,515 thousand, or approximately 4.9% of Avangard's total revenues, in 2009. The egg products segment accounted for U.S.$21,964 thousand, or approximately 6.9% of Avangard's total revenues, in 2009 and the other activities segment accounted for U.S.$4,044 thousand, or approximately 1.3% of Avangard's total revenues, in 2009. Avangard's total revenue increased by 136.6% in 2008 from U.S.$127,788 thousand in 2007. The shell egg segment accounted for U.S.$225,698 thousand, or approximately 74.7% of Avangard's total revenues, in 2008. The poultry segment accounted for U.S.$60,364 thousand, or approximately 20.0% of Avangard's total revenues, in 2008. The animal feed segment accounted for U.S.$2,149 thousand, or approximately 0.7% of Avangard's total revenues, in 2008. The egg products segment accounted for U.S.$2,200 thousand, or approximately 0.7% of Avangard's total revenues, in 2008 and the other activities segment accounted for U.S.$11,881 thousand, or approximately 3.9% of Avangard's total revenues, in 2008.

The following table presents Avangard's revenues by type for 2007, 2008 and 2009.

	Year ended 31 December					
	2009		2008		2007	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue	Amount	Percentage of total revenue
	(U.S.$'000)	(%)	(U.S.$ '000)	(%)	(U.S.$'000)	(%)
Shell eggs	240,586	75.2%	225,698	74.7%	87,446	68.4%
Poultry	37,746	11.8%	60,364	20.0%	26,896	21.0%
Animal feed	15,515	4.9%	2,149	0.7%	7,515	5.9%
Egg products	21,964	6.9%	2,200	0.7%	1,321	1.0%
Other	4,044	1.3%	11,881	3.9%	4,610	3.6%
Total	**319,855**	**100%**	**302,291**	**100%**	**127,788**	**100%**

Shell Egg Segment

Avangard's revenues from sales of shell eggs increased by 6.6% to U.S.$240,586 thousand or 75.2% of total revenues in 2009 from U.S.$225,698 thousand or 74.7% of total revenues, in 2008. The increase in revenue from such sales was primarily attributable to an increased volume of shell eggs sold as well as an increase in the price of shell eggs in Ukraine in 2009 and greater volumes of sales for export of shell eggs at a higher price in such period. Avangard's shell egg production volume increased to approximately 3,634 million in 2009 from approximately 2,422 million in 2008 or by 50.1%, due to the expanded laying hens flock at rearing facilities which grew from 12.242 million heads as of 31 December 2008 to 13.965 million heads as of 31 December 2009. The weighted average egg price amounted to UAH0.56 per piece in 2009, a 17% increase compared to 2008. However, in dollar terms the effective price per piece dropped by 23%.

Avangard's revenues from sales of shell eggs increased by 158.1% in 2008 from U.S.$87,446 thousand or 68.4% of total revenues, in 2007. The increase in revenue from such sales was primarily attributable to increased volumes of shell eggs sold and an increase in the price of shell eggs in such period.

Intersegment sales from the shell egg segment, which were eliminated from the Group's revenues, increased to U.S.$15,233 thousand in 2009 from U.S.$11,266 thousand in 2008. The increase was consistent with the expansion of the Group's activities and, in particular, the significant expansion in the Group's egg products segment. Intersegment sales in 2008 increased from U.S.$597 thousand in 2007. The increase was consistent with the expansion of the Group's activities and the higher amount of intragroup trading.

Poultry Segment

Avangard's revenue from sales of poultry decreased by 37.5% to U.S.$37,746 thousand, or 11.8% of total revenues, in 2009 compared to U.S.$60,364 thousand or 20.0% of total revenues, in

2008. This decrease in revenue for the sale of poultry was primarily due to the lower quantity of livestock sold, which was primarily associated with the peculiarities of the technological process whereby breeder flocks and laying flocks reach the end of the production cycle at approximately 60-65 weeks and 80 weeks, respectively. Average prices for laying hens in 2009 for laying hens were UAH14.80 per head, an increase of 1.4% from UAH14.60 in 2008. In addition, this decrease in revenue was due to the fact that the prices for poultry meat were stable whilst the hryvnia devaluated.

Avangard's revenue from sales of poultry increased by 124.4% in 2008 compared to U.S.$26,896 thousand or 21.0% of total revenues, in 2007. This increase in revenue for the sale of poultry was consistent with the expansion of the size of the Group's flock of laying hens.

Intersegment sales by the poultry segment, which were eliminated from the Group's revenues, increased to U.S.$5,145 thousand in 2009 from U.S.$300 thousand in 2008. The increase was attributable to intragroup sales. Intersegment sales decreased in 2008 from U.S.$648 thousand in 2007.

Animal Feed Segment

Revenues from the animal feed segment increased by 622.0% to U.S.$15,515 thousand, or 4.9% of total revenues, in 2009 compared to U.S.$2,149 thousand, or 0.7% of total revenues, in 2008. The increase was primarily due to greater sales to third parties of animal feed in such period (after the Group had built up high inventory levels in 2008). Revenues from the animal feed segment decreased by 71.4% in 2008 compared to U.S.$7,515 thousand, or 5.9% of total revenues, in 2007. The decrease was primarily due to the greater intragroup elimination in respect of this segment, reflecting the higher proportion of animal feed which was internally consumed by the Group.

Egg Products Segment

Avangard's revenues from the sale of egg products increased to U.S.$ 21,964 thousand or 6.9% of total revenues in 2009 from U.S.$2,200 thousand or 0.7% of total revenues in 2008. The increase in revenue from such sales was primarily attributable to the consolidation by the Group in July 2009 of the egg processing facilities at Imperovo and the significantly increased scale of operations in this segment which resulted.

In 2008, Avangard's revenues from the sale of egg products increased by 66.5% from U.S.$1,321 thousand or 1.0% of total revenues in 2007. The increase in revenue from such sales was primarily attributable to increased volumes of egg products sold and an increase in the price of such products.

The total volume of egg products sold amounted to 443 tons, 481 tons and 3,247 tons in 2007, 2008 and 2009 respectively. The average sales price for egg products increased from UAH15.05 thousand per ton in 2007 to UAH23.63 thousand and UAH52.69 thousand in 2008 and 2009 respectively. The significant price increase in 2009 was driven by the acquisition of Imperovo by the Group in July 2009, whose production was of higher quality than those of the Group's previous operations and able to realise a higher price. Additional drivers of egg products price growth were the increase in prices of shell eggs as key raw materials for the production of eggs products, and general inflation.

Other Activities Segment

Avangard's revenues from other activities decreased by 66.0% to U.S.$4,044 thousand or 1.3% of total revenues in 2009 from U.S.$11,881 thousand or 3.9% of total revenues in 2008. The decrease in revenue from such sales was primarily attributable to the fact that Avangard reduced its focus on this segment and, as a result, reduced the scale of its operations in this segment. The Group placed less focus on this segment in 2009 than in previous years. Avangard's revenues from the other activities segment increased by 157.7% in 2008 from U.S.$4,610 thousand or 3.6% of total revenues in 2007. The increase in revenue from such sales was primarily attributable to increased sales of slaughtered poultry and chicken manure.

Net Change in Fair Value of Biological Assets and Agricultural Produce

The net change in fair value of biological assets and agricultural produce decreased by 39.4% from U.S.$7,695 thousand in the year ended 31 December 2009 as compared to U.S.$12,690 thousand in the year ended 31 December 2008. These changes related primarily to the revaluation of the increased flock of laying hens held by the Group. The decrease was primarily due to the higher average age of Avangard's flock as at 31 December 2009 compared to 31 December 2008. (Such average age will vary on a cyclical basis because the average life-cycle of a laying hen is more than one year.) The net change in fair value of biological assets and agricultural produce increased by 96.2% in the year ended 31 December 2008 as compared to U.S.$6,467 thousand in the year ended 31 December 2007. These changes related primarily to the increased size of the flock of laying hens kept by the Group in 2008 and the younger average age of the flock as at 31 December 2008 compared to 31 December 2007, as well as increases in fair values arising from the increased discounted cash flows from the general trends in prices for the Group's products from such biological assets.

Cost of Sales

Avangard's cost of sales decreased by 5.4% to U.S.$220,407 thousand or 68.9% of total revenues in 2009 from U.S.$232,975 thousand or 77.1% of total revenues in 2008. This decrease was due to a decrease (in U.S.$ terms) in the price of grain and animal feed in 2009, partly offset by the Group's increased scale of operations in 2009. Avangard's cost of sales increased by 103.1% in 2008 from U.S.$114,689 thousand or 89.8% of total revenues in 2007. This increase was due to the increased volumes of input raw materials consistent with increasing production volumes, together with an increase in the price of grain and animal feed bought from third parties in 2008 as well as an increase in payroll costs due to higher salaries and increased headcount.

The following table provides additional information relating to the Group's cost of sales for the periods shown.

	Year ended 31 December					
	2009		2008		2007	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue	Amount	Percentage of total revenue
	(U.S.$'000)	(%)	(U.S.$'000)	(%)	(U.S.$'000)	(%)
Raw materials and other inventory consumed	174,827	54.7	182,548	60.4	86,471	67.7
Payroll of production personnel and related taxes(1)	14,953	4.7	21,447	7.1	11,985	9.4
Depreciation(2)	11,641	3.6	11,095	3.7	5,386	4.2
Services provided by third parties...........	14,365	4.5	14,331	4.7	5,102	4.0
Other	4,621	1.4	3,554	1.2	5,745	4.5
Total	**220,407**	**68.9**	**232,975**	**77.1**	**114,689**	**89.8**

Notes:

(1) Relates only to personnel employed at Avangard's production facilities.

(2) Relates to depreciation of buildings, equipment and other property, plant and equipment at Avangard's production facilities and Avangard's trucks used in the production process.

The cost of raw materials and other inventory consumed decreased by 4.2% to U.S.$174,827 thousand in 2009 or 54.7% of total revenue from U.S.$182,548 thousand or 60.4% of total revenue in 2008. This decrease was due to a decrease (in U.S.$ terms) in the price of grain in 2009, partly offset by the Group's increased scale of operations in 2009. Raw materials and other inventory in 2008 increased by 111.1% from U.S.$86,471 thousand or 67.7% of total revenue in 2007. This increase was due to the increased volumes of input raw materials consistent with increased production volumes and a strong build-up of grain and animal feed inventories in this period, together with an increase in the prices of grain and animal feed bought from third parties in 2008.

Raw materials costs as a percentage of total costs of sales decreased slightly to 79.3% in 2009 from 78.3% in 2008, which was in turn an increase from 75.4% in 2007. Overall this percentage is relatively consistent over the period under review.

Avangard's payroll and related taxes decreased by 30.3% to U.S.$14,953 thousand or 4.7% of total revenue in 2009 from U.S.$21,447 thousand or 7.1% of total revenue in 2008 due to the change in the hryvnia to U.S. dollar exchange rate combined with relatively stable salary costs in hryvnia terms. The 2008 amount represented an increase of 78.9% from U.S.$11,985 thousand or 9.4% of total revenue in 2007. The increase in payroll and related expenses was due to increases in salaries paid to personnel employed at Avangard's production facilities, which were partially attributable to increased average headcount (from 4,721 to 5,366) and general wage inflation in Ukraine in this period. These expenses constituted 6.8% of Avangard's total cost of sales in 2009 as compared to 9.2% of Avangard's total cost of sales in 2008 as compared to 10.4% of Avangard's total cost of sales in 2007.

Depreciation increased by 4.9% to U.S.$11,641 thousand or 3.6% of total revenue in 2009 from U.S.$11,095 thousand or 3.7% of total revenue in 2008. This increase was due to the commissioning of new caging equipment and the start of its depreciation. (Assets under construction are not depreciated until they come into use.) Depreciation increased by 106.0% in 2008 from U.S.$5,386 thousand or 4.2% of total revenue in 2007. The increase was due to major investment in property, plant and equipment assets held by the Group in such period and the completion of the upgrading of caging facilities which took place in 2008.

Services provided by third parties increased by 0.2% to U.S.$14,365 thousand or 4.5% of total revenue in 2009 from U.S.$14,331 thousand or 4.7% of total revenue in 2008. The 2008 costs represented an increase of 181.0% compared to the U.S.$5,102 thousand or 4.0% of total revenue in 2007. This increase was due to increased utility payments consistent with higher production volumes and price increases in Ukraine in this period.

The table below sets forth Avangard's cost of sales by segment in 2007, 2008 and 2009:

	Year ended 31 December					
	2009		2008		2007	
	Amount	Percentage of segment revenue	Amount	Percentage of segment revenue	Amount	Percentage of segment revenue
	(U.S.$'000)	(%)	(U.S.$'000)	(%)	(U.S.$'000)	(%)
Shell eggs	158,029	65.6	163,023	72.2	79,615	91.0
Poultry	30,904	80.9	56,927	94.3	15,929	59.2
Animal feed	13,855	89.3	1,997	92.9	7,083	94.3
Egg products	16,732	76.2	4,884	222.0	1,993	49.1
Other	887	21.9	6,144	51.7	10,069	218.4
Total	**220,407**	**68.9**	**232,975**	**77.1**	**114,689**	**89.8**

Cost of Sales Related to Shell Egg Segment

Avangard's cost of sales for the shell egg operations segment decreased by 3.1% to U.S.$158,029 thousand or 65.6% of segment revenue in 2009 from U.S.$163,023 thousand or 72.2% of segment revenue in 2008. The decrease of costs was primarily due to changes in the exchange rate, partially offset by higher volumes of input raw materials consistent with increasing production volumes. Avangard's cost of sales for this segment in 2008 segment increased by 104.8% from U.S.$79,6156 thousand or 91.0% of segment revenue in 2007. The increase of costs primarily related to the higher volumes of input raw materials consistent with increasing production volumes as well as the higher prices of grain and other inputs in 2008.

Cost of Sales Related to Poultry Segment

Avangard's cost of sales for its poultry operations decreased by 45.7% to U.S.$30,904 thousand or 80.9% of segment revenue in 2009 from U.S.$56,927 thousand or 94.3% of segment revenue in 2008. The decrease in the costs of sales for poultry operations was due to exchange rate movements and Avangard's optimisation of the costs of raw materials. Avangard's cost of sales for its poultry operations increased by 157.4% in 2008 from U.S.$15,929 thousand which represented 59.2% of segment revenue in 2007. The increase in the costs of sales for poultry operations was due to the higher volume of input raw materials consistent with increasing production volumes.

Cost of Sales Related to Animal Feed Segment

Avangard's cost of sales for its animal feed operations increased by to U.S.$13,855 thousand or 89.3% of segment revenue in 2009 from U.S.$1,997 thousand or 92.9% of segment revenue in 2008. Avangard's cost of sales for its animal feed operations decreased in 2008 compared to U.S.$7,083 thousand or 94.3% of total revenue in 2007. The increase was due to the higher volumes of input raw materials consistent with increasing production volumes, as well as the higher price of grain and other inputs in 2008. The majority of animal feed production is for own use.

Cost of Sales Related to Egg Products Segment

Avangard's cost of sales for its egg products operations increased by 242.6% to U.S.$16,732 thousand or 76.2% of segment revenue in 2009 from U.S.$4,884 thousand or 222.0% of segment revenue in 2008. The increase was due to the increased scale of the Group's egg processing operations in 2009, as well as certain other costs associated with the integration of the Imperovo processing facilities into the Group. Before the acquisition of Imperovo, only limited production of low quality melange was carried out within the Group. In 2008, Avangard's cost of sales for its egg products operations increased by 145.1% from U.S.$1,993 thousand or 49.1% of segment revenue in 2007. The increase was due to the higher volumes of input raw materials consistent with increasing production volumes.

Cost of Sales Related to Other Activities Segment

Avangard's cost of sales from the other activities segment decreased by 85.6% to U.S.$887 thousand or 21.9% of segment revenue in 2009 from U.S.$6,144 thousand or 51.7% of segment revenue in 2008. The decrease was due to a reduced focus by the Group on the segment and consequently reduced scale of operations in this period as well as a change in product mix, with higher sales of manure at no marginal cost relative to sales of slaughtered poultry for which there are marginal costs of sales. Avangard's cost of sales from the other activities segment decreased by 39.0% in 2008 from U.S.$10,069 thousand which represented 218.4% of segment revenue in 2007. In 2009 there were relatively low levels of sales of slaughtered poultry whereas there was an increase in manure sales with no costs.

Gross Profit

The following table provides information relating to the Group's gross profit for the years ended 31 December 2007, 2008 and 2009. Gross profit is measured as revenues less cost of sales, and includes movements in fair values of segment biological assets.

	Year ended 31 December					
	2009		2008		2007	
	Amount	Percentage of segment revenue	Amount	Percentage of segment revenue	Amount	Percentage of segment revenue
	(U.S.$'000)	(%)	(U.S.$'000)	(%)	(U.S.$'000)	(%)
Shell eggs	83,235	34.6	71,405	31.6	13,396	15.3
Poultry	13,859	36.7	7,397	12.3	11,869	44.1
Animal feed	1,660	10.7	152	7.1	432	5.7
Egg products	5,232	23.8	(2,684)	(122.0)	(672)	(50.9)
Other	3,157	78.1	5,737	48.3	(5,459)	(118.4)
Total	**107,143**	**33.5**	**82,007**	**27.1**	**19,566**	**15.3**

Gross profit increased by 30.7% to U.S.$107,143 thousand or 33.5% of the total revenue in 2009 from U.S.$82,007 thousand or 27.1% of the total revenue in 2008. This increase was due to increases in volumes of shell eggs and egg products sold and sales prices growing at a higher rate than input costs. Seasonality effects in the Ukrainian shell egg market were much less pronounced in 2009 than 2008, and price levels did not fall in the summer to the same degree as in previous years. The Group also succeeded in making cost-savings, through the modernisation of equipment which reduced the rates of egg breakages, as well as enhanced laying rates and survival rates of the Group's flock, and headcount and salary reduction measures. In 2008, gross profit increased by 319.1% from U.S.$19,566 thousand or 15.3% of the total revenue in 2007. This increase was due to higher production volumes and the increase in gross profit margin due to the benefits of vertical integration and, in particular, the reduced costs of animal feed internally produced by the Group.

Gross Profit Related to the Shell Egg Segment

Gross profit from Avangard's shell egg segment increased by 16.6% to U.S.$83,235 thousand or 34.6% of segment revenue in 2009 from U.S.$71,405 thousand or 31.6% of segment revenue in 2008. This increase was due to the factors mentioned above in relation to the Group. Gross profit from Avangard's shell egg segment increased in 2008 by 433.0% from U.S.$13.396 thousand or 15.3% of segment revenue in 2007. This increase was due to higher production volumes, the increase in gross profit margin due to the benefits of vertical integration and, in particular, the reduced costs of animal feed internally produced by the Group. Increases in flock size in 2008 and to a lesser extent in 2009 also contributed to gross profit through the corresponding increase in fair values of those biological assets.

The gross profit from Avangard's shell egg operations segment decreased as a percentage of total gross profit to 77.7% in 2009 from 87.1% in 2008. This decrease was due to the greater contribution of the egg products segment to gross profit in 2009, following the acquisition of the Imperovo processing facilities. The gross profit from Avangard's shell egg segment increased as a percentage of total gross profit in 2008 from 68.4% in 2007.

Gross Profit Related to the Poultry Segment

Gross profit from Avangard's poultry segment increased by 87.4% to U.S.$13,859 thousand in 2009 from U.S.$7,397 thousand in 2008. This increase was due to Avangard's increasing production volumes. In 2008, gross profit from Avangard's poultry segment decreased by 37.7% from U.S.$11,869 thousand in 2007. This decrease was due to sales of poultry at low prices in order to maintain market share and an increased cost base, together with a cyclical time-lag between increases in costs of inputs and subsequent increases in the price of poultry.

The gross profit from Avangard's poultry operations segment also increased slightly as a percentage of total gross profit to 12.9% in 2009 from 9.0% in 2008, which in turn was a decline as a percentage of total gross profit from 60.7% in 2007.

Gross Profit Related to the Animal Feed Segment

Gross profit from Avangard's animal feed segment increased to U.S.$1,660 thousand or 10.7% of segment revenue in 2009, as compared to a profit of U.S.$152 thousand or 7.1% of segment revenue in 2008. This increase was due to efficiency gains in the production process. Gross profit from Avangard's animal feed segment decreased in 2008 from a profit of U.S.$432 thousand or 5.7% of segment revenue in 2007. This decrease was due to the majority of the animal feed produced by the Group being consumed internally and only surpluses being sold to third parties.

The gross profit from Avangard's animal feed operations segment also decreased as a percentage of total gross profit to 1.5% in 2009 from 0.2% in 2008 and 2.2% in 2007.

Gross Profit Related to the Egg Products Segment

The Group generated gross profit of U.S.$5,232 thousand in the egg products segment in 2009, as compared to a gross loss of U.S.$2,684 thousand in 2008. This change was due to the increased scale of operations upon the consolidation of Imperovo. Gross loss from Avangard's egg products segment in 2008 increased from a gross loss of U.S.$672 thousand in 2007. The gross losses were due to the different strategy for this segment in those years, which involved the production of relatively low-quality melange in small amounts as a means of consuming products that would otherwise go to waste.

The gross profit from Avangard's egg products segment as a percentage of total gross profit was 4.8% in 2009, as compared to (3.3)% in 2008. The gross loss in 2008 also declined slightly as a percentage of total gross profit in 2008 from (3.4)% in 2007.

Gross Profit Related to the Other Activities Segment

Gross profit from Avangard's other activities segment decreased by 45.0% to U.S.$3,157 thousand or 78.1% of segment revenue in 2009 from U.S.$5,737 thousand or 48.3% of segment revenue in 2008. This decrease was due to the change in product mix within this segment, with manure sold at no marginal cost arising from the increased flock size. In 2008, gross profit from Avangard's other activities segment compared to a gross loss of U.S.$5,459 thousand or (4.3)% of total revenue in 2007.

The gross profit from Avangard's other activities operations segment also decreased as a percentage of total gross profit to 2.9% in 2009 from 7.0% in 2008. This decrease was due to the decreased importance of this segment for the Group in 2009.

General Administrative Expenses

	Year ended 31 December					
	2009		2008		2007	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue	Amount	Percentage of total revenue
	(U.S.$'000)	(%)	(U.S.$'000)	(%)	(U.S.$'000)	(%)
Salaries and wages of administrative personnel[(1)]	2,889	0.9	4,520	1.5	2,753	2.2
Services provided by third parties	1,216	0.4	1,534	0.5	1,035	0.8
Depreciation[(2)]	144	—	167	0.1	14	—
Other	684	0.2	1,711	0.5	1,184	0.9
Total	**4,933**	**1.5**	**7,932**	**2.6**	**4,986**	**3.9**

Notes:
(1) Relates only to administrative personnel.
(2) Relates only to depreciation in respect of administration assets.

General administrative expenses decreased by 37.8% to U.S.$4,933 thousand or 1.5% of total revenue in 2009 from U.S.$7,932 thousand or 2.6% of total revenue in 2008. This decrease was primarily due to a decrease in the salaries and wages of administrative personnel, more stringent cost controls being put in place at the management level as well as decreases in material usage and other expenses. Between 2007 and 2008, general administrative expenses increased by 59.1% from U.S.$4,986 thousand or 3.9% of total revenue in 2007. This increase was primarily due to increased salaries and wages of administrative personnel, as well as increased costs of services provided by third parties. This category was also impacted by acquisitions in the period.

General administration expenses for salaries and wages of administrative personnel decreased by 36.1% to U.S.$2,889 thousand or 0.9% of total revenue in 2009 from U.S.$4,520 thousand or 1.5% of total revenue in 2008. The decrease was due to headcount reduction measures and falling salaries in USD terms. Decreased headcount was made possible by an ongoing analysis of the Group's staffing requirements, transition to a simple, more automated accounting environment and the modernisation of other elements of the Group's administration operations. In 2008 these costs increased by 64.2% from U.S.$2,753 thousand or 1.5% of total revenue in 2007. The increase was due to increased headcount (following the acquisition of additional companies into the Group) and general wage inflation in Ukraine in this period.

As a percentage of total general administrative expenses this represented an increase to 58.6% in 2009 from 57.0% in 2008 which in turn represented an increase from 55.2% in 2007.

Services provided by third parties decreased by 20.7% to U.S.$1,216 thousand or 0.4% of total revenue in 2009 from $U.S.1,534 thousand or 0.5% of total revenue in 2008. This decrease was due to the decreased amounts of services provided to third parties as well as difference in currency exchange rates. These costs increased by 48.2% in 2008 from U.S.$1,035 thousand or 0.8% of total revenue in 2007. This increase was due to the acquisition of additional companies into the Group and associated third-party costs.

As a percentage of total general administrative expenses this represented an increase to 24.7% in 2009 from 19.3% in 2008, which represented a decrease from 20.8% in 2007.

Other expenses decreased in 2009 due to the cost cutting measures taken by the Group and synergies following integration, following an increase in 2007 arising from new acquisitions.

Distribution Expenses

	Year ended 31 December					
	2009		2008		2007	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue	Amount	Percentage of total revenue
	(U.S.$'000)	(%)	(U.S.$'000)	(%)	(U.S.$'000)	(%)
Salaries and wages of distribution personnel(1)	1,015	0.3	1,766	0.6	1,423	1.1
Transport expenses	864	0.3	1,032	0.3	489	0.4
Depreciation(2)	499	0.2	518	0.2	192	0.2
Other	708	0.2	1,113	0.4	1,901	1.4
Total	**3,086**	**1.0**	**4,429**	**1.5**	**4,005**	**3.1**

Notes:
(1) Relates only to sales and distribution employees.
(2) Relates only to depreciation in respect of a sales and distribution assets.

Distribution expenses decreased by 30.3% to U.S.$3,086 thousand in 2009 from U.S.$4,429 thousand in 2008. As a percentage of total revenue, distribution expenses decreased to 1.0% in 2009 from 1.5% in 2008.

This decrease was primarily due to reduced salaries and wages of distribution personnel, transport expenses and the cost of packing materials.

Distribution expenses increased by 10.6% in 2008 from U.S.$4,005 thousand in 2007. This increase was due to increased salaries and wages of distribution personnel, transport expenses and depreciation, partially offset by decreases in packing materials and other expenses. This represented a decrease in 2008 from 3.1% in 2007. This decrease was due to the decrease in payroll, transport and packaging expenses as well as other expenses. As a percentage of total revenue distribution expenses has fallen significantly. In 2007 customers tended to pay for their own transport costs, but during the financial crisis which started in 2008 the Group absorbed such costs itself to maintain market share. This process reversed partially in 2009.

Distribution expenses for salaries and wages of distribution personnel decreased by 42.5% to U.S.$1,015 thousand or 0.3% of total revenue in 2009 from U.S.$1,766 thousand or 0.6% of total revenue in 2008. This decrease was due to a greater integration of the customer base, which allowed a reduction in total sales personnel as more sales activities were carried out from head office. Distribution salaries and wages increased by 24.1% in 2008 from U.S.$1,423 thousand or 1.1% of total revenue in 2007. This increase was due to increased headcount and general wage increases.

As a percentage of total distribution expenses this represented a decrease to 32.9% in 2009 from 39.9% in 2008 and this represented an increase in 2008 from 35.5% in 2007.

Transport expenses decreased by 16.3% to U.S.$864 thousand or 0.3% of total revenue in 2009 from U.S.$1,032 thousand or 0.3% of total revenue in 2008. This decrease was due to a greater proportion of sales being made on an ex-works basis and the Group requiring its customers to take delivery from the Group's sites.

Transport expenses increased by 111.0% in 2008 from U.S.$489 thousand or 0.4% of total revenue in 2007. This increase was due to stronger client demand for deliveries of shell egg products and a consequent increase in the size of the distribution fleet.

As a percentage of total distribution expenses this represented an increase to 28.0% in 2009 from 23.3% in 2008 an increase from 12.2% in 2007.

Other expenses have fallen steadily over the period under review, but are not material.

Government Grants and Incentives

The table below summarises the government grants and incentives recognised as income by Avangard in 2007, 2008 and 2009.

	Year ended 31 December					
	2009		2008		2007	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue	Amount	Percentage of total revenue
	(U.S.$'000)	(%)	(U.S.$'000)	(%)	(U.S.$'000)	(%)
Partial compensation of interest payable	6,261	2.0	30,598	10.1	12,582	9.8
VAT refunds for development of poultry farming	2,855	0.9	7,795	2.6	3,957	3.1
VAT refunds (new legislation)	12,291	3.8	—	—	—	—
Other	324	0.1	675	0.2	648	0.5
Total	**21,731**	**6.8**	**39,068**	**12.9**	**17,187**	**13.4**

Partial compensation of interest payable on loans received by agro-industrial enterprises from financial institutions decreased by 79.5% to U.S.$6,261 thousand or 2.0% of total revenue in 2009 from U.S.$30,598 thousand or 10.1% of total revenue in 2008. This decrease was due to a reduction in the amount allocated in the Ukrainian state budget to such compensation programme and due to a decrease in qualifying interest payments relating to reductions in the Group's interest bearing debt to U.S.$256,160 thousand at the end of 2009 from U.S.$405,625 thousand as at the end of 2008. Such compensation increased by 143.2% in 2008 from U.S.$12,582 thousand or 9.8% of total revenue in 2007. This increase was due to the increased volume of qualifying interest payments in respect of which the Group was eligible to receive such compensation and the availability of funds in the state budget in order for such compensation payments to be made. Management believe that in substance such compensation is a government grant and therefore account for it in this way.

Total government VAT refunds for the development of poultry keeping increased by 94.3% to U.S.$15,146 thousand or 4.7% of total revenue in 2009 from U.S.$7,795 thousand or 2.6% of total revenue in 2008. This increase was due to a change in law in respect of such VAT benefit following which the amount of benefit is shown separately. VAT refunds increased by 97.0% in 2008 from U.S.$3,957 thousand or 3.1% of total revenue in 2007. This increase was due to increased purchases of equipment in respect of which such benefit was available, consistent with the increasing volume of the Group's activity in such period. As a percentage of total government grants this represented a decrease to 20.0% in 2008 from 23.0% in 2007.

Partial compensation of complex agricultural equipment cost decreased by 33.5% to U.S.$312 thousand or 0.1% of total revenue in 2009 from U.S.$469 thousand or 0.2% of total revenue in 2008. This decrease was due to the cancellation of such financing by the state. In 2008 this increased by 2.0% from U.S.$460 thousand or 0.4% of total revenue in 2007. As a percentage of total government grants this represented a decrease to 2.7% in 2008 from 1.2% in 2007.

The Group's results are appreciably less dependent on government grants and incentives in 2009 compared to earlier years, but it still forms a significant contribution to results for that year.

Other Operating Expenses

	Year ended 31 December					
	2009		2008		2007	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue	Amount	Percentage of total revenue
	(U.S.$'000)	(%)	(U.S.$'000)	(%)	(U.S.$'000)	(%)
Loss on disposal of current assets.	890	0.3	—	—	407	0.3
Impairments of current assets.......	1,571	0.5	1,630	0.5	1,425	1.2
Loss on disposal of non-current assets..	90	—	376	0.1	242	0.2
Losses on exchange.......................	672	0.2	1,744	0.6	28	—
Other..	1,747	0.6	3,190	1.1	553	0.4
Total...	**4,970**	**1.6**	**6,940**	**2.3**	**2,655**	**2.1**

Other operating expenses decreased by 28.4% in 2009 to U.S.$4,970 thousand from U.S.$6,940 thousand in 2008. The main components of that decrease were reduced impairments of current assets and on foreign exchange, partially offset by a loss on disposal of assets and an impairment of the goodwill arising on the acquisition of Imperovo. The other major component of such expenses related to impairment of a VAT recoverable which was then subsequently partially recovered in 2009, and included in "Other Operating Income" below.

Other operating expenses include fines and penalties which increased by 169.0% to U.S.$1,049 thousand in 2009 from U.S.$390 thousand in 2008. This increase was due to fines imposed by the Ukrainian tax authorities increasing in 2009 as a result of the Ukrainian tax authorities adopting a more aggressive stance towards administrative breaches following the national budgetary crisis. Recognised fines and penalties increased by 622.2% to U.S.$390 thousand in 2008 from U.S.$54 thousand in 2007. This increase was due to fines imposed by the Ukrainian tax authorities and other regulatory bodies in 2008.

Waiver of amounts due to related parties

	Year ended 31 December					
	2009		2008		2007	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue	Amount	Percentage of total revenue
	(U.S.$'000)	(%)	(U.S.$'000)	(%)	(U.S.$'000)	(%)
Income from waiver of liability......	**22,525**	**7.0**	**64**	**—**	**7,798**	**6.1**

Income received from the waiver of liabilities arose in both 2007 and 2009. Of the amount of U.S.$22,525 thousand in 2009, U.S.$18,307 thousand was as a result of trading of certain subsidiaries through related party trading companies which are not part of the Group, to mitigate the risks associated with that trading. The waiver for these amounts is effectively the Group's participation in the profit in those transactions. The remainder related to an arrangement with former corporate shareholders of subsidiaries as part of a financial restructuring. The amount in 2007 arose from a one-off waiver of accounts payable in 2007 in relation to companies acquired by the Group (in circumstances where the creditors were no longer in existence and Management were satisfied there would be no future recourse to the Group).

Operating Profit

The operating profit of the Group increased by 37.1% to U.S.$139,807 thousand in 2009 from U.S.$101,958 thousand in 2008. As a percentage of total revenue operating profit has increased to 43.7% in 2009 from 33.7% in 2008. The operating profit of the Group increased by 207.5% in 2008 from U.S.$33,160 thousand in 2007. As a percentage of total revenue, operating profit increased to 33.7% in 2008 from 25.9% in 2007. These increases were due to the factors described above.

Financial Income

Financial income increased by 53.1% to the amount of U.S.$41,180 thousand in 2009 from U.S.$26,897 thousand in 2008. As a percentage of total revenue financial income has increased to 12.9% in 2009 from 8.9% in 2008. This increase was due to a higher average volume of deposits being held in 2009 than 2008. (Although total deposits were significantly higher as at 31 December 2008 compared to 31 December 2009, this was in each case largely due to final-quarter movements, such that it is not reflective of the average balances held throughout the preceding year.) In 2008, financial income increased by 28.9% from U.S.$20,869 thousand in 2007. This increase was primarily due to the increased average value of deposits held by the Company throughout such period. As a percentage of total revenue, financial income decreased to 8.9% in 2008 from 16.3% in 2007.

Financial Expenses

	Year ended 31 December					
	2009		2008		2007	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue	Amount	Percentage of total revenue
	(U.S.$'000)	(%)	(U.S.$'000)	(%)	(U.S.$'000)	(%)
Total interest payable on loans	60,025	18.7	56,063	18.5	25,907	20.2
Less interest capitalised	(17,382)	(5.4)	(7,449)	(2.5)	(3,367)	(2.6)
Net interest payable charged to profit and loss	42,643	13.3	48,614	16.1	22,540	17.6
Interest on finance leases	1,216	0.4	1,153	0.4	—	—
Interest on bonds	2,259	0.7	3,194	1.1	—	—
Other	32	—	25	—	—	—
Total	**46,150**	**14.4**	**52,986**	**17.5**	**22,540**	**17.6**

Financial expenses decreased by 12.9% to U.S.$46,150 thousand in 2009 from U.S.$52,986 thousand in 2008. This decrease was due to the additional income arising from capitalised financial expenses on loans and the reduced cost of servicing loans denominated in Ukrainian hryvnia in U.S.$ terms following the depreciation of the hryvnia. Financial expenses increased by 135.1% in 2008 from U.S.$22,540 thousand in 2007. This increase was due to the increased average value of borrowings on which the Company paid interest in 2008. Such borrowings were primarily for the purpose of constructing new facilities. The Group also took out a new finance lease in 2008 in respect of cage equipment (such expenses were partially compensated through government grants). See "—Key Factors Affecting Avangard's Results of Operations-State Support for Agricultural Production in Ukraine-State Subsidies". As a percentage of total revenue financial expenses decreased to 14.4% in 2009 from 17.5% in 2008, following a small decrease from 17.6% in 2007.

Financial expenses on loans increased by 7.1% to U.S.$60,025 thousand or 18.7% of total revenue in 2009 from U.S.$56,063 thousand or 18.5% of total revenue in 2008. This increase was due to the increased service credit portfolio during the year, which was settled by the end of 2009. Financial expenses on loans increased by 116.4% to U.S.$56,063 thousand or 18.5% of total revenue in 2008 from U.S.$25,907 thousand or 20.2% of total revenue in 2007. This increase was due to the increased average value of such loans held during 2008.

Capitalised interest on loans increased by 133.3% to U.S.$17,382 thousand in 2009 from U.S.$7,449 thousand in 2008. This increase was due to a higher volume of acquisitions and equipment replacement in 2009 compared to 2008 and the consequent need to capitalise interest in relation to such acquisitions under IAS 23 "Borrowing Costs". Capitalised interest on loans increased by 121.2% to U.S.$7,449 thousand in 2008 from U.S.$3,367 thousand in 2007. This increase was due to the effect of the acquisition of property, plant and equipment and the interest related to such acquisition being capitalised under IAS 23 "Borrowing Costs".

Financial expenses on finance leases increased by 5.5% to U.S.$1,216 thousand in 2009 from U.S.$1,153 thousand. This increase was due to new leases and also the full year expenses of leases entered into in 2008. Financial expenses on finance leases were U.S.$1,153 thousand in 2008. There were no finance leases in 2007.

Financial expenses in relation to the Bonds decreased by 29.3% to U.S.$2,259 thousand in 2009 from U.S.$3,194 thousand. This decrease was due to the Bonds being denominated in hryvnia and the effect of the depreciation of the hryvnia towards the end of 2008. Financial expenses in relation to the Bonds were U.S.$3,194 thousand in 2008. The Bonds were issued in 2008 and therefore there was no similar interest in 2007.

Profit Before Tax

Profit before tax of the Group increased by 77.7% to U.S.$134,837 thousand in 2009 from U.S.$75,869 thousand in 2008 and U.S.$31,488 thousand in 2007. As a percentage of total revenue profit before tax increased to 42.2% in 2009 from 25.1% in 2008 and 24.6% in 2007. This increase was a result of the factors described above and a deferred tax liability arising in 2009 due to timing differences.

Profit for the Year

Profit for the year increased to U.S.$133,669 thousand, or 41.8% of total revenues, in 2009 from U.S.$77,283 thousand, or 25.6% of total revenues, in 2008, and U.S.$30,234 thousand, or 23.7% of revenues, in 2007, as a result of the factors discussed above.

Other Comprehensive Income (Expense)

Effect of Translation into Presentation Currency

There were no effects of translation into the presentation currency in 2007 because the hryvnia to dollar exchange rate was fixed throughout the year. However, 2008 saw the start of a prolonged period of volatility in the exchange rate, resulting in a significant net devaluation of the hryvnia against the dollar. During 2009 the exchange rate began to stabilise. The consequent negative effect of translation into presentation currency in 2009 was U.S.$7,441 thousand, or 5.6% of the profit for the year after tax, which was a decrease from U.S.$59,998 thousand in 2008, or 77.6% of the profit for the year, as a result of the stabilisation of the hryvnia against the dollar after a prolonged period of devaluation.

Total Comprehensive Income

Total comprehensive income increased to U.S.$126,228 thousand, or 39.4% of total revenues, in 2009 from U.S.$17,285 thousand, or 5.7% of total revenues, in 2008, as a result of the factors discussed above. Total comprehensive income was U.S.$30,234 thousand in 2007.

Liquidity and Capital Resources

Cash Flows

The following is a summary of Avangard's cash flows in 2007, 2008 and 2009:

	Year ended 31 December		
	2009	2008	2007
	(U.S.$'000)	(U.S.$'000)	(U.S.$'000)
Net cash generated from (used in) operating activities	165,660	98,637	(24,010)
Net cash generated by (used in) investing activities	124,627	(337,918)	(249,029)
Net cash generated from financing activities	(295,469)	238,751	277,099
Effect of translation into presentation currency	1,097	1,856	—
Net increase/(decrease) in cash	**(4,085)**	**1,326**	**4,060**

Net Cash Generated From (Used In) Operating Activities

The following table provides additional information relating to the Group's net cash generated from operating activities for the period presented.

	Year ended 31 December		
	2009	**2008**	**2007**
	(U.S.$'000)	**(U.S.$'000)**	**(U.S.$'000)**
Operating profit before working capital changes (adjusted for non-cash changes)	121,310	109,546	55,734
Working capital changes	96,179	43,773	(53,770)
Interest paid	(51,781)	(54,653)	(25,909)
Income taxes paid	(48)	(29)	(65)
Net cash generated by (used in) operating activities	**165,660**	**98,637**	**(24,010)**

Avangard's cash flows from operating activities primarily result from operating profit, as adjusted for non-cash items such as depreciation and for changes in working capital. Net cash generated from operating activities was U.S.$165,660 thousand, U.S.$98,637 thousand and U.S.$(24,010) thousand in 2009, 2008 and 2007, respectively.

In 2009 changes in working capital resulted in total cash generation of U.S.$96,179 thousand primarily due to lower levels of prepayments made at the year end, an increase in trade payables, and reduction of prepaid and recoverable taxes, partially offset by decreases in advances received from customers during the year. Tighter policies applied to the management of working capital in the last quarter of 2008 caused by the prevailing crisis conditions resulted in cash generation of U.S.$43,773 thousand from changes in working capital items in 2008. Subsequently, as at the end of the 2009 both Avangard's trade accounts receivable and trade accounts payable increased by U.S.$14,517 thousand and U.S.$38,058 thousand respectively as opposed to decreased accounts receivable and increase of accounts payable as of 2008 by U.S.$31,530 thousand and U.S.$24,066 thousand respectively.

In 2008, Avangard made significant prepayments expecting increase of prices due to the rapid devaluation of domestic currency in the fourth quarter of the year resulting in a balance of U.S.$91,311 thousand as of the end of 2008. Prepayments made were decreased in the course of 2009 as business conditions normalised, resulting in additional cash use of U.S.$79,305 thousand. The decrease of advances received from U.S.$225,380 thousand as of the end of 2008 to U.S.$108,395 thousand in the end of 2009 was attributable to operations with related parties.

Net Cash Used In Investing Activities

Net cash (used in) or generated by investing activities was U.S.$(249,029) thousand, U.S.$(337,918) thousand and U.S.$124,627 thousand in 2007, 2008 and 2009, respectively. This cash use was primarily due to the increased purchases of property, plant and equipment in 2007 and 2008 which slowed down significantly in 2009.

In 2009 Avangard's investments into property, plant and equipment were U.S.$3,370 thousand while positive cash flow from investing activity was comprised of increase in bank deposits (not forming part of cash and cash equivalents) of U.S.$126,200 thousand and interest received of U.S.$1,769 thousand.

In 2007 and 2008, Avangard spent U.S.$146,372 thousand and U.S.$256,411 thousand on property, plant and equipment. Most of these purchases related to the construction of the Avis and Chornobaivske egg production complexes. In 2008, interest received amounted to U.S.$26,848, which represented an increase from U.S.$20,868 thousand in 2007, and cash used to increase bank deposits not forming part of cash and cash equivalents were U.S.$137,632 thousand, which represented an increase from U.S.$93,294 thousand in 2007.

For a description of Avangard's capital expenditures over the years discussed, see "—Capital Expenditures" below.

Net Cash Generated From (Used In) Financing Activities

	Year ended 31 December		
	2009	2008	2007
	Amount (U.S.$'000)	Amount (U.S.$'000)	Amount (U.S.$'000)
New loan received	15,511	469,156	293,755
Net proceeds from (repayment of) bank loans	(308,016)	(256,800)	(16,676)
Interest paid on bonds	(2,166)	(89)	—
Proceeds from bonds issued	—	25,973	—
Repayment of bonds	(798)	(130)	—
Increase in share capital	—	641	—
Net cash generated by (used in) financing activities	**(295,469)**	**238,751**	**277,099**

Net cash generated from (used in) financing activities was U.S.$277,099 thousand, U.S.$238,751 thousand and U.S.$(295,469) thousand in 2007, 2008 and 2009, respectively. In 2009 Avangard considerably decreased its reliance on borrowed capital by making net repayments of U.S.$292,505 thousand of loans. The issuance of the Bonds in May 2008 allowed the refinancing of the Group's bank loans.

Capital Expenditures

Avangard has been substantially expanding its operations and it expects to continue to make significant investments for the expansion of its business. Avangard's capital expenditures include expenditures for constructing new facilities, modernising existing facilities (including newly-acquired facilities) and purchasing equipment, vehicles and other miscellaneous items. Avangard intends to use raised equity capital, borrowed funds and cash flow from operations to finance its projected capital needs.

Historical Capital Expenditures

Avangard's capital expenditures for 2007, 2008 and 2009 are summarised in the following table:

	Year ended 31 December		
	2009	2008	2007
	(U.S.$'000)	(U.S.$'000)	(U.S.$'000)
Type of Capital Expenditure(1)(2)			
Land acquisition	—	—	29
Buildings and structures	5,037	24,320	21,689
Capitalised renovation of buildings and structures	1,766	6,024	904
Machinery and equipment	2,186	17,315	1,916
Capitalised renovation of machinery and equipment	257	208	85
Equipment for biological assets	132	23,662	22,061
Capitalised renovation of equipment for biological assets	102	6,941	919
Vehicles	60	1,477	624
Capitalised renovation of transport vehicles	16	33	26
Other equipment	62	346	679
Capitalised renovation of other equipment	24	27	29
Assets under construction and uninstalled equipment	22,063	247,766	5,022
Capitalised renovation of unfinished constructions and uninstalled equipment	—	45	209
Total	**31,705**	**328,164**	**54,192**

Notes:

(1) The table shows actual additions of property, equipment, etc. during the respective periods as opposed to capital expenditures on a cash basis and therefore does not correspond directly to Avangard's cash flow expenditures.

(2) Capital expenditure above does not include property, plant and equipment acquired through business combinations.

Avangard's total investments into fixed assets amounted to U.S.$54,191 thousand, U.S.$328,164 thousand and U.S.$31,705 thousand in 2007, 2008 and 2009, respectively.

In 2008 Avangard invested U.S.$24,320 thousand into the construction and renovation of poultry facilities in various Group companies. Avangard renovated administrative buildings and completed the renovation of warehouses in Chernivetska, Rohatyn-Korm for the total combined amount of U.S.$6,024 thousand and U.S.$1,766 thousand in 2008 and 2009, respectively.

The amounts of U.S.$17,315 thousand in 2008 and U.S.$2,186 thousand in 2009 were spent on the purchase of equipment for fodder mills owned by Avangard, while capital outlays of U.S.$23,662 thousand in 2008 were used for the purchase of laying hen and pullet growing cage systems, ventilation equipment, feed distributors, egg collection, manure removal systems from "Officine Facco & C." S.p.a. (Italy), Big Dutchman International GmbH (Germany), Tecno Poultry Equipment (Italy), Specht Ten Elsen GmbH (Germany), Hellmann Poultry GmbH & Co. KG (Germany) and Agromash (Ukraine). This equipment and machinery was installed at Bogodukhivska, Interbusiness, Donetska, Chervonyi Prapor and in Slovyany.

In 2008, Avangard also renovated the ventilation equipment at various farms, spending U.S.$6,941 thousand for these purposes, and purchased 10 fodder trucks from "Officine Facco & C." S.p.a. to move animal feed to farms for laying hens in the amount of U.S.$1,477 thousand.

The amounts of investments into unfinished construction and uninstalled equipment in 2008 and 2009 were related primarily to the construction of the Avis and Chornobaivske egg production complexes.

Budgeted Capital Expenditure

The completion of construction of Avis and Chornobaivske egg production complexes will require, according to Avangard's budget, capital outlays of approximately U.S.$223 million during 2010 and 2011. The breakdown of Avangard's budgeted capital expenditures for 2010 and 2011 in U.S. dollars are summarised in the following table.

	2010	2011	TOTAL
	(U.S.$'000)	(U.S.$'000)	(U.S.$'000)
Type of Capital Expenditure[(1)]			
Capital expenditures for the construction of facilities for laying hens	66,520	—	**66,520**
Capital expenditures for the construction of storage facilities	14,907	—	**14,907**
Capital expenditure for the construction of fodder mills	30,120	16,749	**46,870**
Capital expenditure for the construction of slaughtering sections	6,182	13,614	**19,796**
Capital expenditure for the construction of biogas facilities	67,860	6,747	**74,607**
Total	**185,590**	**37,110**	**222,700**

Note:

(1) The budget of capital expenditures was initially set in Euro for machinery and equipment and hryvnia for construction works. Avangard used an assumed U.S. dollar/Euro exchange rate of 1.36 U.S. dollars per 1 Euro for both 2010 and 2011 and hryvnia to U.S. dollar exchange rate of 7.84 and 7.70 UAH per 1 U.S. dollar for 2010 and 2011 respectively to calculate the amounts in U.S. dollars as presented in the table.

Avangard's actual capital expenditures may vary significantly from its estimates and depend on a variety of factors, including the availability of funding and other factors fully or partially outside Avangard's control.

Capital Resources

Avangard's liquidity needs arise principally from the need to finance its working capital requirements and capital expenditure, primarily investment in new production facilities. In the years under review, Avangard has met most of its liquidity needs out of net cash generated from operating activities, bank borrowings, the issue of the Bonds and shareholder loans.

Working capital, defined as current assets minus current liabilities (excluding the short-term element of long-term bank borrowings, bonds issued, lease obligations and accounts payable for property, plant and equipment), was U.S.$(178,268) thousand, U.S.$(118,312) thousand and U.S.$85,669 thousand as at 31 December 2007, 2008 and 2009, respectively. In 2007, 2008 and 2009, respectively, Avangard obtained U.S.$183,490 thousand, U.S.$191,562 thousand and U.S.$5,683 thousand of short-term working capital bank loans at the end of the year to finance Avangard's working capital needs and repaid such loans in 2007, 2008 and 2009, respectively. Avangard had no undrawn short-term working capital loan facilities as of 31 December 2009. Approximately 2.2% of Avangard's bank debt as of 31 December 2009 was represented by short-term loans used to finance Avangard's working capital needs. Management believes that Avangard has sufficient working capital for at least the next 12 months from the date of this Prospectus.

As at 31 December 2009, the cash and liquid resources available to the Group were as follows:

	Year ended 31 December 2009
	(U.S.$'000)
Cash and cash equivalents	1,727
Short-term deposits	155,917

Details of the Group's short-term and long-term borrowings as at 31 December 2009 are set out in "Capital Resources" above and Notes 16 and 17 of the Consolidated Financial Information.

There has been no material change in the Group's borrowings since 31 December 2009.

CJSC Avangard's Bonds due May 2013

On 16 May 2008, CJSC Avangard issued the Bonds in an aggregate amount of UAH200 million (U.S.$25,973 thousand). The Bonds accrued interest for the first four coupon periods (coupon period 4 ended on 24 May 2009) at a rate of 17.0% per annum that was payable on 25 May 2009. The Bonds accrue interest for the following four coupon periods (coupon period 8 ending on 23 May 2010) at a rate of 17% per annum, payable on 24 May 2010. For the following coupon periods the Bonds will bear interest at the rate set by CJSC Avangard based on market conditions, but not less than the discount rate set forth by the NBU on the date of the coupon announcement. CJSC Avangard is entitled to redeem the Bonds early in accordance with the terms and condition of the Bonds.

CJSC Avangard's obligations under the Bonds are secured by the following Group companies: SC Zorya, Chervonyi Prapor, SC PF Lozuvatska, SC Chervonyi Prapor, Volnovaskyi KHP, Vuhlehirskyi, Donetska, Volnovaska, SC PH Lozuvatske, Gorodenkivska, Rohatynska, Avangard-Agro, Chernivetska, Avis, Kamyanets-Podilsky, Kirovskyi, Slovyany, Pershe Travnya, SC Yuzhnaya-Holding, Chornobaivske, Areal-Snigurivka and Open Joint Stock Company "Oktyabr", a company unaffiliated with Avangard (the "**Surety**"). The suretyship agreements entered into among CJSC Avangard and the Surety (the "**Suretyship Agreement**") secure the whole amount of the Bonds issuance and the amount of interest accrued thereunder. The Suretyship Agreement provides for the joint liability of the Surety and CJSC Avangard towards each bondholder.

As disclosed at "Risk Factors—Avangard must observe certain financial and other restrictive covenants under the terms of its indebtedness and any failure to comply with such covenants could put Avangard into default" above, loans to certain of the Company's subsidiaries are subject to restrictive covenants which, amongst other things, restrict them from borrowing further amounts without the prior consent of the lender. These covenants also include no deterioration in the financial condition of the relevant subsidiary and, any breaches may require early repayment of all or part of the loans in question, which will affect the working capital requirements of the group. Management is not aware of any breaches of covenants as at the date of this Prospectus.

Assets pledged as security

As at 31 December 2009, Avangard had pledged assets with a carrying value of U.S.$528,150 thousand as security for long- and short-term loans of the Group's companies (comprising non-current assets of U.S.$368,171 thousand and current assets of U.S.$159,979 thousand).

Risk Management Policies

The Group is not a financial company and uses financial instruments as may be necessary in order to provide sufficient funds for its activities, not for the purpose of receiving income. In the course of its activities the Group uses the following financial instruments: cash and cash equivalents, deposits, financial assistance, accounts receivable, bonds, bank loans, finance lease, accounts payable and nominal investment certificates.

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

Additional disclosures of quantitative information are presented in several sections of the Consolidated Financial Information, including:

- recognition as a part of income (expenses) for the period;
- information on cash is disclosed in Note 14;
- information on trade and other accounts receivable is disclosed in Notes 11 and 12;
- information on available for sale investments is disclosed in Note 6;
- information on trade and other accounts payable is disclosed in Notes 21 and 23;
- information on significant terms of borrowings and loans granting is disclosed in Notes 16 and 17;
- information on timing and terms of effective contracts for finance lease is disclosed in Note 24; and
- information on significant conditions attaching to issued bonds is disclosed in Note 25.

a) Credit risk

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

Exposure to credit risk

The carrying value of financial assets is the maximum value exposed to credit risk. The maximum level of credit risk as at 31 December 2009, 31 December 2008 and 2007 was as set out in the table below.

Financial assets	31 December 2009	31 December 2008	31 December 2007
	(U.S.$'000)	(U.S.$'000)	(U.S.$'000)
Cash and cash equivalents	1,727	5,878	4,460
Long-term deposits	504	49,351	107,627
Short-term deposits	155,917	233,271	37,363
Trade accounts receivable, net	47,320	15,593	47,953
Financial assistance issued	4,320	702	5,733
Accounts receivable under commission contract	—	12,987	19,802
Interest receivable for deposits	39,411	79	29
Accounts receivable for bonds	—	25,496	—
Nominal investment certificates	—	—	29,703
Total	**249,199**	**343,357**	**252,670**

The Group's credit risk is mainly related to long-term and short-term deposits.

The Group's exposure to credit risk regarding to the trade accounts receivable is primarily dependent on the specific particularities of each client. The Group's policy for credit risk management comprises systematic work with debtors, which includes analysis of solvency, determination of maximum amount of risk related to one customer or a group of customers and control over timeliness of debt repayment. The majority of the Group's clients are long-standing clients and there were no significant losses during 2009, 2008 and 2007 resulting from non-fulfillment of obligations by clients. The Group does not require any provisions relating to trade accounts receivable.

The Group's concentration of credit risk on trade accounts receivable in the periods under consideration was as follows:

For the year ended 31 December 2009 U.S.$77,788 thousand or 24.4% of Group's sales revenue was related to sales transactions realised with one client of the Group. As at 31 December 2009 U.S.$33,293 thousand or 69.9% of trade accounts receivable was the share of the most significant debtor.

For the year ended 31 December 2008 U.S.$54,272 thousand or 18% of Group's sales revenue was related to sales transactions realised with one client of the Group. As at 31 December 2008 U.S.$6,354 thousand or 39% of trade accounts receivable was the share of the most significant debtor.

For the year ended 31 December 2007 U.S.$14,427 thousand or 12% of Group's sales revenue was related to sales transactions realised with one client of the Group. As at 31 December 2007 U.S.$16,015 thousand or 34% of trade accounts receivable was the share of the most significant debtor.

Trade accounts receivable as at 31 December 2009, 31 December 2008 and 31 December 2007 by dates of origin were as follows.

	31 December 2009 (U.S.$'000)							
	0-30 days	**31-60 days**	**61-90 days**	**91-120 days**	**121-180 days**	**181-365 days**	**over one year**	**TOTAL**
Carrying amount of trade accounts receivable	10,080	11,471	1,268	1,289	5,678	16,620	914	**47,320**

	31 December 2008 (U.S.$'000)							
	0-30 days	**31-60 days**	**61-90 days**	**91-120 days**	**121-180 days**	**181-365 days**	**over one year**	**TOTAL**
Carrying amount of trade accounts receivable	7,118	1,099	946	1,667	692	3,834	237	**15,593**

	31 December 2007 (U.S.$'000)							
	0-30 days	**31-60 days**	**61-90 days**	**91-120 days**	**121-180 days**	**181-365 days**	**over one year**	**TOTAL**
Carrying amount of trade accounts receivable	21,707	3,405	2,929	5,163	2,143	11,874	733	**47,954**

b) Liquidity risk

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

The aim of the Group is to maintain a balance between continuous financing and flexibility in usage of bank loans and settlements with suppliers.

In accordance with the plans of the Group, its needs in working capital are satisfied by cash inflows from operating activities, as well as use of borrowed funds if inflows from operating activities are insufficient for liabilities to be settled.

	Carrying amount	Less than 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
			(U.S.$'000)		
31 December 2009:					
Bank deposits	156,421	—	155,917	504	—
Trade accounts receivable, net	47,320	22,819	23,587	914	—
Financial assistance issued	4,320	4,320	—	—	—
Cash and cash equivalents	1,727	1,727	—	—	—
Other non-trading accounts receivable	3,311	3,311	—	—	—
Interest receivable for deposits	39,411	39,411	—	—	—
Bank loans (including overdrafts)	(222,945)	(974)	(137,106)	(84,864)	—
Trade accounts payable	(68,019)	(68,019)	—	—	—
Financial assistance received	(8,535)	—	(8,535)	—	—
Finance lease (including VAT)	(8,199)	—	(2,057)	(6,142)	—
Current liabilities for bonds	(24,249)	—	(24,249)	—	—
Accounts payable for property, plant and equipment	(12,847)	—	(12,847)	—	—
Interest payable	(8,331)	(8,331)	—	—	—
Bonds coupon profit payable	(2,055)	(2,055)	—	—	—
Other accounts payable	(7,421)	(7,421)	—	—	—
Total	**(110,091)**	**(15,212)**	**(5,290)**	**(89,588)**	—
31 December 2008:					
Bank deposits	282,622	510	232,761	49,351	—
Trade accounts receivable, net	15,593	9,163	6,193	237	—
Financial assistance issued	702	176	526	—	—
Accounts receivable for bonds	25,496	25,496	—	—	—
Cash and cash equivalents	5,877	5,877	—	—	—
Other non-trading accounts receivable	3,144	3,144	—	—	—
Interest receivable for deposits	79	79	—	—	—
Accounts receivable under commission contract	12,987	—	12,987	—	—
Bank loans (including overdrafts)	(368,313)	(21,068)	(155,878)	(191,367)	—
Trade accounts payable	(20,529)	(20,529)	—	—	—
Financial assistance received	(302,520)	(75,630)	(226,890)	—	—
Finance lease (including VAT)	(10,681)	(545)	(1,634)	(8,502)	—
Current liabilities for bonds	(25,843)	—	(25,843)	—	—
Accounts payable for property, plant and equipment	(9,112)	(9,112)	—	—	—
Interest payable	(291)	(291)	—	—	—
Bonds coupon profit payable	(2,039)	(2,039)	—	—	—
Other accounts payable	(123,947)	(123,947)	—	—	—
Total	**(516,775)**	**(208,717)**	**(157,778)**	**(150,281)**	—

	Carrying amount	Less than 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
			(U.S.$'000)		
31 December 2007:					
Bank deposits	144,990	2,588	34,775	107,627	—
Trade accounts receivable, net	47,954	28,041	19,180	733	—
Financial assistance issued	5,733	5,733	—	—	—
Cash and cash equivalents	4,460	4,460	—	—	—
Other non-trading accounts receivable	3,055	3,055	—	—	—
Interest receivable for deposits	29	29	—	—	—
Accounts receivable under commission contract	19,802	—	19,802	—	—
Bank loans (including overdrafts)	(315,611)	(30,288)	(97,738)	(187,564)	(21)
Trade accounts payable	(43,134)	(43,134)	—	—	—
Financial assistance received	(96,101)	(24,025)	(72,076)	—	—
Accounts payable for property, plant and equipment	(1,468)	(1,468)	—	—	—
Interest payable	(38)	(38)	—	—	—
Other accounts payable	(89,364)	(89,364)	—	—	—
Total	**(319,693)**	**(144,411)**	**(96,057)**	**(79,204)**	**(21)**

c) Market risk

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

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

i) Foreign currency risk

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

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

Exposure to foreign currency risk

The Group's exposure to foreign currency risk as at 31 December 2009 based on carrying amounts was as follows:

	USD	EUR	CHF	UAH	TOTAL
		(in conversion to U.S.$'000)			
Long-term bank loans	—	—	1,845	84,104	**85,949**
Short-term bank loans (including overdrafts)	725	—	—	136,271	**136,996**
Trade accounts payable	1,346	268	—	64,279	**65,893**
Accounts payable for property, plant and equipment	—	1,365	—	11,482	**12,847**
Net exposure to foreign currency risk	**2,071**	**1,633**	**1,845**	**296,136**	**301,685**

The Group's exposure to foreign currency risk as at 31 December 2008 based on carrying amounts was as follows:

	USD	EUR	CHF	UAH	TOTAL
			(in conversion to U.S.$'000)		
Long-term bank loans	—	—	2,146	190,142	**192,288**
Short-term bank loans (including overdrafts)	725	46	—	175,181	**175,952**
Trade accounts payable	721	237	—	17,721	**18,679**
Accounts payable for property, plant and equipment	866	221	—	8,025	**9,112**
Net exposure to foreign currency risk	**2,312**	**504**	**2,146**	**391,069**	**396,031**

The Group's exposure to foreign currency risk as at 31 December 2007 based on carrying amounts was as follows:

	USD	EUR	CHF	UAH	TOTAL
			(in conversion to U.S.$'000)		
Long-term bank loans	2,144	166	—	195,535	**197,845**
Short-term bank loans (including overdrafts)	—	—	—	117,709	**117,709**
Trade accounts payable	—	—	—	40,313	40,313
Accounts payable for property, plant and equipment	9	40	1,419	**—**	**1,468**
Net exposure to foreign currency risk	**2,153**	**206**	**—**	**314,663**	**317,022**

ii) Sensitivity analysis (foreign currency risk)

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

	Increase in currency rate against UAH	Effect on profit before tax
31 December 2009	**Effect in U.S.$ '000:**	
USD	15%	(311)
EUR	10%	(163)
CHF	10%	(185)

	Increase in currency rate against UAH	Effect on profit before tax
31 December 2008	**Effect in U.S.$ '000:**	
USD	15%	(347)
EUR	10%	(50)
CHF	10%	(215)

	Increase in currency rate against UAH	Effect on profit before tax
31 December 2007	**Effect in U.S.$ '000:**	
USD	15%	(323)
EUR	10%	(21)

d) Interest rate risk

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

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

Structure of interest rate risk

As at 31 December 2009, 31 December 2008 and 31 December 2007 the structure of interest financial instruments of the Group, grouped according to the types of interest rates, was presented as follows:

	31 December 2009	31 December 2008	31 December 2007
	(U.S.$'000)	(U.S.$'000)	(U.S.$'000)
Instruments with fixed interest rate			
Financial assets	—	—	—
Financial liabilities	(354,402)	(852,594)	(545,716)
Instruments with variable interest rate			
Financial assets	158,148	288,500	149,450
Financial liabilities	(8,188)	(10,681)	—

Financial instruments such as cash and cash equivalents, trade accounts receivable, financial assistance issued, accounts receivable under commission contract, interest receivable for deposits, prepayment for bonds, other non-trading accounts receivable are not included in the table given above, since the possible effect of changes in interest rate risk under these financial instruments is not material.

Assumptions in assessing fair value of financial instruments and assessment of their subsequent recognition

The fair value of financial instruments is defined at the amount at which such instruments could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instruments. The estimates presented in the Consolidated Financial Information are not necessarily indicative of the amounts the Group could realise in a market exchange from the sale of its full holding of a particular instrument.

As at 31 December 2009, 31 December 2008 and 31 December 2007, the following methods and assumptions were used by the Group to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

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

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

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

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

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

e) Financial markets volatility

Reduced liquidity as a result of, among other factors, increased volatility on financial markets, may have a negative impact on the Group's debtors, which, in its turn, will influence their solvency.

Deteriorating market conditions may affect the forecasts of cash flows made by management, as well as leading to possible impairment of financial and other assets of the Group. Management seeks to use the most reliable assumptions to assess such financial risks.

Capital management

In relation to capital management, the Group's objectives are maintaining the Group's ability to adhere to the going concern principle in order to provide income for shareholders and benefits to other interested parties, and maintaining the optimal capital structure for cost reduction purposes.

To manage capital, the Group's management, uses primarily calculations of its financial leverage coefficient (the leverage ratio) and the ratio between net debt and EBITDA.

Financial leverage is calculated as the ratio of net debt to total amount of capital. Net debt is calculated as cumulative borrowing costs net of cash and cash equivalents. Total amount of capital is calculated as own capital reflected in the balance sheet plus the amount of net debt.

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

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

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

As at 31 December 2009, 31 December 2008 and 31 December 2007 the Group's financial leverage coefficient was 22.1%, 65.1% and 73.8% respectively.

	Carrying amount		
	31 December 2009	31 December 2008	31 December 2007
	(U.S.$'000)	(U.S.$'000)	(U.S.$'000)
Short-term loans	145,531	280,176	213,867
Long-term loans	85,975	192,518	189,340
Current portion of long-term loans	1,085	921	10,260
Long-term finance lease (including VAT)	6,142	8,502	—
Current portion of non-current liabilities for finance lease (including VAT)	2,057	2,179	87
Current liabilities for bonds	24,249	25,843	—
Total amount of borrowings	**265,039**	**510,139**	**413,554**
Cash and cash equivalents	1,727	5,878	4,460
Deposits	156,421	282,622	144,990
Financial assistance issued	4,320	702	5,733
Net debt	**102,571**	**220,937**	**258,371**
Share capital	644	644	3
Capital contribution reserve	115,858	—	—
Retained earnings	300,107	168,151	74,109
Effect from translation into presentation currency	(64,137)	(56,698)	—
Minority interest	8,083	6,406	17,680
Total equity	**360,555**	**118,503**	**91,792**
Total amount of equity and net debt	**463,126**	**339,440**	**350,163**
Financial leverage coefficient	**22.1%**	**65.1%**	**73.8%**

For the years ended 31 December 2009, 31 December 2008 and 31 December 2007 ratio of net debt to EBITDA was as follows.

	31 December 2009	31 December 2008	31 December 2007
	(U.S.$'000)	(U.S.$'000)	(U.S.$'000)
PROFIT/(LOSS) FOR THE PERIOD	133,669	77,283	30,234
Income tax income/expenses	1,168	(1,414)	1,254
Financial income	(41,180)	(26,897)	(20,868)
Financial expenses	46,150	52,986	22,540
EBIT (earnings before interest and income tax)	**139,807**	**101,959**	**33,160**
Depreciation	12,285	11,780	5,592
EBITDA (earnings before interest, income tax, depreciation and amortisation)	**152,092**	**113,738**	**38,752**
Net debt at the year end	102,571	220,937	258,371
Net debt at the year end/EBITDA	**0.7**	**1.9**	**6.7**

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

f) Livestock diseases risk

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

Critical Accounting Policies

Avangard prepares its consolidated financial statements in accordance with International Financial Reporting Standards. Accounting policies applied in the preparation of the IFRS financial statements are described in the Notes to the Consolidated Financial Information. The application of certain of these policies requires Management to make assumptions and judgments that can significantly affect the amounts reported in the financial statements. Management believes that the following are the critical policies where the assumptions and judgments made may significantly affect the Group's Consolidated Financial Information.

Basis of consolidation (transactions under common control)

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

Useful lives of property, plant and equipment

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

Impairment of non-financial assets

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

Impairment of doubtful debts

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

Calculating the provision relating to the accounts receivable, two approaches are used, depending on amount of receivables:

1. *Individual approach* – receivables from customers (consumers) exceeding UAH50 thousand are analysed separately and, if necessary, provision is accrued individually for each debt. The amount of provision is calculated as a difference between the carrying amount of accounts receivable and estimated future cash flows (including the amounts which may be received from guarantees and enforcement of pledges), discounted using the interest rate applicable at the inception of the transactions.

2. *Group approach* – receivables not exceeding UAH50 thousand are grouped, and turnover is analysed for the group as a whole, rather than on each individual debt separately. Based on the analysis of accounts receivable according to the previous reporting period data for the share of uncollectible receivables, interest is calculated for the reserve for doubtful debt of the current reporting period. Subsequently, to calculate the provision of doubtful debt of the current reporting period, interest is applied to the outstanding balance for the current period, less the amount of accounts receivable, provision for which is calculated on an individual basis.

The amount of calculated provision for doubtful debt is reported in the statement of comprehensive income within "—Other Operating Expenses" above.

A bad debt which is later received is written-off with a corresponding reduction in the calculated provision for doubtful debt.

The Group does not accrue provisions for doubtful debts on balances with related parties regardless of the origin date of the current debt.

Legal proceedings

The Group's Management applies significant assumptions in the measurement and reflection of reserves and risks for contingent liabilities, related to legal proceedings and other unsettled claims, and also other contingent liabilities. Management's judgment is required in estimating the probability of the claim being settled against the Group or a material obligation being otherwise incurred, and in determining the probable amount of the final settlement. Due to uncertainty inherent in the process of estimation, actual expenses may differ from the initial estimation of reserve. Such preliminary estimates may change as new information is received. Revision of such estimates may have a significant effect on the future results of operating activity.

Impairment of obsolete and surplus inventory

The Group distinguishes all inventories into 4 types depending on the storage period or turnover index:

Type	Storage period, months	Turnover index	% of reserve
1	under 3	above 1	0
2	from 3 to 6	from 0,5 to 1	30
3	from 6 to 9	from 0,33 to 0,5	50
4	above 12	under 0,33	100

Deferred tax assets

Uncertainties exist with respect to the interpretation of complex Ukrainian 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 the possible consequences of audits by the Ukrainian tax authorities. 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 at the time.

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

Deferred tax assets are reviewed at each reporting date and reduced to the extent there no longer exists any probability for sufficient taxable profit to be received, which enables utilising the whole number of or a part of deferred tax assets. Estimates of probability include judgments which are based on the expected characteristics of the Group's future activity. To estimate the probability of utilising the deferred tax assets in future, various factors are used, including previous years' results, operating plan, expiry of tax losses recovery and strategies of tax planning. Should actual results differ from the estimates, and should such estimates need to be reviewed in future periods, this can negatively influence the financial position, financial results and cash flows of the Group. Should the estimates of selling the deferred tax assets need to be reduced in future, such reduction will be recognised in the Group's statement of comprehensive income.

Contingent liabilities

Contingent liabilities are determined by reference to the occurrence or non-occurrence of one or more future events. The assessment of contingent liabilities is closely connected with the development of significant judgments and estimates relating to the consequences of future events.

Impact of the global financial and economic crisis

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

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

The following overview includes extracts from publicly available information, data and statistics and has been extracted from official sources and other sources Management believes to be reliable. The Company accepts responsibility for accurately reproducing such information, data and statistics but accepts no further responsibility in respect of such information, data and statistics. Such information, data and statistics may be approximations or may use rounded numbers.

Overview of the World Markets for Eggs and Egg Products

World Egg Production

According to the Pro-Consulting Report, the world production of chicken eggs increased by 9.6%, from 56.54 million tons in 2005 to 61.95 million tons in 2009. In monetary terms, this represents an increase of 74.2%, from U.S.$50.69 billion in 2005 to U.S.$88.30 billion in 2009. The following tables demonstrate the total world egg production in the period 2000 to 2009 and the total chicken egg production per continent.

World Egg Production

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*
Eggs production, million tons.	55.25	56.41	57.78	58.80	59.81	61.11	62.30	64.03	65.59	66.97
Gain, %		2.10%	2.43%	1.77%	1.72%	2.17%	1.95%	2.78%	2.44%	2.10%
Eggs production, billion dollars*	44.33	41.49	42.94	48.00	52.35	54.79	64.17	76.84	86.10	95.46
Gain, %		-6.40%	3.48%	11.78%	9.06%	4.67%	17.12%	19.74%	12.06%	10.87%
Chicken eggs production, mln. tons.	51.19	52.27	53.57	54.42	55.38	56.54	57.75	59.30	60.68	61.95
Gain, %		2.10%	2.48%	1.59%	1.77%	2.09%	2.13%	2.69%	2.33%	2.10%
Chicken eggs production, bln. dollars*	41.07	38.44	39.81	44.42	48.47	50.69	59.48	71.16	79.65	88.30
Gain, %		-6.40%	3.55%	11.59%	9.11%	4.58%	17.34%	19.64%	11.93%	10.86%

Source: FAO

* Evaluation by Pro-Consulting (source: Pro-Consulting Report)

World Chicken Egg Production by Continent

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*
Total production, mln tons	51.19	52.27	53.57	54.42	55.38	56.54	57.75	59.30	60.68	61.95
Gain, %		2.10%	2.48%	1.59%	1.77%	2.09%	2.13%	2.69%	2.33%	2.10%
Africa	1.92	2.01	2.10	2.15	2.18	2.21	2.27	2.38	2.44	2.40
Gain, %		4.99%	4.26%	2.55%	1.36%	1.47%	2.65%	4.64%	2.60%	-1.57%
America	10.41	10.77	10.86	10.95	11.21	11.50	12.19	12.22	12.32	12.40
Gain, %		3.51%	0.78%	0.81%	2.42%	2.53%	6.07%	0.20%	0.83%	0.66%
Asia	29.19	29.57	30.51	31.38	31.85	32.76	33.10	34.63	35.68	36.80
Gain, %		1.30%	3.19%	2.85%	1.47%	2.87%	1.05%	4.60%	3.04%	3.14%
Europe	9.48	9.72	9.90	9.75	9.95	9.87	9.94	9.83	10.00	10.10
Gain, %		2.49%	1.90%	-1.55%	2.11%	-0.84%	0.75%	-1.11%	1.66%	1.05%
Oceania	0.20	0.20	0.20	0.19	0.19	0.21	0.24	0.25	0.25	0.25
Gain, %		-0.59%	0.58%	-4.45%	1.92%	5.70%	15.87%	3.73%	-0.01%	1.37%

Source: FAO

* Evaluation by Pro-Consulting (source: Pro-Consulting Report)

World egg production is expected to rise to 66.3 million tons of eggs by 2012, according to the Pro-Consulting Report. According to Pro-Consulting, this forecast increase is due to an increased world population, an increased use of eggs in the manufacture of egg products for use in the food industry and, to a limited degree but particularly in developing countries, a growth in disposable incomes. Demand is expected to grow particularly in Asia and Africa.

According to the Pro-Consulting Report, the world chicken eggs market approximately doubled from U.S.$41.58 billion in 2000 to U.S.$ 83.96 billion in 2009.

World Market for Chicken Eggs

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total market of eggs, U.S.$ billion	41.58	39.39	40.98	44.64	48.99	51.37	60.67	72.28	78.18	83.96
Africa	3.05	2.56	2.44	2.85	2.85	3.25	3.58	4.18	4.27	4.63
America	8.37	8.56	7.33	9.01	9.77	8.48	9.72	12.13	13.24	14.43
Asia	22.23	20.32	22.77	22.39	25.28	27.69	34.88	40.25	43.09	46.01
Europe	7.64	7.7	8.17	10.08	10.69	11.53	12.04	15.18	16.99	18.22
Oceania	0.28	0.26	0.28	0.31	0.4	0.42	0.44	0.55	0.59	0.66

Source: Pro-Consulting Report

European Production of Eggs

Pursuant to the European Council Directive 99/74/EC on the welfare of laying hens, after a transitional period, laying hens in the EU should be housed exclusively in so-called enriched cages or in alternative systems. The enriched cage gives hens at least 750cm^2 cage area per hen, a perch which allows at least 15cm of space per hen, a nest for each hen and litter. The alternative system provides hens with at least 250cm^2 of littered area per hen, at least one nest for every seven hens and adequate perches allowing at least 15cm of space per hen. If the alternative system incorporates multiple levels, allowing the hens to use the vertical space in the system, there must be no more than four levels and there must be headroom of at least 45cm between levels.

Certain member states of the European Union have requested an extension for the implementation of the directive because of concerns about competition from importers not subject to the same standards but this has been rejected by the European Commission.

The table below shows the numbers of laying hens kept in EU-25 countries, in 2006, by the conditions under which they are kept.

Quantity of Laying Hens in EU-25 Countries by Keeping Conditions, thousand of heads in 2006

Cages	Free range	Barn	Organic	Total
248,887	29,942	36,957	6,116	321,902
77.3%	9.3%	11.5%	1.9%	100%

Source: EU Commission data (CIRCA)

World Production of Egg Products

According to the Pro-Consulting Report, the world production of egg products increased from 3,611 thousand tons in 2005 to 3,956 thousand tons in 2009. World egg products production is expected to rise at an average of 2.0% until 2012, according to the Pro-Consulting Report. This forecast increase is primarily due to increased use of egg products within the food industry.

Egg products are products that are removed from the shell for further filtering, mixing, stabilising, blending, pasteurising, cooling, freezing, drying and packaging. Compared to eggs, egg products have a longer shelf life and are easier to handle. The range of egg products includes whites, yolks and various blends with or without additional ingredients and may be available in liquid, frozen, and dried forms. According to the Pro-Consulting Report, liquid egg products have more uses in the food industry than dry egg products, because the higher degree of fat emulsion in liquid egg products increases the length of time for which they can be stored and the organoleptic properties (including the taste, colour and consistency) of liquid egg products are considered to be of a higher standard than those of dry egg products.

Egg products are widely used in the commercial food industry for mayonnaise, bread and bakery products, confectionary, ice cream, sweet cakes, pasta, mayonnaise, fish-based ready meals and sausages. Egg products including lysozyme, ovomucoids, phospholipids and lipoproteins are also used in the pharmaceutical, cosmetic, chemical and textile industries.

According to the Pro-Consulting Report, in 2009 3,956 thousand tons of egg products were produced worldwide (of which liquid egg products accounted for 3,117 thousand tons, or 78.8% of total egg products, and dry egg products accounted for 839 thousand tons, or 21.2% of total egg products). Europe, North America and Asia are the largest egg products producers in the world.

The tables below show the total world egg products produced each year since 2000, with a breakdown between liquid and dry egg products, and total egg production per continent.

World Production of Egg Products

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total production, thousand tons	3,269	3,338	3,421	3,475	3,537	3,611	3,688	3,787	3,875	3,956
Gain, %		2.11%	2.49%	1.59%	1.76%	2.09%	2.14%	2.68%	2.33%	2.09%
Dry egg products	694	708	726	737	750	766	783	804	822	839
Gain, %		2.11%	2.49%	1.59%	1.76%	2.09%	2.14%	2.68%	2.33%	2.09%
Liquid egg products	2,575	2,630	2,695	2,738	2,786	2,844	2,905	2,983	3,053	3,117
Gain, %		2.11%	2.49%	1.59%	1.76%	2.09%	2.14%	2.68%	2.33%	2.09%

Source: Pro-Consulting Report

Major Manufacturers of Egg Products in 2009 by Continent

Egg products	2009
Total production, thousand tons.	3,956.1
Africa	14.7
America	1,698.1
Asia	773.9
Europe	1,454.0
Oceania	15.4

Source: Pro-Consulting Report

The table below sets forth a breakdown of the use of egg products amongst various food industries worldwide in 2009.

Use of Egg Products in World Food Industry in 2009

Production	%
Sweet biscuits	37.53%
Bakery	31.45%
Cakes and pastry	23.14%
Ice-cream	3.12%
Macaroni	2.87%
Mayonnaises	0.96%
Prepared fish products	0.70%
Sausages	0.24%
Total	100%

Source: Pro-Consulting Report

World Exports of Eggs

According to the FAO, world exports of eggs increased by approximately 14.9% in 2007. According to the Pro-Consulting Report, world exports of eggs increased by approximately 10.0% in 2008 and 5.0% in 2009, respectively. World exports of eggs increased from 1,111.32 thousand tons in 2005 to 1,635.17 thousand tons in 2009, a total increase of 47.1%. According to the Pro-Consulting Report, the volume of egg exports increased in monetary terms by 2.6 times between 2000 and 2009. World exports of eggs are expected to increase by a further 17.9% by 2012.

According to the Pro-Consulting Report, the increase in exports of eggs is due to a rise in demand for egg products, which has led to a steady growth in the consumption of eggs and egg products since 2000, a greater use of egg products for catering purposes, an increased production of eggs in developing countries as a result of a rapid development in poultry farming and, finally, incentives to export goods, in the form of subsidies granted at national and EU level.

According to the Pro-Consulting Report, the largest world net exporters of eggs were the United States, Spain, Poland, India and Malaysia. The largest world net exporters of dry egg products were India, the United States, Argentina, China and Canada and the largest world net exporters of liquid egg products were the United States and Italy.

The following tables demonstrate the distribution of world exports of eggs across different regions and the differing growth rates of exports from those regions, and the ratio of world exports of eggs to world production of eggs.

Volume of Eggs Exported, in thousand tons

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008*	2009*
Total export	944.70	971.72	995.30	1,008.83	1,052.35	1,111.32	1,232.41	1,415.73	1,557.30	1,635.17
Gain, %		2.9%	2.4%	1.4%	4.3%	5.6%	10.9%	14.9%	10.0%	5.0%
Africa	6.16	7.06	19.80	11.36	12.07	6.41	5.87	3.55	3.00	2.60
Gain, %		14.7%	180.5%	-42.7%	6.3%	-46.9%	-8.5%	-39.6%	-15.4%	-13.3%
America	93.03	91.69	84.82	74.10	88.68	99.39	101.97	129.54	160.57	179.00
Gain, %		-1.4%	-7.5%	-12.6%	19.7%	12.1%	2.6%	27.0%	24.0%	11.5%
Asia	204.09	223.80	260.58	272.09	245.33	250.31	288.38	374.40	437.46	460.00
Gain, %		9.7%	16.4%	4.4%	-9.8%	2.0%	15.2%	29.8%	16.8%	5.2%
Europe	640.68	648.18	629.11	650.16	704.68	754.24	835.10	907.23	955.27	992.58
Gain, %		1.2%	-2.9%	3.4%	8.4%	7.0%	10.7%	8.6%	5.3%	3.9%
Oceania	0.76	0.99	0.99	1.13	1.59	0.98	1.09	1.01	1.00	0.99
Gain, %		31.0%	-0.9%	14.3%	40.9%	-38.4%	11.6%	-7.0%	-1.4%	-1.0%

Source: FAO

* Evaluation by Pro-Consulting (source: Pro-Consulting Report)

Ratio of World Egg Exports to World Egg Production

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Egg exports, mln tons	0.94	0.97	1.00	1.01	1.05	1.11	1.23	1.42	1.56	1.64
Production, mln tons	51.19	52.27	53.57	54.42	55.38	56.54	57.75	59.30	60.68	61.95
World foreign trade turnover share in global production, %	1.84%	1.86%	1.87%	1.86%	1.90%	1.96%	2.13%	2.39%	2.57%	2.65%

Source: Pro-Consulting Report

The worldwide average price of exported eggs has also increased, from U.S.$1.25 per kilogram in 2005 to U.S.$1.53 per kilogram in 2009 and increased by 51.5% between 2000 and 2009. The greatest increase in price has taken place in Africa, where the average price of exported eggs has increased by 87.4% since 2000.

The following table shows average prices of exported eggs by continent, and the differing growth rates in the prices of eggs exported from those regions.

Average Price of Eggs Exported, in U.S.$ per kilogram

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total export	1.01	0.95	0.97	1.23	1.24	1.25	1.27	1.47	1.50	1.53
Gain, %		-6.1%	1.9%	26.9%	0.5%	1.2%	1.3%	16.3%	1.8%	2.0%
Africa	1.19	1.07	1.01	1.53	1.61	2.09	2.29	1.76	2.00	2.23
Gain, %		-9.6%	-6.2%	51.4%	5.7%	29.3%	9.6%	-22.9%	13.5%	11.5%
America	1.74	1.89	1.90	2.19	2.37	2.30	2.32	2.48	2.26	2.09
Gain, %		8.9%	0.3%	15.5%	8.0%	-3.1%	1.2%	6.5%	-8.7%	-7.6%
Asia	0.75	0.76	0.51	0.68	0.80	0.87	0.85	0.92	0.91	1.15
Gain, %		1.4%	-32.2%	31.4%	17.7%	9.2%	-2.2%	8.7%	-1.1%	25.5%
Europe	0.99	0.88	1.03	1.34	1.23	1.23	1.27	1.55	1.64	1.60
Gain, %		-10.9%	16.8%	30.6%	-8.0%	-0.5%	3.5%	22.2%	5.3%	-2.1%
Oceania	3.90	2.85	2.94	3.65	3.68	4.65	4.68	4.58	4.71	4.75
Gain, %		-27.1%	3.3%	24.0%	0.8%	26.5%	0.7%	-2.1%	2.7%	0.8%

Source: Pro-Consulting Report

World Exports of Egg Products

Exports of liquid egg products accounted for 79.8% of total exports of egg products in 2009, while exports of dry egg products accounted for 20.2% of total exports of egg products. Between 2000 and 2009, however, the proportion of the egg products export market which is attributed to exports of dry egg products increased slightly, while the proportion of the export market which is attributed to exports of liquid egg products conversely decreased. The table below demonstrates how the market for exported dry and liquid egg products has changed since 2000.

Structure of Exports of Dry and Liquid Egg Products

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Dry egg products share in total egg products export	16.9%	16.7%	17.8%	15.0%	16.6%	19.7%	20.0%	20.1%	20.2%	20.2%
Liquid egg products share in total egg products export	83.1%	83.3%	82.2%	85.0%	83.4%	80.3%	80.0%	79.9%	79.8%	79.8%

Source: Pro-Consulting Report

According to the Pro-Consulting Report, world exports of dry egg products increased from 47.88 thousand tons in 2005 to 58.1 thousand tons in 2009, representing an increase of 21.3%. This increase is due to an increased demand for egg products in the food industry. In contrast to shell eggs, the long distance transport of whole egg powder does not give rise to a decline in quality, so as to facilitate the export of such product.

According to the Pro-Consulting Report, overall, since 2000, world exports of dry egg products have increased by 97.6%. Exports from Europe accounted for 50.6% of the total worldwide volume of exports of dry egg products in 2009, while exports from America accounted for a further 29.9% and exports from Asia accounted for 19.4% of the total worldwide volume of exports of dry egg products. World exports of dry egg products are also expected to increase by approximately 10.7% between 2009 and 2012.

The following table shows the distribution of world exports of dry egg products across different regions and the differing growth rates of exports from those regions.

World Exports of Dry Egg Products, in thousand tons

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008*	2009*
Total export	29.41	30.59	35.79	32.00	37.76	47.88	51.47	54.77	56.96	58.10
Gain, %		4.0%	17.0%	-10.6%	18.0%	26.8%	7.5%	6.4%	4.0%	2.0%
Africa	0.01	0.04	0.07	0.09	0.19	0.30	0.06	0.00	0.00	0.00
Gain, %		176.9%	86.1%	29.9%	112.6%	63.8%	-80.2%	-93.3%	-25.0%	0.0%
America	7.80	8.12	11.49	9.56	11.06	14.87	16.11	16.72	17.05	17.40
Gain, %		4.2%	41.4%	-16.8%	15.7%	34.4%	8.4%	3.8%	1.9%	2.1%
Asia	2.14	3.18	4.42	5.55	4.16	9.77	10.75	10.97	11.07	11.30
Gain, %		48.9%	39.0%	25.6%	-25.0%	134.7%	10.1%	2.0%	1.0%	2.1%
Europe	19.46	19.25	19.82	16.81	22.36	22.94	24.53	27.07	28.83	29.39
Gain, %		-1.1%	3.0%	-15.2%	33.0%	2.6%	6.9%	10.4%	6.5%	1.9%
Oceania	0.01	0.01	0.01	0.00	0.00	0.00	0.02	0.00	0.00	0.00
Gain, %		80.0%	-33.3%	-83.3%	100.0%	0.0%	850.0%	-94.7%	0.0%	100.0%

Source: FAO
* Evaluation by Pro-Consulting (source: Pro-Consulting Report)

According to the Pro-Consulting Report, world exports of liquid egg products increased from 190.19 thousand tons in 2005 to 228.92 thousand tons in 2009, representing an increase of 20.4%. This increase is due to an increased demand for egg products in the food industry.

According to the Pro-Consulting Report, overall, since 2000, world exports of liquid egg products have increased by 58.8%. Exports from Europe accounted for 87.3% of the total worldwide volume of exports of liquid egg products in 2009, while exports from America accounted for a further 7.6% of the total worldwide volume of exports of liquid egg products. World exports of liquid egg products are also expected to increase by approximately 11.5% by 2012.

The following table shows the distribution of world exports of liquid egg products across different regions and the differing growth rates of exports from those regions.

World Exports of Liquid Egg Products, in thousand tons

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008*	2009*
Total export	144.19	152.20	165.01	180.90	190.19	194.62	205.29	217.90	224.43	228.92
Gain, %		5.6%	8.4%	9.6%	5.1%	2.3%	5.5%	6.1%	3.0%	2.0%
Africa	0.55	0.39	0.42	0.37	0.36	0.35	0.19	0.14	0.12	0.12
Gain, %		-29.3%	8.5%	-13.2%	-1.4%	-3.9%	-45.4%	-26.8%	-13.7%	-4.2%
America	20.65	21.96	20.28	18.55	21.89	27.30	22.07	20.28	18.80	17.37
Gain, %		6.4%	-7.6%	-8.6%	18.0%	24.7%	-19.2%	-8.1%	-7.3%	-7.6%
Asia	9.22	13.21	18.35	14.29	10.21	10.85	9.48	9.95	10.38	10.67
Gain, %		43.2%	38.9%	-22.1%	-28.6%	6.3%	-12.7%	5.0%	4.3%	2.8%
Europe	113.03	115.80	124.58	146.65	156.67	155.40	172.98	186.71	194.30	199.90
Gain, %		2.4%	7.6%	17.7%	6.8%	-0.8%	11.3%	7.9%	4.1%	2.9%
Oceania	0.74	0.84	1.37	1.04	1.07	0.72	0.58	0.81	0.83	0.86
Gain, %		13.5%	63.3%	-24.3%	2.4%	-32.5%	-18.9%	39.5%	1.8%	4.1%

Source: FAO
* Evaluation by Pro-Consulting (source: Pro-Consulting Report)

World Import of Eggs

According to the FAO, world imports of eggs increased by approximately 20.36% in 2007. According to the Pro-Consulting Report, world imports of eggs increased by approximately 15.00% in 2008 and 5.00% in 2009, respectively. World imports of eggs increased from 1,094.2 thousand tons in 2005 to 1,751.5 thousand tons in 2009, an increase of 60.1%. According to the Pro-Consulting Report, world imports of eggs are expected to increase by 20.2% by 2012.

This increase is partly due to the liberalisation of import tariffs in countries which have recently joined the WTO and have reduced customs duties and cancelled import quotas.

According to the Pro-Consulting Report, imports into Europe accounted for 69.5% of the total worldwide volume of egg imports in 2009. This high volume of imports is due to the high turnover of inter-country trade within the EU, which is a result of the EU's prohibition of restrictions relating to the import and export of goods. Asia accounted for a further 25.7% of world imports of eggs in 2009. Asia's high level of imports is attributable to the relatively high level of egg consumption amongst its population and its inability to supply this demand though domestic production. The volume of egg imports also increased in monetary terms, by 2.8 times between 2000 and 2009.

The following tables demonstrate the distribution of world imports of eggs across different regions and the differing growth rates of imports into those regions.

Volume of Eggs Imported, in thousand tons

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008*	2009*
Total import	887.6	883.4	888.5	986.5	987.5	1,094.2	1,205.1	1,450.5	1,668.1	1,751.5
Gain, %		-0.47%	0.58%	11.03%	0.11%	10.80%	10.13%	20.36%	15.00%	5.00%
Africa	27.2	33.4	34.9	30.7	41.3	40.9	48.5	35.7	24.6	23.7
Gain, %		22.65%	4.47%	-12.01%	34.75%	-1.04%	18.48%	-26.27%	-31.21%	-3.78%
America	66.3	83.0	60.9	73.0	67.7	68.9	67.5	64.3	57.3	55.1
Gain, %		25.17%	-26.67%	19.89%	-7.14%	1.75%	-2.12%	-4.65%	-10.93%	-3.87%
Asia	235.8	216.1	212.5	260.1	248.9	270.0	284.5	363.3	434.5	450.9
Gain, %		-8.38%	-1.65%	22.40%	-4.31%	8.46%	5.38%	27.71%	19.59%	3.77%
Europe	557.5	550.1	579.3	621.7	628.5	712.8	801.6	983.6	1,147.8	1,218.0
Gain, %		-1.33%	5.32%	7.30%	1.11%	13.41%	12.46%	22.70%	16.70%	6.11%
Oceania	0.70	0.90	0.95	1.07	1.01	1.60	3.06	3.49	3.84	3.84
Gain, %		27.27%	5.58%	13.42%	-6.06%	58.63%	91.31%	13.96%	10.06%	0.17%

Source: FAO

* Evaluation by Pro-Consulting (source: Pro-Consulting Report)

The worldwide average price of imported eggs has also increased, from U.S.$1.33 per kilogram in 2005 to U.S.$1.50 per kilogram in 2009 and increased by 40.2% between 2000 and 2009. The following table shows average prices of imported eggs by continent, and the differing growth rates in the prices of eggs imported into those regions.

Average Price of Eggs Imported, in U.S.$ per kilogram

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Average world price	1.07	1.05	1.12	1.27	1.31	1.33	1.33	1.45	1.48	1.50
Gain, %		-1.3%	6.4%	13.6%	3.3%	1.3%	0.1%	9.0%	1.9%	1.4%
Africa	1.49	1.31	1.25	1.55	1.27	1.59	1.58	2.73	4.39	4.86
Gain, %		-12.3%	-4.5%	24.3%	-18.3%	25.3%	-0.3%	72.6%	60.7%	10.7%
America	2.03	1.96	2.32	1.81	2.45	2.65	2.82	3.32	3.96	4.17
Gain, %		-3.0%	18.1%	-22.0%	35.2%	8.3%	6.1%	17.7%	19.3%	5.5%
Asia	1.00	0.96	1.06	0.92	1.04	1.10	1.08	1.25	1.33	1.40
Gain, %		-3.3%	9.9%	-12.8%	12.4%	6.1%	-2.1%	15.7%	6.7%	5.0%
Europe	0.96	0.93	1.00	1.34	1.30	1.27	1.28	1.36	1.35	1.35
Gain, %		-3.0%	7.9%	33.2%	-2.7%	-2.2%	0.5%	6.2%	-0.6%	0.1%
Oceania	3.95	3.78	4.28	4.02	3.61	2.99	2.23	1.72	1.49	1.51
Gain, %		-4.1%	13.2%	-6.1%	-10.2%	-17.3%	-25.3%	-23.0%	-13.5%	1.6%

Source: Pro-Consulting Report

World Import of Egg Products

The worldwide volume of imports of egg products increased between 2000 and 2009.

According to the Pro-Consulting Report, imports of liquid egg products accounted for 77.1% of total imports of egg products in 2009, while imports of dry egg products accounted for 22.9% of total imports of egg products.

World imports of egg products approximately doubled from U.S.$417 million to U.S.$851 million between 2003 and 2009.

World Imports of Egg Products

Year	2003	2004	2005	2006	2007	2008	2009
Total import of egg products, U.S.$ million	417	509	467	514	639	761	851
Africa	9	9	8	3	4	4	4
Americas	23	24	20	26	30	33	36
Asia	71	82	99	82	88	92	94
Europe	312	392	337	400	511	625	709
Oceania	2	3	2	4	6	7	8

Source: Pro-Consulting Report

According to the FAO, world imports of dry egg products increased by approximately 6.5% in 2007. According to the Pro-Consulting Report, world imports of dry egg products increased by approximately 7.0% in 2008 and 6.2% in 2009, respectively. World imports of dry egg products increased from 53.42 thousand tons in 2005 to 68.89 thousand tons in 2009, an increase of 29.0%. According to the Pro-Consulting Report, overall, since 2000, world imports of dry egg products have increased by 101.1%. Imports into Europe accounted for 70.8% of the total worldwide volume of imports of dry egg products in 2009, while imports into Asia accounted for a further 19.9% of the total worldwide volume of imports of dry egg products. World imports of dry egg products are expected to increase by 20.5% by 2012.

The following table shows the distribution of world imports of dry egg products across different regions and the differing growth rates of imports into those regions.

World Imports of Dry Egg Products, in thousand tons

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008*	2009*
Total import	34.25	38.83	39.99	40.24	50.63	53.42	56.90	60.60	64.84	68.89
Gain, %		13.40%	3.00%	0.60%	25.80%	5.50%	6.50%	6.50%	7.00%	6.20%
Africa	0.51	0.64	0.78	1.09	0.62	1.34	0.55	1.09	1.00	0.95
Gain, %		23.80%	22.40%	40.50%	-42.90%	115.40%	-58.90%	96.40%	-8.10%	-4.80%
America	4.03	4.18	5.14	3.71	4.07	4.16	3.71	4.04	4.22	4.31
Gain, %		4.00%	22.80%	-27.80%	9.80%	2.20%	-10.80%	8.70%	4.60%	2.00%
Asia	6.90	7.83	8.71	6.85	9.02	11.70	11.15	11.75	12.83	13.73
Gain, %		13.40%	11.20%	-21.30%	31.60%	29.80%	-4.70%	5.40%	9.30%	7.00%
Europe	22.49	25.87	25.03	28.29	36.58	35.90	40.85	42.90	45.79	48.76
Gain, %		15.00%	-3.20%	13.00%	29.30%	-1.90%	13.80%	5.00%	6.70%	6.50%
Oceania	0.31	0.31	0.33	0.30	0.33	0.32	0.63	0.83	1.00	1.14
Gain, %		-2.90%	9.20%	-9.60%	10.60%	-5.40%	101.00%	31.60%	19.9%	14.3%

Source: FAO

* Evaluation by Pro-Consulting (source: Pro-Consulting Report)

According to the FAO, world imports of liquid egg products increased by approximately 9.9% in 2007. According to the Pro-Consulting Report, world imports of liquid egg products increased by approximately 5.0% in 2008 and 3.0% in 2009, respectively. World imports of liquid egg products increased from 190.53 thousand tons in 2005 to 231.38 thousand tons in 2009, an increase of 21.4%. Overall, since 2000, world imports of liquid egg products have increased by 86.1%. According to the Pro-Consulting Report, imports into Europe accounted for 91.5% of the total worldwide volume of imports of liquid egg products in 2009, while imports into Asia accounted for a further 4.9% of the total worldwide volume of imports of liquid egg products. World imports of liquid egg products are expected to increase by 17.7% by 2012.

The following table shows the distribution of world imports of liquid egg products across different regions and the differing growth rates of imports into those regions.

World Imports of Liquid Egg Products, in thousand tons

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008*	2009*
Total import	124.34	144.96	160.00	165.62	187.83	190.53	194.61	213.94	224.64	231.38
Gain, %		16.6%	10.4%	3.5%	13.4%	1.4%	2.1%	9.9%	5.0%	3.0%
Africa	1.04	3.04	1.79	3.42	7.06	3.20	3.83	0.96	0.94	0.88
Gain, %		193.1%	-41.1%	91.2%	106.3%	-54.7%	19.7%	-74.8%	-2.5%	-6.4%
America	7.37	11.49	10.55	8.74	10.14	7.67	10.47	9.40	8.41	7.13
Gain, %		55.9%	-8.1%	-17.2%	16.0%	-24.3%	36.4%	-10.2%	-10.5%	-15.2%
Asia	20.72	24.45	20.82	19.36	20.13	28.93	20.58	16.98	14.00	11.29
Gain, %		18.0%	-14.8%	-7.0%	4.0%	43.7%	-28.9%	-17.5%	-17.6%	-19.4%
Europe	94.80	102.55	124.56	133.57	150.15	150.29	159.41	186.21	200.87	211.61
Gain, %		8.2%	21.5%	7.2%	12.4%	0.1%	6.1%	16.8%	7.9%	5.3%
Oceania	0.41	3.45	2.26	0.51	0.35	0.44	0.32	0.38	0.42	0.47
Gain, %		750.6%	-34.3%	-77.3%	-32.1%	25.8%	-26.7%	19.3%	9.9%	11.1%

Source: FAO

* Evaluation by Pro-Consulting (source: Pro-Consulting Report)

According to the Pro-Consulting Report, the world's top five net importers of dry egg products in 2009 were Great Britain, Japan, Denmark, Russia and Mexico.

Net World Egg and Egg Products Importers, Exporters and Traders, 2009

	Net importers	Net exporters	Traders
Eggs	Russia Iraq Switzerland Singapore	USA Spain Poland India Malaysia	Germany Netherlands China France Belgium
Dry egg products	Great Britain Japan Denmark Mexico Russia	India USA Argentina China Canada	Netherlands France Germany Belgium Austria
Liquid egg products	Switzerland Japan Austria	USA Italy	France Germany Spain Belgium Denmark

Source: Pro-Consulting Report

World Egg Consumption

According to the Pro-Consulting Report, world egg consumption constituted 9.12 kilogrammes per capita/per annum in 2009, 9.07 kilogrammes per capita/per annum in 2008 and 8.98 kilogrammes per capita/per annum in 2007 and is expected to increase by approximately 4.8% from 2009 to 2012. This increase is due to world population growth, the price affordability and nutritional value of eggs and the fact that eggs constitute a unique product for which there is no direct replacement. To some extent, the level of consumption of eggs is tied to consumer preferences, and specific reasons for the increases in egg consumption may include increased fast food restaurant consumption; high protein diet trends; favourable reports from the medical community regarding the health benefits of shell eggs; reduced shell egg cholesterol levels; and the success of industry advertising campaigns. These may have been offset to some extent by concerns in relation to health and changing perceptions as to the nutritional value of eggs and egg products.

Due to the differences in local, cultural customs and relative price ratios, among other factors, there are major differences between countries in terms of the consumption patterns and consumption preferences with respect to eggs. There is also a growing partiality to convenience food in the developed countries (as a result of social trends, such as the growing number of single person households). As a result, there has been a shift from the consumption of table eggs to the consumption of egg products.

The following table shows the total world consumption of eggs, including volumes consumed as foodstuffs and volumes used in the processing of egg products, by continent.

Total World Egg Consumption, by Continent, in mln tons

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Africa	1.94	2.04	2.12	2.17	2.21	2.24	2.31	2.41	2.46	2.42
Asia	29.22	29.56	30.46	31.37	31.85	32.78	33.10	34.62	35.68	36.79
Europe	9.40	9.62	9.85	9.72	9.87	9.83	9.91	9.91	10.19	10.33
America	10.38	10.76	10.84	10.95	11.19	11.47	12.16	12.15	12.22	12.28
Oceania	0.20	0.20	0.20	0.19	0.19	0.21	0.24	0.25	0.25	0.25
Total for the world	51.14	52.18	53.46	54.40	55.32	56.53	57.71	59.34	60.80	62.07

Source: Pro-Consulting Report

The table below details per capita/per annum consumption of eggs, by continent, since 2000.

World Consumption of Eggs, Per Capita, by Continent, in kilogrammes

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Africa	2.44	2.52	2.59	2.50	2.52	2.53	2.51	2.58	2.53	2.43
Asia	7.94	7.92	8.06	8.19	8.22	8.37	8.37	8.65	8.80	8.97
Europe	11.24	11.34	11.47	11.17	11.22	11.04	11.06	10.94	11.15	11.13
America	14.26	14.57	14.50	15.45	15.61	15.82	16.81	16.62	16.69	16.98
Oceania	6.45	6.36	6.28	5.89	5.80	6.38	7.28	7.51	7.44	7.22
Total in the world	8.42	8.47	8.58	8.62	8.67	8.76	8.84	8.98	9.07	9.12

Source: Pro-Consulting Report

Consumption of eggs includes both the consumption of eggs as foodstuffs, and the utilisation of eggs in the processing of egg products. The following tables demonstrate the volumes of eggs used for these two purposes.

World Consumption Volumes of Eggs as Foodstuff, in mln tons

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Consumption as foodstuff	44.70	45.58	46.72	47.54	48.31	49.40	50.45	51.86	53.13	54.23
Gain		1.98%	2.48%	1.77%	1.60%	2.26%	2.13%	2.79%	2.46%	2.08%

Source: Pro-Consulting Report

World Utilisation Volumes for Processing of Eggs into Egg Products, in mln tons

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Consumption through processing	6.43	6.60	6.74	6.86	7.01	7.12	7.27	7.47	7.66	7.84
Gain		2.56%	2.24%	1.66%	2.31%	1.55%	2.06%	2.81%	2.48%	2.29%

Source: Pro-Consulting Report

World Consumption of Egg Products

According to the Pro-Consulting Report, world egg products consumption constituted 0.58 kilogrammes in 2007. Between 2000 and 2009 there was an increase of 7.4% in the volumes of egg products consumed. The increase was attributed primarily to a growth in the use of egg products by the food industry, in the production of bread and bakery products, ice cream, sweet cakes, pies and pastries, dried pasta and noodles, mayonnaise, fish-based ready meals and sausages.

According to the Pro-Consulting Report, the sector of the food industry which consumes the largest proportion of egg products is the sweet biscuit sector. The production of sweet biscuits was responsible for the consumption of approximately 1.6 million tons of egg products in 2009, or 37% of the total egg products consumed in the world. The biggest consumer of egg products for use in sweet biscuits is Europe, which consumed 787.2 thousand tons of egg products for these purposes in 2009, followed by North America, which consumed 468.2 thousand tons, and Asia, which consumed 164.3 thousand tons.

The manufacturing of bread and bakery products consumes the second largest volume of egg products. This sector accounted for the consumption of 1.2 million tons of egg products in 2009, or 28% of the total egg products consumed in the world. The biggest consumer of egg products for use in bread and bakery goods is Europe, which consumed 830 thousand tons of egg products for these purposes in 2009, followed by North America, which consumed 281 thousand tons, and Asia, which consumed 60 thousand tons.

The pies and pastries sector is the third biggest consumer of egg products in the world. It consumed 1.1 million tons of egg products in 2009, or 25% of the total egg products consumed in the world. The biggest consumer of egg products for use in pies and pastries is Europe, which consumed 425.4 thousand tons of egg products for these purposes in 2009, followed by North America, which consumed 373.5 thousand tons, and Asia, which consumed 141.2 thousand tons.

The following table shows world consumption of egg products, per capita.

World Consumption of Dry and Liquid Egg Products Per Capita, by Continent, in kilogrammes

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
World	0.54	0.54	0.55	0.55	0.55	0.56	0.56	0.57	0.58	0.58
Gain, %		0.65%	1.25%	0.38%	0.60%	0.96%	0.94%	1.52%	0.79%	0.61%
Africa	0.02	0.02	0.02	0.01	0.01	0.02	0.01	0.02	0.01	0.01
Gain, %		0.65%	1.25%	-4.34%	0.60%	0.96%	-1.74%	1.52%	-1.81%	-0.26%
America	1.68	1.69	1.71	1.71	1.72	1.74	1.77	1.79	1.82	1.83
Gain, %		0.65%	1.25%	0.24%	0.60%	0.96%	1.53%	1.52%	1.39%	0.55%
Asia	0.17	0.17	0.18	0.18	0.18	0.18	0.18	0.19	0.19	0.19
Gain, %		0.65%	1.25%	0.23%	0.60%	0.96%	1.15%	1.52%	1.00%	0.90%
Europe	1.65	1.66	1.68	1.80	1.81	1.83	1.87	1.90	1.95	2.01
Gain, %		0.65%	1.25%	7.15%	0.60%	0.96%	2.39%	1.52%	2.26%	3.36%
Oceania	0.41	0.41	0.42	0.42	0.42	0.43	0.43	0.44	0.44	0.44
Gain, %		0.65%	1.25%	0.24%	0.60%	0.96%	1.37%	1.52%	1.22%	-0.82%

Source: Pro-Consulting Report

European Consumption of Eggs

According to the Pro-Consulting Report, egg consumption in the European Union constituted 13.41 kilogrammes per capita/per annum in 2009, 13.15 kilogrammes per capita/per annum in 2008, and 12.64 kilogrammes per capita/per annum in 2007. The increase was attributable primarily to population growth in the European Union and an increased use of eggs for the processing of egg products. The financial crisis has not resulted in a decrease in the consumption of eggs in the European Union.

The tables below detail total per capita/per annum consumption of eggs in the European Union and per capita/per annum consumption of eggs, by country, according to the Pro-Consulting Report, since 2000.

Egg Consumption in the European Union per Capita, in kilogrammes

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
In general	11.51	11.88	11.93	11.69	11.68	11.36	11.77	12.64	13.15	13.41
In %		3.25%	0.36%	-1.96%	-0.10%	-2.75%	3.59%	7.41%	4.00%	2.00%

Source: Pro-Consulting Report

Egg Consumption in the European Union per Capita, by Country, in kilogrammes

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Austria	12.1	12.5	12.9	12.7	12.5	13.3	13.42	10.9	11	11
Belgium	11.0	13.2	12.2	11.8	14.2	11.4	11.24	14.4	14.5	14.8
Bulgaria	9.8	9.9	10.8	11.3	12.1	12.1	12.9	11.8	11.4	11.3
Cyprus	11.1	11.5	13.0	14.3	11.4	9.6	9.3	9.1	9.9	9.8
Czech Republic	16.4	16.7	13.6	12.9	8.8	9.5	10.7	12.5	12.6	12.6
Denmark	13.7	16.2	16.3	17.4	19.9	19.0	15.3	12.3	12.4	12.5
Estonia	11.9	12.7	11.3	10.5	10.2	10.4	8.2	6.9	6.3	6.5
Finland	9.3	8.7	8.9	8.4	8.3	8.3	9.6	11.2	11.7	11.5
France	16.0	15.6	15.2	15.3	13.1	13.0	13.5	13.9	13.7	13.6
Germany	12.5	12.6	12.6	12.1	12.1	11.8	10.7	8.8	8.9	8.9
Great Britain	9.3	10.0	10.0	9.9	10.4	10.2	9.8	9.2	9	9
Greece	10.0	9.6	9.2	8.8	9.1	9.2	9.4	9.5	9.6	9.6
Hungary	15.7	16.3	16.7	16.3	16.2	16.0	15.5	14	14.6	14.7
Ireland	7.4	7.9	7.4	6.8	6.5	7.0	7.8	8.4	8.1	7.9
Italy	12.4	11.9	11.7	11.5	11.8	11.6	11.6	11.8	11.8	11.8
Latvia	9.7	11.3	12.2	12.1	12.4	13.3	15.7	18	17.5	17.5
Lithuania	10.7	12.2	12.9	12.1	11.9	10.6	12.4	16.3	15.1	14.4
Luxembourg	1.9	2.3	2.2	2.4	2.6	2.6	2.5	2.5	2.7	2.6
Malta	11.4	11.5	11.2	14.5	12.5	12.0	16.2	17.7	17.5	17.2
The Netherlands	19.6	17.1	19.1	15.7	18.4	17.5	19.3	35	35.3	34.9
Poland	10.5	11.1	11.8	11.6	11.8	12.0	12.4	13.1	14	14.2
Portugal	9.6	10.4	9.9	9.6	10.0	9.7	9.6	9.5	9.7	9.8
Romania	10.6	12.6	13.5	13.5	13.9	14.3	14.7	15.1	15.1	15
Slovakia	11.6	12.0	12.2	12.3	12.0	12.6	12.5	12.3	12.5	12.8
Slovenia	11.3	9.9	9.9	6.9	5.5	6.0	6.3	6.3	7.2	7
Spain	13.9	14.2	15.2	14.8	16.4	12.8	16.1	19.6	19.3	19.1
Sweden	11.5	11.0	10.2	10.4	11.4	11.1	11.1	11.2	11.2	11.4

Source: Pro-Consulting Report

Overview of the Ukrainian Market for Eggs and Egg Products

Ukrainian Breeding Market

For the production of eggs in Ukraine, both foreign and domestic breeds of hens are used. Producers of eggs are dependent on foreign breeds, as the gene pool of foreign hens is more developed than the currently undeveloped domestic breeding base.

The following table shows the total number of poultry in Ukraine, according to the SCSU, between the years 1990 and 2008.

Number of Poultry

Years	1990	1995	2000	2004	2005	2006	2007	2008
	All types of agricultural holdings; at the end of the year, thousand heads							
Poultry	246,104	149,748	123,722	152,783	161,993	166,531	169,290	177,556
Poultry in agricultural enterprises	132,967	54,074	25,353	50,557	66,625	72,219	80,124	87,974
of which laying hens*	—	—	—	20,159	23,298	27,895	27,389	29,890
% laying hens*	—	—	—	40.2	35.0	38.6	34.2	34.0
Poultry in private sector	113,138	95,674	98,369	102,226	95,368	94,312	89,166	89,582

Source: SCSU

* Evaluation by Pro-Consulting (source: Pro-Consulting Report)

Production of Eggs in Ukraine

According to the FAO, Ukraine produced 1.4% of total eggs produced in the world and 8.6% of total eggs produced in Europe, in 2008. The Ukrainian egg market is currently characterised by a trend towards consolidation, whereby small producers are exiting the market due to an inability to compete with large industrial producers. In light of the considerable investments into expansion, upgrading of existing equipment and improved efficiency being undertaken by Avangard and its closest competitors, Management believes the trend toward consolidation in the manner described above will continue over the next several years.

The decrease in the number of farms for laying hens in Ukraine in recent years, as demonstrated in the following table, is evidence of the increasing consolidation of the poultry sector.

Number of Farms for Laying Hens in Ukraine

Years	Number of enterprises
2003	156
2004	148
2005	141
2006	132
2007	120
2008	120
2009*	101

Source: Association of Poultry Producers "Ptakhoprom Ukraine"

* Preliminary data of Association of Poultry Producers "Ptakhoprom Ukraine"

The inability of small producers to compete with large industrial producers is due to the former's lack of vertical integration, low quality of local fodder, poor genetic potential of local breeder flocks and inferior business management. As a result, most of the small producers in Ukraine have relatively low capacity utilisation rates and low productivity. They do not benefit from economies of scale in purchasing and production. In many cases, the resulting high cost of goods sold has reduced their gross margins and forced necessary expansion and investment programmes to be put on hold, thus causing them to become increasingly less competitive.

A relatively high proportion of shell eggs in Ukraine is produced by households. However, this proportion is declining. According to the Pro-Consulting Report, in 2009 the proportion of shell eggs produced by households was 41.8%, as opposed to 43.4% in 2008 and 45.9% in 2007. It is expected that this decrease will continue and that there will be an increase in the proportion of eggs produced by industrial producers. The proportion of eggs produced by industrial producers increased from 49.6% of eggs produced in Ukraine in 2005 to 58.2% in 2009 and is expected to rise to 65.2% in 2012.

Management believes that the reasons for the decline in household production include the shift in the Ukrainian population from rural to urban areas, the relatively inefficient nature of household production (which involves the use of breeds suitable for both egg and poultry meat production and the purchase of grain at higher prices than those paid by industrial producers), as well as the increased burden of compliance with food safety standards for household producers.

According to the Pro-Consulting Report, Ukraine produced 15,857 million eggs in 2009. According to the SCSU, Ukraine produced 14,957 million eggs in 2008 and 14,063 million eggs in 2007. This increase was primarily attributed to the increased volumes of industrially-produced eggs, increased productivity of laying hens (due to a higher quality of breeding stock and improved quality of feed) and an increased demand for eggs due to the development of the market for egg products. The following table demonstrates the increased productivity of laying hens in Ukraine, which is a result of more efficient working practices in the sector.

Productivity of Hens in Ukraine

Years	1990	1995	2000	2004	2005	2006	2007	2008	2009
					Pieces per year				
Annual average eggs laid per hen in agricultural enterprises	214	171	213	271	274	271	275	278	282

Source: Pro-Consulting Report

The following table demonstrates the overall increase in the production of eggs in Ukraine from 2000 to 2009 and the changing levels of production by industrial and household producers, according to the Pro-Consulting Report.

Production of Eggs in Ukraine

Years	1990	1995	2000	2004	2005	2006	2007	2008	2009†	2010†	2011†	2012†
						Mln. of eggs						
Total	16,287	9,403	8,809	11,955	13,026	14,231	14,063	14,957	15,857	17,010	18,614	19,432
Farms of population	6,161*	5,233*	5,831*	6,424*	6,588*	6,602*	6,458*	6,486*	6,623	6,689	6,622	6,755
Industrial production	10,126*	4,171*	2,977*	5,531*	6,458*	7,633*	7,605*	8,470*	9,234	10,321	11,992	12,678
Including hen eggs	—	—	—	—	6,399	7,572	7,543	8,398	9,143	10,218	11,872	12,551
% of industrial production	62.2	44.4	33.8	46.3	49.6	53.6	54.1	56.6	58.2	60.7	64.4	65.2

Source: Pro-Consulting Report

* SCSU data

† Evaluation by Pro-Consulting (source: Pro-Consulting Report)

Domestic sales of eggs in Ukraine increased by 33.4% from U.S.$766 million in 2005 to U.S.$1,022 million in 2009.

Sales of Eggs in Ukraine

Years	2005	2006	2007	2008	2009	2010	2011	2012
Eggs, domestic sales, U.S.$ million	766	669	904	1,319	1,022	1,126	1,436	1,689

Source: Pro-Consulting Report

Production of Egg Products in Ukraine

According to the Pro-Consulting Report, Ukraine produced 6,319 tons of egg products in 2009, as compared to 9,220 tons of egg products in 2008 and 5,783 tons of egg products in 2007. In 2009, Ukrainian egg products production volumes decreased by 31.5% as compared to 2008, although 2009 production volumes still represented an increase of 9.3% as compared to 2007 production volumes. The decrease in production in 2009 was attributable to the high level of imports of egg products in 2008 (which was almost twice as high as the 2007 level) and the relatively low level of exports of egg products, which together resulted in an excess of egg products at the beginning of 2009 and forced producers to reduce production volumes of egg products in order to decrease the surplus.

According to the Pro-Consulting Report, production of egg products is expected to increase to 13,235 tons in 2012, an increase of 109.4% since 2009. It is expected that production of dry egg products will grow at a faster rate than production of liquid egg products. The expected increase in production of egg products is attributable to the significant growth in demand for egg products both in Ukraine and worldwide, connected to the increased consumption of such products, and the growth of exports from Ukraine.

The table below shows the total production of egg products in Ukraine until 2009, and the expected growth in production until 2012.

Production of egg products (including albumen) in Ukraine

Years	2005	2006	2007	2008	2009	2010	2011	2012
Total, tons	2,240	3,190	5,783	9,220	6,319	7,856	10,161	13,235
Dry Egg products, tons	1,194	2,086	3,107	5,437	4,222	4,821	6,200	7,400
Liquid Egg products, tons	1,045	1,104	2,676	3,783	2,097	3,035	3,961	5,835
Eggs processed, mln/pcs	100	163	259	439	327	384	495	608
% Deep processing of egg	1.6	2.1	3.4	5.2	3.5	3.7	4.1	4.8

Source: Pro-Consulting Report

Exports of Eggs from Ukraine

Ukraine's share of the world egg market is currently 0.94%, according to the Pro-Consulting Report. However, exports from Ukraine are expected to increase from 34,180 tons in 2009 to 120,482 tons by 2012, a rise of 252.5%. This projected increase is attributable to the development of Ukraine's poultry farming sector and Ukraine's entry into the WTO. The proximity of Ukraine to EU countries may provide Ukrainian exporters with significant competitive advantages, as it could potentially reduce the costs of exporting eggs into the EU. In addition, Ukraine may be able to capitalise on the implementation in the EU of European Council Directive 99/74/EC. See "European Production of Eggs", above. The requirement to house hens in enriched cages is expected to cause a decrease in egg production capacities in the EU by 20 to 30%, according to the Pro-Consulting Report. This could potentially lead to a deficit of eggs and egg products within the EU, which Ukrainian exporters may be able to exploit.

The volume of eggs exported from Ukraine in 2009 was 34,180 tons, as compared to 9,086 tons in 2008 and 13,761 tons in 2007. The 2009 volume of exports represents an increase of 276.2% from the 2008 level of exports, and an increase of 148.4% from the 2007 level. According to the Pro-Consulting Report, this increase in exports is primarily attributable to an increase in demand in Central Asian countries, connected to a growth in consumption, and the competitive prices of eggs produced in Ukraine.

The following table shows the total volumes of eggs exported from Ukraine until 2009, and the expected growth in exports until 2012, according to the Pro-Consulting Report.

Volume of Eggs Exported from Ukraine

Years	2005	2006	2007	2008	2009	2010	2011	2012
Export, tons	0	591	13,761	9,086	34,180	90,361	102,410	120,482
Export, U.S.$ '000	0	639	14,902	12,268	36,131	110,625	144,500	195,000
Exports as % of industrially produced eggs	0.00%	0.13%	2.88%	1.72%	6.14%	14.59%	14.23%	15.84%

Source: Pro-Consulting Report

The main importer of Ukrainian eggs is Iraq, which in 2009 overtook Syria and Kazakhstan as the most significant export market for Ukrainian eggs. Since 2007, the export market for Ukrainian eggs has broadened in terms of the geographic location of importers, reducing the risk that exports from Ukraine will be adversely affected by a particular buyer switching to imports of eggs from other countries apart from Ukraine. Prospective markets for the export of Ukrainian eggs are Europe, the CIS, the Middle East and North Africa.

The following table demonstrates the overseas markets for exported Ukrainian eggs.

Importers of Ukrainian Eggs

Years	2007	2008	2009
		Volume %	
Iraq	—	1	56
Syria	45	10	19
Kazakhstan	43	79	18
Georgia	11	8	0.5
Other	1	2	6.5

Source: Pro-Consulting Report

Exports of Egg Products from Ukraine

Ukrainian exports of egg products increased to 1,676 tons in 2009, as compared to 1,039 tons in 2008 and 36 tons in 2007. This represented an increase of 61.3% between 2008 and 2009. Until 2007, Ukraine did not export any egg products, but the opening in 2007 of the Imperovo egg processing complex (which currently produces dry egg products only) allowed for the commencement of exports of these products.

The table below demonstrates the increase in Ukrainian egg products exports between 2007 and 2009, and the forecast increase between 2009 and 2012.

Volumes of Egg Products Exported from Ukraine

Years	2005	2006	2007	2008	2009	2010	2011	2012
Export, tons	—	—	36	1,039	1,676	2,704	4,361	7,035
Export, U.S.$ thousand	—	—	688	5,213	11,962	20,280	34,888	59,797

Source: Pro-Consulting Report

The table below demonstrates exports of egg products from Ukraine in 2007, 2008 and 2009. According to the Pro-Consulting Report, dry egg powder accounted for 53% and 60% of the total volumes of egg products exported from Ukraine in 2008 and 2009 respectively and albumen (both frozen and non-frozen) accounted for a further 45% and 32% of the total volumes of egg products exported from Ukraine in 2008 and 2009. Egg yolk accounted for 2.6% and 8.5% of the total volumes of egg products exported from Ukraine in 2008 and 2009.

Egg Products Exported from Ukraine

	2007		2008		2009	
Commodity	tons	(U.S.$'000)	tons	(U.S.$'000)	tons	(U.S.$'000)
Egg powder	36	688	550	3,465	999	6,914
Albumen	—	—	128	1,024	301	3,456
Albumen (frozen)	—	—	334	466	234	457
Egg yolk	—	—	27	258	142	1,136
TOTAL	**36**	**688**	**1,039**	**5,213**	**1,676**	**11,963**

Source: Pro-Consulting Report

According to the Pro-Consulting Report, Ukraine's main exporter of egg products is Imperovo, which accounted for 76.9% of the total volume of exported egg products in 2009. Ovostar LLC accounted for a further 14.0% of the total volume of exported egg products.

The main importer of Ukrainian egg products in 2009 was Jordan. Of the total volume of exported egg products in 2009, 66.0% was exported to four countries: Jordan, Saudi Arabia, Indonesia and Turkey. These four countries' share of the market for imported Ukrainian egg products has increased from 46.0% in 2008. This increase is due to the development of trade contacts with Saudi Arabia and the commencement of exports to Indonesia.

There is a greater geographical spread of importers of Ukrainian egg products than of importers of Ukrainian eggs. This is related to the longer period for which egg products are capable of being stored, which allows them to be transported greater distances.

The following table shows the overseas markets for Ukrainian egg products in 2008 and 2009.

Importers of Ukrainian Egg Products

Years	2008	2009
	Volume %	
Jordan	29	29
Turkey	14	11
Saudi Arabia	3	13
Indonesia	—	13
Korea	—	3
Thailand	—	3
Belarus	39	16
Cyprus	—	—
Other	15	13

Source: Pro-Consulting Report

Ukraine has a competitive advantage relative to other exporters due to its geographic proximity to the European Union. The continued expansion of Ukraine to the EU egg products markets will, however, depend on a number of factors, including further modernisation of its production facilities as well as an increase of its production capacities and future accreditation by the EU authorities.

Imports of Eggs to Ukraine

According to the Pro-Consulting Report, currently Ukraine imports only hatching eggs.

Imports of Egg Products to Ukraine

In 2009, Ukraine imported 388 tons of egg products, as compared to 1,135 tons of egg products in 2008 and 491 tons of egg products in 2007. This represents a decrease of 65.8% in 2009 and an increase of 131.2% in 2008. Domestically produced egg products have substantially substituted imported egg products, due to the improved quality and competitive prices of Ukrainian egg products.

The following table shows the volumes of egg products imported into Ukraine.

Volumes of Egg Products Imported into Ukraine

Years	2006	2007	2008	2009	2010	2011	2012
Import, tons	650	491	1,135	388	299	230	177
Import, U.S.$ thousand	2,574	2,282	4,493	2,210	1,959	1,733	1,533

Source: Pro-Consulting Report

As shown in the following table, imports of dry egg powder were fully substituted by domestically produced dry egg powder in 2009. Imports of albumen represented 81.2% of total volumes of imported egg products in 2009.

Egg Products Imported into Ukraine

	2007		2008		2009	
Commodity	**tons**	**(U.S.$'000)**	**tons**	**(U.S.$'000)**	**tons**	**(U.S.$'000)**
Egg powder	20	25	317	1,255	—	—
Albumen	329	1,418	798	3,175	315	1,798
Egg yolk	143	839	21	63	73	412
TOTAL	**491**	**2,282**	**1,135**	**4,493**	**388**	**2,210**

Source: Pro-Consulting Report

Consumption and Sales of Eggs in Ukraine

According to the Pro-Consulting Report, egg consumption in Ukraine constituted 15.4 kilogrammes per capita/per annum in 2009, 15.0 kilogrammes per capita/per annum in 2008, and 14.6 kilogrammes per capita/per annum in 2007. This represented an increase of 2.7% in 2008 and 2.6% in 2009 respectively. The increase was attributed primarily to the increased popularity of eggs as a foodstuff and the increased use of eggs by the food industry in egg products. Ukrainian egg consumption is expected to increase to 18.1 kilogrammes per capita/per annum in 2012, a rise of 17.5% from the consumption level in 2009. This forecast increase is due to the development of foreign marketing relating to eggs and an increase in the trade of eggs.

According to the SCSU, in 2008 eggs accounted for 2.0% of household nutritional expenses. Management's view is that the consumption of eggs does not appear to have been adversely affected by recent economic conditions.

The table below demonstrates the changes in consumption of eggs in Ukraine between 2000 and 2009, and the projected changes until 2012.

Consumption of Eggs in Ukraine

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	Kg/per capita per year												
Eggs (including egg products). kg	9.6	10.4	12.1	12.4	12.7	13.7	14.5	14.6	15.0	15.4	16.2	17.6	18.1
Eggs (including egg products), pieces	166	180	209	214	220	238	251	252	260	267	280	305	313

Source: Pro-Consulting Report

The tables below show the proportion of eggs and egg products sold to various purchasers between 2004 and 2009, and the main channels of purchase of eggs, according to the Pro-Consulting Report.

Sales of Eggs and Egg Products in Ukraine

Years	2004	2005	2006	2007	2008	2009
	%					
Distributors, trading houses	65.4	68.5	71.5	74.6	76.5	77.6
Shops, markets	32.1	29.3	27.0	24.5	22.7	21.5
Processing	0.3	0.3	0.3	0.3	0.3	0.1
Population	2.2	1.9	1.2	0.6	0.5	0.8

Source: Pro-Consulting Report

Consumption of Egg Products in Ukraine

The table and chart below demonstrate the changes in domestic and export egg product sales between 2007 and 2009.

Sales of Egg Products in Ukraine

Years	2007	2008	2009
	%		
Domestic market	99%	89%	73%
Dry	99%	86%	54%
Liquid	100%	91%	92%
Export	1%	11%	27%
Dry	1%	14%	46%
Liquid	0%	9%	8%

Source: Pro-Consulting Report

According to the Pro-Consulting Report, the biggest customers of egg products in Ukraine are enterprises from the confectionery industry and mayonnaise producers, which together purchase around 80 to 90% of egg products sold in Ukraine. Other customers include enterprises which purchase egg products for the production of ingredients for use in the food industry. A small proportion of egg products, mainly liquid egg products, are sold via the HoReCa channel.

Management expects the consumption of processed egg products to continue to grow in Ukraine. This is partly driven by consumer demand, such as the demand for higher-quality mayonnaise with a higher egg-content. (Ukraine is one of the highest per capita consumers of mayonnaise in the world.) Newly introduced food safety standards may also require higher egg-content rather than the use of artificial emulsifiers.

Eggs and egg products are used by the Ukrainian food industry for the production of mayonnaise, cakes, pies and biscuits and other baked goods. According to the Pro-Consulting Report, in recent years, the sector with the largest production volume has been the mayonnaise production sector. Unlike some other countries, Ukraine does not typically use significant quantities of eggs or egg products in bread-making.

The following tables demonstrate the production volumes of goods containing eggs and egg products, and the proportion of egg products used in various foodstuffs.

Production Volumes of Goods Containing Eggs and Eggs Products, in Ukraine

Years	2004	2005	2006	2007	2008	2009
			tons			
Mayonnaise	142,708	170,549	175,294	188,317	192,310	198,943
Cakes	22,234	25,942	31,056	29,362	30,852	31,778
Fancy cakes	6,716	7,780	8,993	9,676	9,834	10,302
Pies	2,409	3,659	5,734	10,875	11,368	12,505
Bun	65,322	86,691	88,912	89,722	89,292	90,185
Cookies	32,874	38,577	40,640	57,343	61,540	65,232

Source: Pro-Consulting Report

Use of Egg Products in Foodstuffs in Ukraine

Foodstuff	% composition by egg product
Bakery	5.5%
Sponge cakes	40.0%
Cakes and pastries	40.0%
Pasta	3.0%
Ice-cream	8.0%
Mayonnaise	6.0%
Fish semi-finished products	5.0%
Sausages	5.0%

Source: Pro-Consulting Report

Seasonal Trends

The demand for eggs in Ukraine is highly seasonal. In a typical year, the prices for eggs generally reach their peak during the autumn and winter months due to the increased consumption of shell eggs in cold weather conditions and particular demand around the Christmas holidays. Before Easter, there is an increase in volumes of sales, followed by a decrease in prices until the beginning of July. Prices for shell eggs further fluctuate in response to a natural increase in egg production during the spring and early summer. Although the industrial egg producers are able to process eggs into products which can be stored for longer periods of time, or store eggs for the prolonged periods of time or control to certain extent egg production via timely reductions and increases in the number of laying hens, the price for eggs in Ukraine is still highly seasonal due to the significant share of the household egg production. As the household share of the market decreases, seasonal trends will become smoother.

Eggs and Egg Product Prices

Prices of Eggs

According to the Pro-Consulting Report, wholesale prices for the first category of eggs in Ukraine grew by 13.0% in 2009 and retail prices for the first category of eggs in Ukraine grew by 16.1% in 2009 as compared to 2008. The wholesale and retail prices (excluding VAT) for the first category of eggs was UAH0.52 and UAH0.65 in 2009, UAH0.46 and UAH0.56 in 2008 and UAH0.33 and UAH0.41 in 2007, respectively. The increase in wholesale and retail prices, which is demonstrated in the table below, was attributable to a rise in the price of leases of warehouses and selling areas at markets and a rise in the cost of labour, due to higher salaries. As of 1 January 2010, the wholesale and retail prices for the first category of eggs increased further to UAH0.59 for wholesale and UAH0.73 for retail.

Average Prices of Eggs of First Category in Ukraine (excluding VAT)

Years	2007	2008	2009	2010	2011	2012
Wholesale	0.33	0.46	0.52	0.59	0.68	0.78
Retail	0.41	0.56	0.65	0.73	0.82	0.93
Marginal revenue	0.08	0.10	0.13	0.14	0.14	0.15
%	25%	22%	25%	23%	21%	19%

Source: Pro-Consulting Report

Wholesale and retail egg prices are driven by the increasing prices for raw materials and breeding stock, as well as seasonality and general inflationary expectations. Management's experience is that Ukrainian consumers will typically not pay a significant premium for quality egg products.

Prices of Egg Products

The table below shows the fluctuations of egg powder prices in Ukraine from 2007 to 2009.

Prices of Dry Egg Products in Ukraine

Years	2007		2008		2009	
	UAH/kg	USD/kg	UAH/kg	USD/kg	UAH/kg	USD/kg
Egg Powder	19.34	3.80	30.48	5.99	30.60	3.78
Egg Yolk Powder	—	—	47.18	9.26	54.98	7.00
Egg White (Albumen) Powder	—	—	60.75	12.63	75.81	9.94

Source: Pro-Consulting Report

Competition in the Ukrainian Egg Market

Competition in the Egg Market

According to the Pro-Consulting Report, the Ukrainian market for industrially produced eggs is relatively consolidated. The largest producer of eggs is the Group, which had a 23% share of the egg market and a 52% share of the dry egg products market in Ukraine in 2009. The second largest producer of eggs is Ovostar Group, which accounted for 4% of the shell egg market, 38% of the dry egg products market and 75% of the liquid egg products market in Ukraine in 2009.

Management does not believe that any of its competitors enjoys its level of vertical integration. Management does not expect this to change in the short- to medium-term, given the high capital demands of constructing a more vertically integrated enterprise.

Management believes that it will be difficult for new significant competitors to enter the market due to the time and investment a new entrant would need to achieve a comparable position. For example, (i) operating industrial egg production facilities requires obtaining suitable land and constructing production facilities, each of which requires investment and certain governmental permits and licences, which may be difficult or time consuming to obtain (see "Business—Licences and Permits") and (ii) the Ukrainian egg production industry is based on a vertically integrated model, which is different from the business model used in most markets where non-Ukrainian egg production companies operate, and such competitors may have difficulty adapting to the Ukrainian market.

The Group's leading competitors are Ovostar Group and JSC "Inter-Zaporizhzhya".

Ovostar Group is an industrial egg producer located in the Kyiv region. In addition to its egg production facilities, it maintains an egg processing plant. Ovostar Group sells its products under the "Yasensvit", "Teleshivske" and "Rankove" brands. In 2009, Ovostar accounted for approximately 4% of eggs produced in Ukraine.

JSC "Inter-Zaporizhzhya" is a vertically-integrated industrial egg producer located in the Zaporizhzhya, Poltava and Dnipropetrovsk regions. In addition to producing eggs, it produces animal feed and one-day old chicks for sale to other enterprises in Ukraine. In 2009, JSC "Inter-Zaporizhzhya" accounted for approximately 5% of eggs produced in Ukraine.

In 2009, Avangard's share of the Ukrainian market for eggs was approximately 23% (39% of all industrially produced eggs), as compared to approximately 16% and 13% in 2008 and 2007, respectively. The increase in Avangard's market share from 2007 levels was primarily due to acquisitions made by Avangard in this period and a consequent increase in the scale of its operations.

The following table sets out information on egg producers as a whole for the years indicated.

Producer	2007 Production volume (eggs, in million pieces)	2007 Market share (%)	2008 Production volume (eggs, in million pieces)	2008 Market share (%)	2009 Production volume (eggs, in million pieces)	2009 Market share (%)
Avangard	1,769	13	2,422	16	3,634	23
JSC "Inter-Zaporizhzhya"	646	5	637	4	729	5
Ovostar Group	—	—	—	—	569	4
"Malynove" (joined Ovostar Group)	288	2	287	2	—	—
"PF Ukraina" (joined Ovostar Group)	206	1	240	2	—	—
"PF Kyivska"	338	2	263	2	305	2
"Agrofirma Berezanska PF"	266	2	260	2	303	2
Other industrial production	4,092	29	4,362	29	3,694	22
Household production	6,458	46	6,486	43	6,623	42
Total:	**14,063**	**100**	**14,957**	**100**	**15,857**	**100**

Source: Pro-Consulting Report

Avangard also competes with Ukrainian households that produce eggs. The household segment of the market has traditionally been strong in Ukraine, competing with industrial producers principally based on price. However, household production is decreasing. See "Industry Overview—Overview of the Ukrainian Market for Eggs and Egg Products—Production of Eggs in Ukraine".

Competition in Egg Products Market

In 2009, according to the Pro-Consulting Report, the two leading producers of egg products in Ukraine were Avangard and Ovostar Group. Avangard also competes with foreign producers, however in 2009 such competition reduced significantly. See "Import of Egg Products to Ukraine", above. Currently Avangard produces only dry egg products. In 2009, Avangard had a market share of approximately 52% of all dry egg products produced in Ukraine.

The following table sets out information on the top two Ukrainian industrial egg products producers and other industrial producers as a whole for 2009.

Producer	2009 Output (in tons)	Dry Egg Products (in tons)	Liquid Egg Products (in tons)	Dry Egg Products (%)	Liquid Egg Products (%)
Avangard (including Imperovo)(1)	2,194	2,194	—	52	—
Ovostar Group	3,188	1,615	1,573	38	75
Others	937	413	524	10	25
Total:	**6,319**	**4,222**	**2,097**	**100**	**100**

Note:

(1) Of this, the output of Imperovo accounted for 2,096 tons, all of which comprised dry egg products. Imperovo's output accounted for approximately 50% of total production of dry egg products in Ukraine.

Source: Pro-Consulting Report

Recent Developments in the Ukrainian Egg Production Industry

Import

Ukrainian law currently establishes import tariffs of 12% for shell eggs, 5% for hatching eggs, 10% for dry, liquid and frozen egg yolk products and 2% for albumen (dry and other).

Export

Under the Law of Ukraine "On Foreign Economic Activity", the CMU is authorised to introduce licensing requirements with regards to certain goods and services, which are intended for export. Each year the CMU is also authorised to introduce export quotas for certain agricultural goods, export of which is subject to licensing. In the past, primarily grain, sunflower seeds and oil were subject to such requirements. As of the date of the Prospectus, no export quotas and/or licensing requirements have been introduced with regards to shell eggs and/or egg products. Moreover, since Ukraine's accession to the WTO, Ukraine undertook to abolish any unreasonable export restrictions. The law, however, provides, that licensing of export of, among other things, agricultural goods may be introduced in the event of (i) a significant mismatch in certain agricultural goods on the internal market or (ii) threat to the well-being of humans, animals, plants and/or environment. For 2010, none of the products which Avangard produces is subject to licensing and/or quotas.

Bird Flu, Newcastle Disease and Marek's Disease

Since 2003, the H5N1 strain of bird flu, which is potentially lethal to humans, has infected poultry flocks and other birds in several countries around the world, including Ukraine. There have been cases of bird flu in domestic birds reported in January 2008 and in wild birds reported in February 2008. In 2005, 2006 and 2007, several cases of bird flu were reported in wild birds and domestic poultry in the Crimea and Sumy regions of Ukraine.

Bird flu is highly contagious among birds and can cause sickness or death of some domestic poultry, including chickens, geese, ducks and turkeys. After the outbreak of bird flu in October 2005, the Ukrainian state authorities implemented a variety of emergency measures to prevent the further spread of the virus, including imposing local quarantine measures in affected areas, as well as mandatory seizing and slaughtering of birds. See "Risk Factors—Risks Relating to Avangard—Outbreaks of livestock diseases could have a material adverse effect on Avangard's business".

In addition, one case of Newcastle disease was reported in Ukraine in February 2006 at an industrial chicken farm in the Kharkiv region of Ukraine. This outbreak is reported to have occurred due to inferior biosecurity measures employed at the farm, including insufficient control over the quality of fodder and bedding. In addition, two cases of Newcastle Disease were reported in household birds in the Chernigiv and Rivne regions of Ukraine in April 2006. Control measures were immediately put in place, including culling and incineration of affected birds, quarantine, vaccination and disinfection of affected premises and equipment. These measures were effective, limiting the outbreaks to stand-alone incidents. There have been no other reported cases of Newcastle Disease in Ukraine. Marek's Disease is a highly contagious viral neoplastic disease in chickens.

To date, Avangard's facilities have not been affected by outbreaks of bird flu, Newcastle Disease or Marek's Disease.

State Subsidies

VAT Refunds for the Agriculture Industry

According to the VAT Law, Ukrainian agricultural companies are entitled to retain the difference between input VAT paid on items purchased by such companies for their operations and VAT charged on their agricultural products sold (currently at the rate of 20%). The amounts so retained may be used for any business purposes of the company. This VAT refund benefit was received by Avangard during 2009 and continues to be available to Avangard. The Ukrainian government may in the future re-introduce a requirement for the retained amounts to be transferred to special bank accounts and used only for payments for goods and services related to the company's agricultural activities as was the case until 2008. This should not, however, have a significant effect on Avangard.

Partial Compensation for Finance Costs

Agricultural producers (including those producing animal feed) receive partial compensation for finance costs under loans from Ukrainian banks. The aggregate amount of this benefit is determined by the annual state budget of Ukraine. In 2009, the CMU adopted a five-year programme establishing which loans (depending on, amongst other things, their designated purpose and term) will be subsidised by the state. Each year the government adopts plans which further detail the types of loans qualifying for this compensation and the terms and conditions of such compensation.

The 2009 annual plan provided for an interest rate rebate, subject to compliance with the relevant requirements, for companies that secured agricultural loans in relation to (i) the construction of poultry farms for loans granted between 2007 and 2008; (ii) the reconstruction of poultry farms, acquisition of machinery and equipment for loans granted in 2009; (iii) the purchase of animal feed and feed grains in the 2008 harvest; and (iv) the construction of poultry farms for loans granted in 2009.

For the construction of poultry farms two interest rate rebates were available: (a) 1.5 times the NBU discount rate for long-term loans in Ukrainian hryvnia and (b) 12% for long-term loans in foreign currency. For loans obtained for the reconstruction of poultry farms, acquisition of machinery and equipment, an interest rate rebate of 2 times the NBU discount rate was available and for loans obtained for the purchase of animal feed and feed grains, an interest rate rebate of 2 times the NBU discount rate was available. Finally, for loans obtained in 2009 to fund the construction of poultry farms, a 90% interest rate rebate was made available.

In 2009, the NBU discount rate fluctuated between 10.25% and 12%. In 2009, Avangard benefitted from all types of the interest rebates listed above apart from (iv).

Such compensation is allocated to agricultural producers by local authorities on a competitive basis by tender committees organised by local state administrations and consisting of representatives of various state authorities. Tender committees publicly announce the terms and conditions of the tender following the announcement by the Ministry of Agricultural Policy of Ukraine or local state administrations of the allocation of the state budget funds for such compensation.

On 27 April 2010, the Parliament of Ukraine adopted the 2010 State Budget Law, which is subject to further approval and signing by the President of Ukraine. If the President of Ukraine signs the 2010 State Budget Law as it is currently drafted, the Ukrainian agricultural sector will receive a total of UAH4.467 billion in state subsidies in 2010 in various forms, including but not limited to partial compensation for finance costs.

Pursuant to a Resolution of the Cabinet of Ministers of Ukraine, dated 7 April 2010, the government of Ukraine has allocated UAH100 million to the compensation of those finance costs which were incurred as a result of loans from Ukrainian banks and which were not compensated in 2009. Until the 2010 State Budget is adopted by the Ukrainian Parliament and the 2010 annual plan is adopted by the CMU, such costs will be allocated on the basis of the 2009-2013 programme, with the priority being the compensation of finance costs incurred in the financing of innovative projects undertaken at duly registered agricultural complexes.

BUSINESS

Overview

Avangard is one of the leading agroindustrial companies in Ukraine, focusing on the production of shell eggs and egg products. According to the Pro-Consulting Report, Avangard had a market share of approximately 23% of all shell eggs (39% of all industrially produced shell eggs) and 52% of all dry egg products produced in Ukraine in 2009. Avangard's production facilities are located in 14 of the 24 regions of Ukraine and also in the Autonomous Republic of Crimea.

As of 31 December 2009, Avangard's flock consisted of 16,121 thousand birds, as compared to 13,985 thousand and 9,556 thousand as of 31 December 2008 and 31 December 2007, respectively.

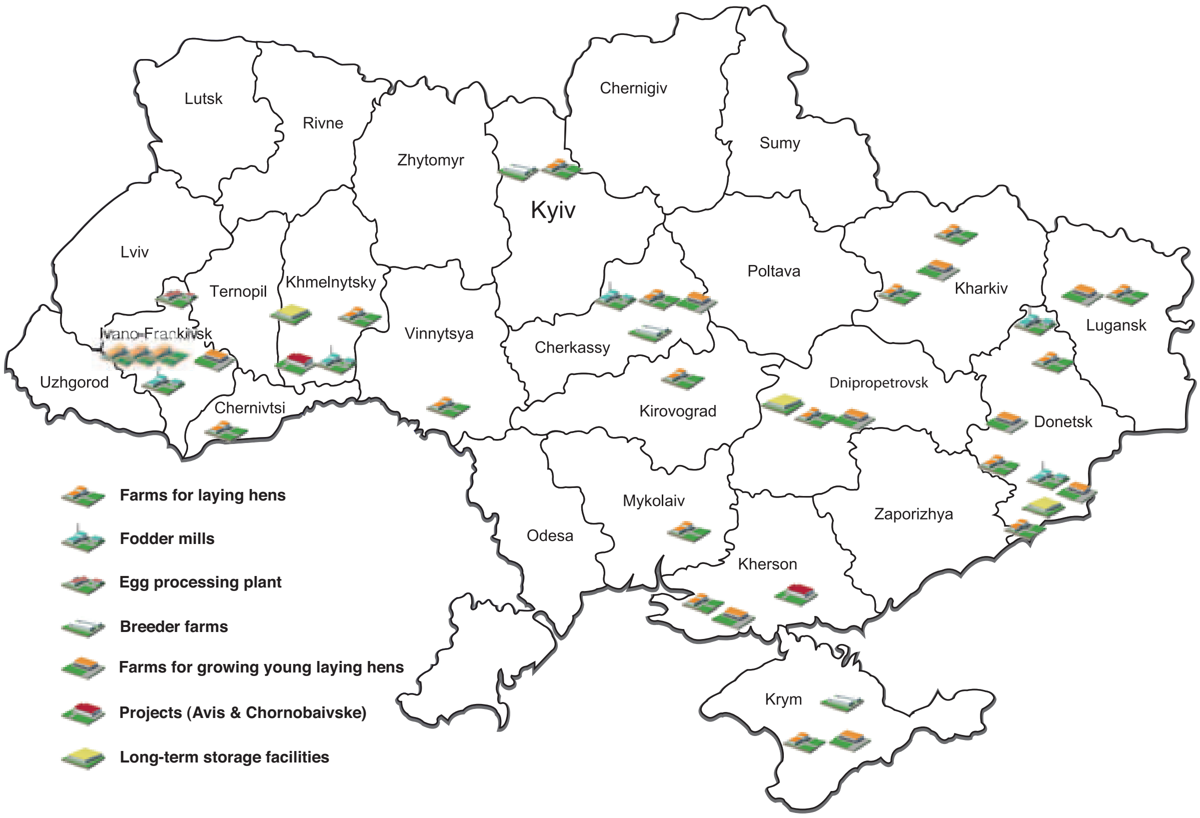
In 2009, Avangard had revenues of U.S.$319,855 thousand and net profit of U.S.$133,669 thousand. In 2009, shell egg sales accounted for approximately 75.2% and egg products sales accounted for approximately 6.9% of Avangard's revenues. In addition to the sale of shell eggs and egg products, Avangard sells laying flock and breeder flock at the end of their production cycle to third parties on a wholesale basis. In 2009, poultry sales accounted for approximately 11.8% of Avangard's revenues.

In 2009, Avangard's total assets were U.S.$844,376 thousand as compared to assets of U.S.$1,019,966 thousand as at 31 December 2008 and U.S.$683,062 thousand as at 31 December 2007.

Avangard's facilities are amongst the most technologically advanced in Ukraine:

- *Shell egg production facilities.* Avangard operates vertically integrated shell egg production facilities comprising 19 farms for laying hens, which produced approximately 3,634 million shell eggs in 2009 as compared to approximately 2,422 million and 1,769 million in 2008 and 2007, respectively. The farms for laying hens are serviced by 3 breeder farms, 9 farms for growing young laying hens, 6 fodder mills and 3 long-term egg storage facilities. Management believes this vertical integration allows Avangard to reduce production costs, better coordinate and control the various stages of production and improve the overall quality of its products. Avangard currently acquires all of its breeder flocks from an independent supplier, Hy-Line International. Avangard is in the process of a significant expansion of its facilities through the construction of the Avis and Chornobaivske egg production complexes in the Khmelnytsk and Kherson regions, respectively, which are each expected to have a design annual capacity of 840 million shell eggs, when fully operational. The Avis and Chornobaivske egg production complexes are being built in addition to the farms for laying hens operating at each of Avis and Chornobaivske.
- *Egg processing facilities.* Avangard operates facilities for the production of dry egg products at its Imperovo plant located in the Ivano-Frankivsk region, which has a design processing capacity of 3 million shell eggs per day. Management believes that Imperovo is one of the most technologically advanced egg processing facilities in the CIS. Avangard intends to gradually increase Imperovo's processing capacity to 10 million shell eggs per day.

The map below shows the locations of Avangard's various facilities in Ukraine.



Avangard's shell eggs are either sold for export or sold on a wholesale basis to domestic wholesale customers who purchase Avangard's shell eggs for subsequent resale, to Ovoline and to supermarket chains and other retailers. In 2009, approximately 11% (U.S.$26,241 thousand) of Avangard's shell eggs were sold for export, approximately 83% (U.S.$200,270 thousand) were sold to domestic wholesale customers, approximately 4% (U.S.$8,596 thousand) were sold to Ovoline and approximately 2% (U.S.$5,479 thousand) were sold to supermarket chains and other retailers. (All export sales were made through a related party intermediary.) Avangard and Ovoline are related parties which conduct all transactions on market terms.

Avangard's egg products are either sold for export or sold on a wholesale basis domestically. In 2009, approximately 47% (U.S.$10,315 thousand) of Avangard's egg products were sold for export and approximately 53% (U.S.$11,649 thousand) were sold domestically. (All export sales were made through a related party intermediary.)

Avangard operates on the basis of an environmental policy which applies advanced technologies of poultry farming, the use of modern equipment and control over potential sources of environmental hazards. The combination of these factors is intended to ensure the ecological safety of Avangard's production facilities.

Competitive Strengths

Management believes that Avangard benefits from the following competitive strengths:

- ***Leading market position in a large and growing market for shell eggs and egg products.*** Avangard is the leading producer of shell eggs and dry egg products in Ukraine, with a market share of approximately 23% for shell eggs, (approximately 39% for industrially produced shell eggs) and approximately 52% for dry egg products produced in Ukraine, in 2009, according to the Pro-Consulting Report. Management expects the annual industrial production market for shell eggs and egg products in Ukraine to continue to grow in the short- to medium-term, as a result of declining alternative sources of supply (such as household production and small industrial producers), absence of imports of shell eggs and, to a lesser degree, potential further increases in consumer demand. Management believes that Avangard's established market position and reputation for quality enhance its bargaining position with respect to Avangard's customers. Avangard's size also helps it to realise production and marketing economies of scale. Avangard is in a strong position to strengthen its market position due to an expected decline in the number of household and small industrial producers. Management also believes that Avangard enjoys a competitive advantage over potential new entrants to the market, due to the significant time and investment that would be required for a new entrant to develop vertical integration on a similar scale without which it might be difficult to achieve the required economies of scale.

- ***Countrywide coverage and diversified sales structure.*** Avangard's production facilities are located in 14 regions of Ukraine and also in the Autonomous Republic of Crimea which allows Avangard to sell its shell eggs throughout Ukraine, giving it access to most of Ukraine's population. Avangard believes that its countrywide coverage gives Avangard a competitive advantage over its competitors, helps to broaden its customer base and enables it to achieve better pricing and margins. Avangard sells its products through a variety of channels, including by way of exports. In recent years, major supermarket chains have become an increasingly important distribution channel for Avangard's products and Avangard expects sales through these chains to increase further. Avangard is not, however, reliant on sales through supermarket chains and its use of other channels enables it to avoid some of the additional costs associated with supermarket sales (including, for example, higher marketing budgets).

- ***Potential for further export growth.*** Management believes that Avangard is well positioned to sell increasing amounts of both shell eggs and egg products into export markets. In 2009, Avangard exported its shell eggs and egg products to 16 countries and export sales accounted for approximately 11% (U.S.$26,241 thousand) of its shell eggs and approximately 47% (U.S.$10,315 thousand) of its egg products. (All export sales were made through a related party intermediary.) Some of Avangard's establishments are currently liaising with Ukrainian state authorities in order to be accredited to sell egg products into the EU. Management believes that Avangard may benefit from lower production costs relative to EU producers. The location of some of Avangard's facilities, including the Imperovo processing plant in western Ukraine, means that it is geographically well-positioned to export into the EU and that transportation costs would be less than for some of its competitors in Ukraine as well as worldwide.

- ***Vertically integrated operations which reduce costs and enhance quality control.*** Other than breeder flock, Avangard owns and operates each of the key stages of egg production processes, from the production of hatching eggs (from which laying flock is hatched) to the production of shell eggs. To support its egg production operations, in 2009 Avangard internally produced approximately 75% of its animal feed (sourcing the remainder of its animal feed requirements and all of the feed grains for the production of animal feed from third parties). Vertical integration reduces Avangard's dependence on suppliers. Management believes this is particularly important in developing markets, such as Ukraine, to avoid supply interruption and price volatility. Management believes that vertical integration also creates synergies in a number of other areas and stronger control over its costs of production reducing per unit costs. Management believes that this is an advantage which few of Avangard's Ukrainian competitors enjoy as none is vertically integrated to the same degree. In addition, vertical integration also allows Avangard to maintain strict biosecurity and to control the quality of its inputs and the resulting quality and consistency of its products through to the point of sale.

- ***Modern technology.*** Avangard employs advanced technologies at its various production facilities, including in relation to its breeder farms, farms for growing young laying hens, farms for laying hens and egg processing facilities. Avangard's production process is largely automated, which ensures and promotes consistently high-quality products in a cost-effective manner. Avangard sources the equipment for its egg production facilities both domestically and from leading European suppliers, including Salmet International GmbH, "Officine Facco & C." S.p.a., Big Dutchman GmbH, Tecno Poultry Equipment, Specht Ten Elsen GmbH & Co KG and Hellmann Poultry. Management believes that the benefits of its modern equipment and advanced technologies are reflected in Avangard's favourable performance indicators, production costs and the high quality of Avangard's shell eggs and egg products.

- ***High biosecurity standards.*** Avangard employs strict biosecurity measures throughout its entire production process, from breeding to laying, as well as its animal feed production facilities, in order to minimise the risk of contamination and disease at its production facilities. These measures include, amongst others, keeping chickens within indoor production facilities, employing multi-site farming, disinfecting vehicles entering production areas and regularly monitoring the health of chickens and employees. Management believes Avangard's biosecurity system complies with Ukrainian law and is in line with international best practices.
- ***Experienced management team and centrally integrated management system.*** A core senior management team has been in place since 2007. Although the Company was incorporated only recently, the majority of Avangard's enterprises have conducted their operations for more than 10 years. Avangard's centrally integrated management system allows it to promote work efficiency, reduce production costs and increase the quality of produced goods. Key performance indicators are monitored on a daily basis so that any deviations from the norm can be quickly identified and addressed.
- ***Strong financial performance.*** Management believes that Avangard has delivered a strong financial performance in recent years despite difficult economic and financial conditions in Ukraine. Avangard has grown rapidly in a short period of time and it is currently undertaking a substantial expansion programme. Throughout this period, Avangard has successfully managed its growth and has secured and effectively allocated financial resources to meet the needs of its expanded and diversified business.

Strategy

Avangard's overall objective is to maintain and expand its position as one of the leading agroindustrial companies in Ukraine, while strengthening its position as the leading Ukrainian egg-production and egg processing company and exporter of shell eggs and egg products. Key elements of its strategy include:

- ***Increasing its market share in Ukraine.*** Management believes that the household production of shell eggs in Ukraine will continue to decline, as a result of a shift in the population towards urban areas, where the keeping of laying hens is not practical; the relative inefficiency of household production; the use of less productive breeds; difficulties in sourcing of young laying hens; and the relatively high cost of grain for such producers. Management also expects a decline in the output of small industrial producers due to the inefficiency of such operations and their inability to take advantage of economies of sale. See "Industry—Competition in the Ukrainian Egg Market". Management believes Avangard is well positioned to take advantage of the additional demand these production trends will create.
- ***Expanding egg production capacity.*** As of 31 December 2009, Avangard had a total production capacity of 18.9 million laying hens capable of producing approximately 5.2 billion of shell eggs per year. This represents an increase of approximately 20.4% above its production capacity level at 31 December 2008. Avangard's further expansion plans include the continuing development of the Avis and Chornobaivske egg production complexes, each of which upon completion is expected to consist of facilities for growing young laying hens, facilities for laying hens, storage facilities, slaughter facilities and a fodder mill. Management believes that the Avis and Chornobaivske egg production complexes will be amongst the largest egg production facilities in the CIS. On completion of the two complexes, Avangard's production capacity is expected to increase to 24.9 million laying hens. Avangard also intends to expand gradually the processing capacities of its Imperovo plant to 10 million shell eggs per day, from a level as at 31 December 2009 of 3 million shell eggs per day. As a result of its expansion programme, Avangard expects to achieve further economies of scale, and to decrease its per unit operating costs. See "—Overview of Operations—Production of Shell Eggs and Egg-Related Operations—New Production Facilities" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Expenditures".
- ***Expanding export of shell eggs and egg products.*** Management believes that the high quality of its products and economies of scale it realises in connection with its vertical integration will allow Avangard to strengthen its existing export positions and further expand its exports of shell eggs and egg products to the Middle East, Asia and CIS. As part of such expansion strategy**,** Avangard is seeking to introduce at some of its facilities the international quality

standards of the International Organization for Standardization (the "**ISO**"), the production practices of the Good Manufacturing Practice Regulations promulgated by the US Food and Drug Administration, the private sector body GLOBALGAP and the Hazard Analysis and Critical Control Point ("**HACCP**") hygiene procedures, the internationally recognised methodology for increasing food safety. Management believes that this will make it easier for Avangard to penetrate new markets. In addition, Avangard also intends to capitalise on the opportunities created by the European Council Directive 99/74/EC on welfare of laying hens, which may decrease the production capacities of European egg producers, due to the expected increase in maintenance costs. Avangard anticipates that this will allow it to export increasing quantities of egg products into the European Union over time (although at present neither Ukraine in general nor Avangard in particular has accreditation to export egg products into the European Union).

- ***Continuously focusing on the efficiency of the production process.*** Avangard perceives vertical integration as key to maintaining the consistently high quality of its products and reducing costs by realising economies of scale. Avangard aims to introduce integrated control systems at all of its facilities and enterprises. Avangard aims to become self-sufficient in animal feed requirements for its egg production upon completion of its Avis and Chornobaivske egg-production complexes. In addition, as discussed further below, Avangard intends to continue to find complementary uses for the various by-products of its production processes.
- ***Continuing development of Avangard's customer base.*** Avangard plans to develop all its current sales channels as well as attracting new customers for its shell eggs and egg products and improving geographic coverage. Avangard intends to strengthen further customer loyalty by offering new products such as, for example, nutritionally-enhanced shell eggs in line with changes in consumer preferences. Management believes that Avangard will benefit from its position as a significant supplier of shell eggs to Ukraine's modern supermarket chains. As these chains continue their rapid national expansion and centralise their purchases, Avangard intends to continue to focus on this market segment. As compared to its competitors, Avangard's presence in 14 regions of Ukraine and also in the Autonomous Republic of Crimea provide a solid base for such focus. Avangard will work to develop 'private labels' in collaboration with some supermarket chains. Management also believes that the quality and leading position of its products will assist Avangard's bargaining position with these supermarket chains and will help Avangard in its goal of achieving a position as their supplier of choice for a wide range of shell eggs.
- ***Construction of biogas production facilities***. Each of the Avis and Chornobaivske egg-production complexes is expected to include a biogas plant. Biogas plants are expected to use bird droppings, slaughterhouse waste and other waste of animal origin to produce valuable biological fertilisers, heat energy and biogas (a type of fuel in gas form) to be used for the production of electricity for sale and to satisfy the power requirements of the new Avis and Chornobaivske egg production complexes. It may also be possible for Avangard to make use of "green tariffs" when selling electricity produced from biogas into the national Ukrainian grid and for Avangard to participate in various national and international environmental projects as a result.
- ***Strengthening of brands.*** Avangard currently has 4 registered regional brands for, amongst other things, its shell eggs and egg products. Avangard intends to continue to focus its marketing efforts on enhancing the value of its regional brands. Management believes that its regional brands are perceived as representing high quality and reliability thereby helping to support Avangard's pricing strategy. Avangard also intends to introduce a national brand for its shell eggs once such branding will allow Avangard to establish a price differential sufficient to justify the costs of such a branding exercise.
- ***Expansion into neighbouring countries***. Avangard may also consider a growth strategy which may include acquisition of other companies engaged in the production of shell eggs and egg products in Eastern Europe, which will allow Avangard to faster expand into the EU markets.

History

The establishment of Avangard was initiated by its controlling shareholder, Oleg Bakhmatyuk. Set forth below are the significant milestones in the development of Avangard.

2003 Avangard commenced its operations in 2003 following the acquisition of CJSC Avangard and the incorporation of a subsidiary company Avangard-Agro, state registration of which took place in April 2004, in Ivano-Frankivsk, western Ukraine. The enterprise specialised in the production and sale of shell eggs.

2004 Avangard continued to follow a growth strategy through the acquisition of Kirovskyi in central Ukraine, increasing its production capacities and geographical coverage.

2005 Avangard strengthened its market position by acquiring the Chernivetska and Avis farms in western Ukraine and Chornobaivske in southern Ukraine, thereby further increasing its production capacities and geographical coverage.

2006 Avangard further expanded its production capacities by acquiring Donetska in southern Ukraine, Makarivska, SC PF Lozuvatska and Slovyany in central Ukraine and Rohatynska and Gorodenkivska in western Ukraine. Avangard constructed the Rohatyn-Korm and Kamyanets-Podilsky fodder mills.

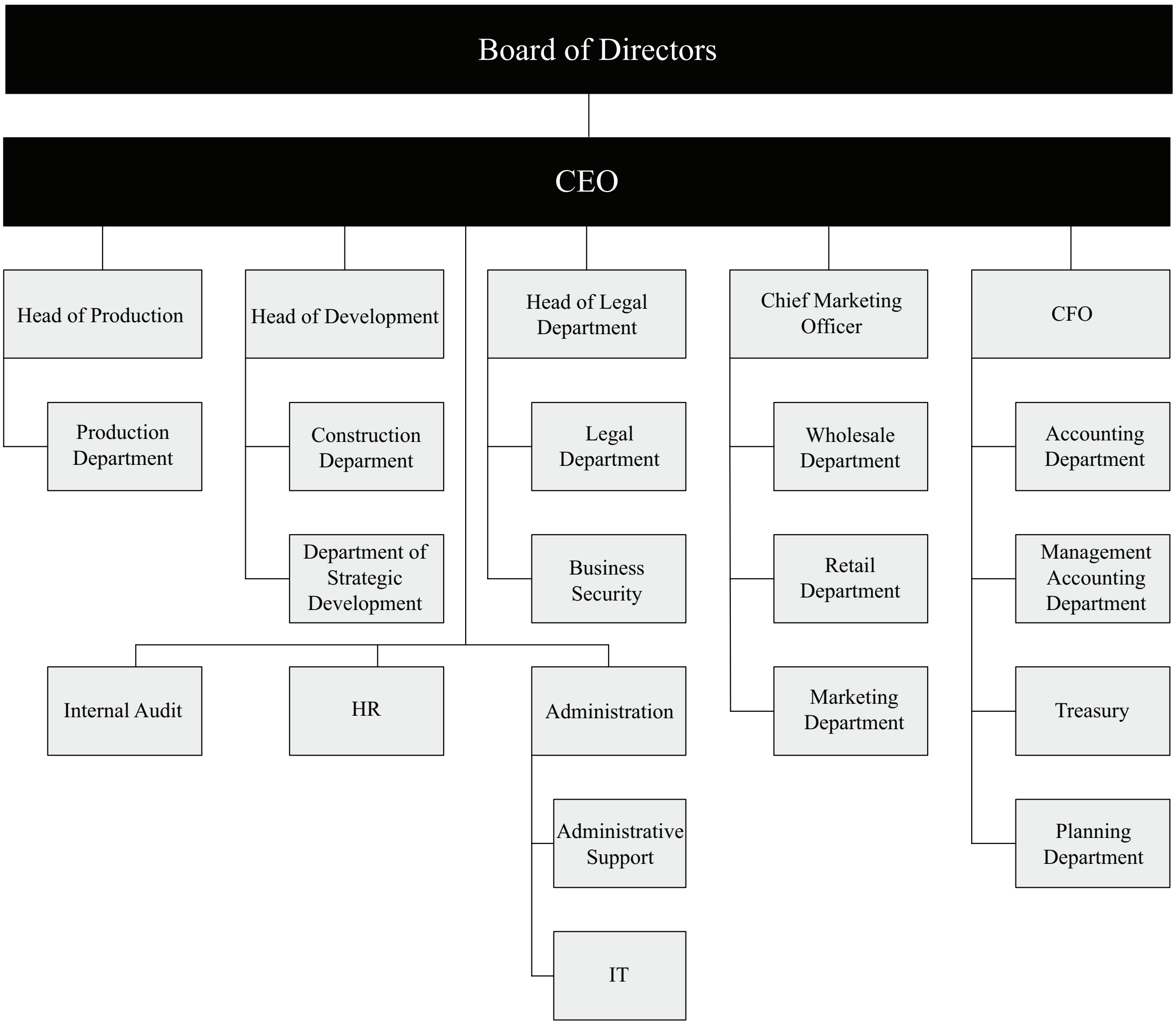
2007 The Company was incorporated on 23 October 2007 under the laws of Cyprus, to serve as the ultimate holding company for Avangard. Avangard acquired the Bohodukhivska and Ptytsecomplex farms for laying hens and further increased its production capacities by the construction of farms for growing young laying hens, including SC Chornobaivske, SC PH Donetske, SC Zorya, SC Volnovaske, SC Yuzhnaya-Holding, SC Chervonyi Prapor and SC PH Lozuvatske. Avangard acquired the Pershe Travnya, Volnovaska, Yuzhnaya-Holding, Chervonyi Prapor, Zorya and Cross, Vuhlehirskyi and Volnovaskyi KHP fodder mills.

2008 Avangard launched a non-convertible 5-year bond in an amount of UAH200 million (U.S.$25,974 thousand). Avangard acquired Interbusiness and Areal-Snigurivka. The Imperovo egg processing plant started operations (although was not part of the Group at this stage). Avangard completed the construction of its long-term storage facilities in Donetsk, Dnipropetrovsk and Khmelnytsk regions, which allowed Avangard to increase its long-term storage of shell eggs to 180 days. Avangard concentrated its efforts on the construction of the Avis and Chornobaivske egg production complexes. Avangard obtained concentration approvals for the consolidation of most of the Group companies.

2009 The Imperovo egg processing plant joined the Group.

Organisational Structure

The Company is the holding company of the Avangard group of companies. Avangard conducts its business in Ukraine through a number of direct and indirect subsidiaries. See "General Information—Corporate Structure". The chart below illustrates the organisation of Avangard's central management team.



Products

Avangard's core business is the production of shell eggs and egg products, which accounted respectively for approximately 75.2% and 6.9% of Avangard's revenues from continuing operations in 2009. In addition, Avangard sells laying flock and breeder flock at the end of their production cycle to third parties for use in meat production. Avangard also sells young laying hens. Avangard used to sell animal feed to third parties, but at present internally consumes nearly all of the animal feed it produces. Avangard also sells small quantities of manure to third parties and provides certain services to third parties, such as the mixing of animal feed and transportation of shell eggs. Avangard sells insignificant amounts of slaughtered poultry. The following tables provide information about Avangard's production volumes and revenues from the sales of its principal products.

	Year ended 31 December					
	2007		2008		2009	
	Amount	Percentage of Avangard total revenues from continuing operations	Amount	Percentage of Avangard total revenues from continuing operations	Amount	Percentage of Avangard total revenues from continuing operations
	U.S.$	%	U.S.$	%	U.S.$	%
	(In thousands, except percentages)					
Shell Eggs	87,446	68.4	225,698	74.7	240,586	75.2
Poultry	26,896	21.0	60,364	20.0	37,746	11.7
Animal Feed	7,515	5.9	2,149	0.7	15,515	4.9
Egg Products	1,321	1.0	2,200	0.7	21,964	6.9
Other(1)	4,610	3.6	11,881	3.9	4,044	1.3
Total revenue from continuing operations	**127,788**	**100%**	**302,292**	**100%**	**319, 855**	**100%**

(1) This category includes sales of slaughtered meat and manure as well as services provided to third parties (including mixing of animal feed and transport services).

Shell Eggs

Avangard's structure of sales is dominated by shell eggs, which accounted for 75.2% of total sales in 2009, 74.7% in 2008 and 68.4% in 2007. Avangard does not currently produce any value-added 'specialty eggs' such as nutritionally-enhanced, reduced cholesterol, free-range or organic shell eggs, or any eggs from birds other than chicken. Due to varying consumer preferences, Avangard produces white and brown eggs.

Avangard produces only 'table' eggs. According to Ukrainian regulation, shell eggs are divided into dietary and table eggs depending on their shelf life and quality. Shell eggs with a shelf life of 7 days (excluding the day of production) are classified as dietary eggs if stored at a temperature not higher than 20^0C and not lower than 0^0C. Shell eggs with a shelf life of more than 7 days are classified as table eggs. Table eggs may be stored for up to (i) 25 days (excluding the day of production) at a temperature not higher than 20^0C and (ii) 120 days if stored in freezers at temperatures of 0^0C to -2^0C temperatures and humidity of 85-88%. Shell eggs stored for a longer period may only be processed or used in feed.

Depending on their weight, both dietary and table eggs are divided into 3 categories: premium, first and second.

Category	1 shell egg weight, not less than, grams	10 shell eggs' weight, not less than, grams	360 shell eggs' weight, not less than, kilograms
Premium	65	660	23.8
First	55	560	20.2
Second	45	460	16.6

Egg size is to a large extent genetically determined, but size will also depend upon the body weight of the laying hen at maturity, rate of maturity and nutritional factors. The latter include intake of energy, total fat, crude protein, methionine and cystine, and linoleic acid. Levels of these nutrients can be increased to improve early egg size and gradually reduced to control later egg size.

Shell eggs are perishable products. Consequently, Avangard maintains very low shell egg inventories, usually consisting of approximately 3-4 days of production. Sales of shell eggs are greatest during the autumn and winter months and lowest during the summer months. Avangard's long-term egg storage facilities and processing plant allow Avangard to adjust to seasonal trends and keep low inventories at its short-term storage facilities.

Egg Products

From its shell eggs Avangard produces a variety of dry egg products, such as egg powder, yolk powder and white (albumen) powder.

Once processed, dry egg products may be further nutritionally enhanced with food additives. The only further step currently undertaken by Avangard is to ferment white (albumen) egg powder and heat it to enhance its whipping and gelling qualities. Dry egg products can be stored at a 75% humidity level at a temperature of 20ºC for no longer than 6 months and at a temperature of 2ºC for no longer than 2 years. Dry products are packed into carton boxes with polyethylene in-liners, all sourced from local producers.

Currently Avangard does not produce liquid egg products, but expects to launch a line for the production of liquid egg products in 2010.

Live Poultry

Avangard produces and sells breeder flock and laying flock at the end of their production cycle of approximately 65 weeks and 80 weeks, respectively, to third parties on a wholesale basis for further processing for use in the meat industry. Avangard also sells one-day old laying hens and young laying hens to third parties on a wholesale basis. In line with Avangard's plans to expand its production capacity, any such excess of one-day old laying hens and young laying hens is expected to be used in Avangard's production once its production capacities increase.

Animal Feed

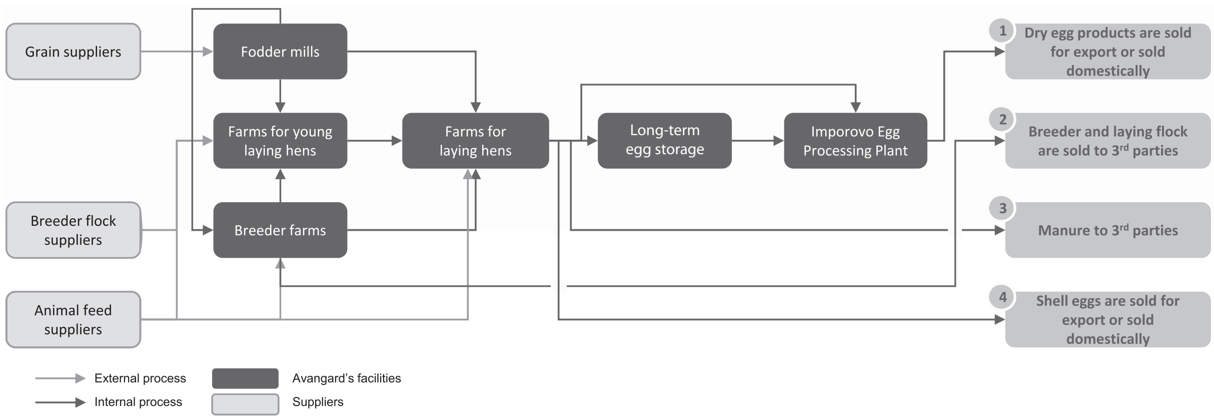
Avangard has in the past sold animal feed to third parties, but currently consumes internally all of the animal feed it produces.

Other Products

Avangard produces and sells insignificant amounts of slaughtered poultry. Avangard freezes some of its slaughtered poultry at third party freezing facilities for further sale to third parties when Avangard deems it most advantageous. Avangard does not, however, sells packaged poultry meat to retailers in a form ready for human consumption. Avangard also provides certain services to third parties, such as mixing of animal feed and transportation services. Avangard sells insignificant amounts of manure to third parties.

Overview of Operations

The diagram below illustrates the vertically integrated nature of Avangard's operations. Avangard's principal input from third-party suppliers consists of feed grains, animal feed and breeder flock. These are processed through a series of operations described further in the diagram below. Avangard does not itself cultivate grain in any significant quantities and has no plans to do so. Avangard's principal output is shell eggs and egg products as well as live poultry, slaughtered poultry and manure.



Production of Shell Eggs and Egg-related Operations

Avangard's egg production facilities include 19 farms for laying hens serviced by 3 breeder farms, 9 farms for growing young laying hens, and 6 fodder mills. In 2009, Avangard's egg-production facilities produced approximately 3,634 million shell eggs.

In line with its strategy of vertical integration, Avangard is largely self-sufficient in terms of core production materials. In 2009, Avangard produced internally all of the hatching eggs and approximately 75% of the animal feed required for its shell egg production (sourcing the remainder of its animal feed requirements and all of the feed grains for the production of animal feed from third parties). See also "—Raw Materials and Suppliers" below.

Avangard has sought to modernise its egg production facilities and equipment whenever appropriate. For its egg production and egg-related operations, Avangard sources its equipment both domestically and from leading international suppliers. In its hatching operations, Avangard uses hatching equipment supplied by Jamesway and domestic producers. Avangard sources its cage equipment both from domestic suppliers and suppliers such as Salmet International GmbH, "Officine Facco & C." S.p.a., Big Dutchman GmbH, Tecno Poultry Equipment and Specht Ten Elsen GmbH & Co KG. For its long-term egg storage facilities, Avangard uses racking and shelving equipment from Mecalux, compressor equipment from Bitzer and air-conditioning equipment from Alfa Laval. Management believes that the benefits of its modern equipment and advanced technologies are reflected in Avangard's results of operations.

Production of Shell Eggs

Avangard's flock

Avangard maintains two types of flock, laying flock, which is required for the commercial production of shell eggs, and breeder (parent) flock, which provides a source of pullets for laying flock replacement (breeder flock lays hatching eggs from which laying flock is hatched). Avangard currently acquires all of its breeder flock from Hy-Line W-36 and Hy-Line Brown breeds, produced by Hy-Line International, an independent producer of breeder flock based in the United Kingdom.

Avangard used to purchase breeder flocks of other breeds but is currently purchasing solely the Hy-Line W-36 and Hy-Line Brown breeds in order to unify all vaccination and other technological processes at its farms. Any remaining birds from other breeds are approaching the end of their production cycle. As of 31 December 2009, 100% of Avangard's breeder flock and approximately 92% of Avangard's laying flock were Hy-Line breeds.

Hy-Line International provides detailed recommendations to its customers in relation to the management of breeder and laying flock. Hy-Line International also monitors Avangard's breeder and laying flock for diseases during its production cycle and provides technological support such as the recommendation of particular vaccines or animal feed which are well-suited to the requirements of the particular breeder or laying flock. Management believes that Avangard complies in full with such recommendations.

Avangard's flock management

Although practices for the management and maintenance of breeder and laying flock differ, there are certain common features applicable to the management and maintenance of both types of flock.

For the maintenance of both breeder flock and laying flock, Avangard uses cage production and automated systems to create optimal conditions for the growth of its flock, including with respect to light, temperature and air circulation, as well as the supply of food and water at regular intervals.

Avangard uses ventilation as a management tool to provide the optimum micro-environment. It is important to provide each bird with an adequate supply of oxygen and to remove carbon dioxide produced by the birds and dust particles that have become aerosolised. Controlled ventilation is used to dilute pathogenic organisms.

Avangard closely monitors lighting programmes for its flock as egg production is closely related to the changes in day length to which flock is exposed. Egg numbers, egg size, liveability and total profitability can be favourably influenced by a proper lighting programme. Avangard also monitors temperatures a well as the humidity at which its breeder flock and laying hens are maintained.

Avangard operates a phase-feeding program for its breeder and laying flock to ensure correct nutrient consumption throughout a bird's production cycle in order to match performance demands and to control egg size. For example, the pre-lay diet usually contains higher levels of calcium and phosphorus than the grower diets in order to help develop medullary bone, which acts as a calcium reservoir, from which the mature hen can quickly mobilize calcium for eggshell formation. The feed consumption rate is usually governed by several factors, including body weight and age, rate of egg-production, egg weight, effective ambient temperature, feed texture, dietary nutrient imbalance and dietary energy content.

During the laying period of both breeder flock and laying flock, egg weight can be controlled to some degree by changing the consumption of balanced protein or individual amino acids in the diet of the flock. Avangard seeks to ensure that its animal feed contains adequate amounts of calcium, phosphorus, trace minerals, vitamins and other elements, each of which is essential to egg shell quality. In addition, good quality water is made available to flocks at all times. Avangard does not use forced molting in its operations.

Key performance benchmarks

In its production process Avangard monitors a variety of performance indicators for its compliance with Hy-Line International's benchmarks. Management believes that Avangard is generally in compliance with Hy-Line's key performance benchmarks.

Amongst other things, Avangard monitors the body weight of its breeder and laying flock during the growing period and beyond. If the flock is below target body weight, such flock is left on a higher nutrient feed formulation until the target weight-for-age is reached. As an indicator of normal flock development, Avangard also monitors the uniformity of body weights within the flock. Factors which can adversely affect body weight and uniformity include crowding, disease, poor beak trimming and inadequate nutrient intake. Weighing at frequent intervals will determine the point at which a flock deviates from normal and thereby help identify the problem so that corrective measures can be taken.

Survival rate is one of the key performance indicators and is used to monitor the overall efficiency of facilities for the maintenance of young and mature laying hens. Avangard calculates survival rate as the percentage of current flock as compared to the flock at the start of the growout operations, as applicable. Avangard monitors the survival rate of its flock daily.

Hatch rate is used to monitor the efficiency of breeder flock and the quality of hatching eggs. It is calculated as the percentage of one-day old chicks which proceed to the growout stage from each lot of hatching eggs placed in an incubator. Survival rate as well as hatch rate depend on a variety of factors, including in particular strict compliance with biosecurity measures and maintenance requirements.

In egg production operations, body weight at maturity is important for egg size management. The larger the body weight at the time of laying first egg, the larger that hen's egg will be for her entire life. Avangard can therefore either increase or decrease the egg size to suit the particular market needs. Avangard monitors its animal feed costs throughout its phase-feeding programme.

Shell eggs are produced at Avangard's facilities in 3 principal stages: production of hatching eggs (from which one-day old laying hens are hatched), growing of young laying hens and laying of shell eggs.

Production of Hatching Eggs

Avangard currently acquires all of its breeder flock as one-day old chicks (known as pullets if female or cockerel if male) from Hy-Line International. Recently, Avangard has been receiving approximately 2 shipments of pullets and cockerels per year. The chicks are transported to Avangard's breeder farms by the suppliers of breeder flock. The Hy-Line W-36 and Hy-Line Brown breeds have an estimated productivity of approximately 252-262 and 239-249 eggs overall, respectively (including 218-228 and 205-215 settable eggs, suitable for incubation, respectively) per production cycle of approximately 65 weeks. Approximately half of Avangard's breeder flock is of Hy-Line W-36 breed and approximately half is of the Hy-Line Brown breed. This is primarily influenced by varying consumer preferences in eastern and western Ukraine. The population in eastern Ukraine consumes primarily white eggs, whereas the population in western Ukraine consumes primarily brown eggs.

At Avangard's breeder farms the pullets and cockerels, which subsequently become breeder flock producing laying flock are first moved to caged breeder flock growout facilities. At approximately 13-14 weeks pullets and cockerels are moved to caged breeder flock rearing facilities, where they are kept until they reach the end of the production cycle. Breeder flocks are capable of egg production at approximately 19 weeks, although eggs for hatching are sourced only from approximately 24-25 weeks onwards.

Hatching eggs produced from Avangard's breeder flocks are moved to Avangard's hatcheries. The key production processes at Avangard's hatcheries include sorting hatching eggs into incubation eggs and rejected eggs (Avangard checks eggs for wholeness and fertilisation); placing the incubation eggs into a fully automated incubator which maintains the necessary temperature, humidity and air circulation regime; monitoring and maintaining the incubation process for 18 days, after which the chicks are hatched from incubation eggs at hatching incubators for approximately three days; sorting chicks to dispose of any cockerels; and vaccinating the newly hatched pullets on the 1st day of their lives. Hatching eggs are edible and rejected hatching eggs are usually sold to third parties. For its breeder flock, Avangard monitors performance indicators including the feeding, body weight, survival rate, hatch rate and egg-laying.

Avangard's hatcheries operate as closed facilities, and all eggs brought into Avangard's hatcheries have certificates from the state veterinary authorities confirming their quality and safety. As of 31 December 2009, Avangard's hatcheries had an aggregate annual capacity (assuming a 76-84% hatch rate) of approximately 25.1 million one-day old pullets. As of 31 December 2009, Avangard maintained 139.1 thousand heads of parent flock.

The table below sets forth certain information on Avangard's breeder farms engaged in the production of one-day old laying hens for its egg production operations.

Breeder Farms	Location	Year Joined Avangard	Indicative Average Annual Production Capacity (one-day old pullets)[1]	Actual Production in 2009 (one day-old pullets)
Slovyany	Kyiv region	2006	15.8 million	8.6 million
Ptytsecomplex[2]	Crimea	2007	6.1 million	—
Pershe Travnya	Cherkasy region	2007	3.2 million	2.1 million
Total			**25.1 million**	**10.7 million**

(1) As of 31 December 2009. The production capacity generally depends on the genetic ability of a particular type of breed, age of parent flock and the planned incubator load.

(2) Ptytsecomplex was not operating in 2009 as it was in the process of modernisation. Currently, the capacities of the Slovyany and Pershe Travnya breeder farms are sufficient for Avangard's egg production operations.

Growing of young laying hens

One day old pullets from Avangard's hatcheries are transferred to sterilised barns on Avangard's farms for growing young laying hens. For young laying hens, Avangard continuously monitors, amongst other things, the feeding, body weight and survival rate of its young laying hens. At approximately 13-16 weeks, chickens are transferred to Avangard's farms for mature laying hens. Young laying hens are vaccinated in accordance with approved vaccination schemes.

As of 31 December 2009, Avangard's farms for growing young laying hens had an indicative capacity for the simultaneous maintenance of 4,202.6 thousand young laying hens. The table below sets forth certain information on Avangard's principal farms for young laying hens.

Farms for Growing Young Laying Hens	Location	Year Joined Avangard	Indicative capacity for the simultaneous maintenance of young laying hens (places, in thousands)[1]	Young laying hens as of 31 December 2009 (in thousands)
Avangard – Agro	Ivano-Frankivsk region	2004	730.9	240
SC Volnovaske	Donetsk region	2007	1,383.6	717
SC PH Donetske[2]	Donetsk region	2007	54.0	—
SC Zorya[3]	Kharkiv region	2007	311.4	—
SC PH Lozuvatske	Dnipropetrovsk region	2007	127.5	110
SC Chernonyi Prapor	Luhansk region	2007	248.4	93
SC Chornobaivske	Kherson region	2007	454.8	378
SC Yuzhnaya-Holding	Crimea	2007	556.0	150
Pershe Travnya	Cherkasy region	2007	336.0	329
Total			**4,202.6**	**2,017**

(1) As of 31 December 2009. This stage of the production process is cyclical in nature and is based on the system of single-aged growing farms. The total output generally depends, amongst other things, on the length of this stage of the production process, type of breed, amount of space per bird and technological plans.

(2) SC PH Donetske growout farm was not operational in 2009 in line with Avangard's production plan. The production capacities of other farms for growing young laying hens were sufficient to meet Avangard's needs in that period.

(3) SC Zorya was not operational as of 31 December 2009 due to the preparation of the production facilities for the next group of young laying hens following the transfer of the previous group of young laying hens to a facility for mature laying hens.

Laying of Shell Eggs

The Hy-Line W-36 and Hy-Line Brown laying hens have an estimated productivity of approximately 336-352 and approximately 348-358 shell eggs, respectively, per production cycle of approximately 80 weeks. For this stage of the production process, Avangard continuously monitors, amongst other things, the feeding, egg-laying capacity, body weight and survival rate of its laying hens.

Cages are designed to allow eggs to roll out to a special holding area by means of a slanted wire floor. Eggs are then collected automatically and sorted and placed into special grading and packaging facilities at Avangard's rearing facilities either manually or mechanically. The increased use of automated facilities has generated significant cost savings as well as a higher percentage of higher-grade eggs and also decreased egg cracks, breakages and dirtying.

At each of Avangard's for laying hens farms shell eggs are sorted by category, marked, packed into 360-egg carton boxes sourced from local suppliers and sent to storage facilities, all in accordance with the state standards, veterinary and sanitary-epidemiological norms. All shell eggs are issued with quality and veterinary certificates.

Each farm for laying hens is equipped with a short-term storage facility where shell eggs are kept no longer than 25 days until collected by Avangard's customers (in practice shell eggs tend to be collected by customers much earlier). Avangard uses both ventilation and air conditioning at its storage facilities. As shell eggs are perishable, inventories rarely exceed approximately 3-4 days of production. Shell egg inventories cannot, therefore, be accumulated in response to low egg market prices. However, egg product inventories can be stored for extended periods and may be increased during periods of low prices and decreased during periods of high prices.

The table below illustrates Avangard's indicative capacity, as at the year end, for the simultaneous maintenance of laying hens between 2003 and 2009.

	2003	2004	2005	2006	2007	2008	2009
Places for laying hens, in millions	0.05	0.8	2.2	7.6	12.2	15.7	18.9

As of 31 December 2009, 2008 and 2007, Avangard had approximately 13,965 thousand, 12,242 thousand and 7,778 thousand laying hens, respectively. As of 31 December 2009, Avangard's farms for laying hens had an indicative capacity for the simultaneous maintenance of 18,862.5 thousand laying hens. The table below sets forth certain information on Avangard's farms for laying hens.

Farms for Laying Hens	Location	Year Joined Avangard	Indicative capacity for the simultaneous maintenance of laying hens (places, in thousands)(1)	Laying hens as of 31 December 2009 (in thousands)
Ptytsecomplex	Crimea	2007	172.0	157
CJSC Avangard	Ivano-Frankivsk region	2003	795.4	760
Avis	Khmelnytsk region	2005	1,093.7	754
Areal-Snigurivka	Mykolayiv region	2008	1,053.1	587
Interbusiness	Donetsk region	2008	1,312.5	629
Bohodukhivska	Kharkiv region	2007	1,334.9	986
Volnovaska	Donetsk region	2007	1,123.6	861
Gorodenkivska	Ivano-Frankivsk region	2006	795.5	561
Donetska	Donetsk region	2006	2,164.9	997
Zorya	Kharkiv region	2007	1,563.0	1,161
Kirovskyi	Kirovograd region	2004	708.5	645
SC PF Lozuvatska	Dnipropertrovsk region	2006	692.4	615
Makarivska	Kyiv region	2006	836.2	659
Pershe Travnya	Cherkasy region	2007	981.7	971
Rohatynska	Ivano-Frankivsk region	2006	461.0	377
Chervonyi Prapor	Luhansk region	2007	1,436.0	1,245
Chornobaivske	Kherson region	2005	649.7	643
Chernivetska	Chernivtsi region	2004	898.6	774
Yuzhnaya-Holding	Crimea	2007	789.8	583
Total			**18,862.5**	**13,965**

(1) As of 31 December 2009. This stage of the production process is cyclical in nature. The total output of shell eggs will depend on a number of factors, including the particular type of breed.

Post Production Cycle

At the end of the production cycle when breeder flock and laying flock are approximately 65 and 80 weeks old, respectively, they are either sold to third parties on a wholesale basis, for further processing, or slaughtered at Avangard's facilities at CJSC Avangard, Zorya, Chervonyi Prapor, Pershe Travnya and Volnovaska farms for laying hens, which contain fully automated processing facilities. Chickens are processed by electrical stunning. They are then bled by puncturing major blood vessels, plucked and gutted. The slaughtered poultry are then moved to freezing facilities, which Avangard hires from time to time, and subsequently sold on a wholesale basis to third parties when Avangard deems advantageous. The slaughterhouse waste is disposed of in accordance with Ukrainian law.

Long-Term Egg Storage Facilities

Avangard operates 3 long-term egg storage facilities located in the Khmelnytsk, Dnipropetrovsk and Donetsk regions, which have an aggregate storage capacity of 300 million shell eggs. Avangard uses ventilation, air-conditioning and freezing at its long-term storage facilities. In addition, each of Avangard's rearing farms for laying hens operates a short-term storage facility. The long-term storage facilities are located at the Avis, SC PF Lozuvatska and Volnovaska farms for laying hens and operate in addition to short-storage facilities located at these farms.

Each of the long-term storage facilities consists of multiple compartments, the temperatures of which are regulated automatically. This allows Avangard to load these storage facilities gradually depending on deliveries of shell eggs from its rearing farms.

Imperovo's processing plant has its own long-term storage facility with an aggregate capacity of 20 million shell eggs. This long-term storage facility is capable of supporting Imperovo's requirements for shell eggs for one week. As and when required, the long-term storage facility located in the Khmelnytsk region, near Imperovo, supplies shell eggs to the processing plant.

The table below sets forth certain information on Avangard's principal long-term storage facilities.

Long- Term Egg Storage Facilities	Location	Year Commissioned	Aggregate Storage Capacity (in million shell eggs)
Imperovo[(1)]	Ivano-Frankivsk region	2009	20
Volnovaska	Donetsk region	2007	100
SC PF Lozuvatska	Dnipropetrovsk region	2006	100
Avis	Khmelnytsk region	2005[(2)]	100
Total			320

(1) Imperovo was not acquired by the Group until July 2009.

(2) Date when latest construction/renovation works took place.

New Production Facilities

In order to meet the expected growth in demand, Avangard began the construction of the Avis and Chornobaivske egg production complexes, in late 2007 and early 2008, respectively. These new sites are being built in addition to the existing farms for laying hens currently operating at Avis and Chornobaivske and are each expected to have a design annual capacity of 840 million shell eggs, when fully operational. The new Avis and Chornobaivske projects are expected to increase Avangard's annual egg production capacity to 24.9 million laying hens upon the commissioning of Avis and Chornobaivske farms. This will represent an increase of approximately 31.7% above its capacity as at 31 December 2009 and 58.6% above its production capacity levels at 31 December 2008.

Each of the Avis and Chornobaivske egg production complexes upon completion is expected to consist of facilities for growing young laying hens (with capacity for the simultaneous maintenance of approximately 1.5 million young laying hens each), facilities for laying hens capable of egg production (with capacity for the simultaneous maintenance of approximately 3 million laying hens each), storage facilities, slaughter facilities (with a processing capacity of 3,000 birds per hour each), a fodder mill (with a production capacity of 40 tons per hour) and an egg grading and packing facility (with a capacity of 240,000 pieces per hour). The Avis and Chornobaivske egg production complexes will not, however, include breeding and hatching facilities, as Management believes that Avangard already has sufficient capacity in these areas (even after the projected expansion in production volumes is taken into account).

Management believes that each of the Avis and Chornobaivske egg production complexes will be amongst the largest egg production facilities in Ukraine and the CIS. These farms are designed to be labour-efficient. Foundations, communications and landscaping services for Avis and Chornobaivske will be provided by local Ukrainian suppliers. The equipment supplied to Avis and Chornobaivske to date includes the equipment for its laying hen facilities, storage facilities and fodder mills, provided by, amongst others, such suppliers as Salmet International GmbH and "Officine Facco & C." S.p.a. Avangard has almost completed the growing facilities for young laying hens at Avis and is currently constructing storage facilities. Facilities for growing young laying hens at Chornobaivske are still in the process of construction.

As a result of its expansion programme, Avangard expects to achieve further economies of scale and to decrease its per unit operating costs. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Expenditures".

Production of Egg Products

Currently, the majority of Avangard's shell eggs are processed at the Imperovo processing plant, specialising in the production of egg products. Imperovo's modern equipment allows Avangard to produce high quality egg products.

Avangard's Pershe Travnya, Chervonyi Prapor and Donetska farms for laying hens are also engaged to a limited degree in egg processing activities. These farms only produce dry melange. These products are not sold for export.

In 2008 and 2007, Avangard's Pershe Travnya, Chervonyi Prapor, Zorya and Donetska farms produced 481 thousand tons and 443 thousand tons of egg products, respectively. Zorya was not operational in 2009. The table below sets forth certain information on Avangard's principal egg processing facilities.

Operating Company	Location	Year Joined Avangard	Indicative Average Annual Production Capacity (tons of dry egg products)(2)	Actual Production 2009 (tons of dry egg products)
Imperovo(3)	Ivano-Frankivsk region	2009	10,600	621
Pershe Travnya(1)	Cherkasy region	2007	100	70
Chervonyi Prapor(1)	Luhansk region	2007	65	28
Donetska(1)	Donetsk region	2006	65	22
Total			**10,830**	**741**

(1) Note. All processing facilities, other than Imperovo, operate on an as needed basis as egg processing is not their main activity.
(2) As of 31 December 2009.
(3) Imperovo was not acquired by the Group until July 2009.

Egg Products and Production Process at Imperovo

Avangard produces and sells dried products (such as egg powder, yolk powder and white (albumen) powder). Currently Avangard does not produce liquid egg products but is in the process of launching the production of liquid egg products at Imperovo. Avangard's dry egg products are primarily used by food manufacturers, including bakeries, producers of pasta, producers of mayonnaise and mayonnaise-based sauces, producers of sausages, dressings and confectionary. Imperovo produced 621 tons of dry egg products in 2009 following its consolidation into the Group.

The main technological processes at Imperovo include sanitary treatment of shell eggs, breaking and separation, treatment of liquid egg products, pasteurisation (a process which slows microbial growth), preservation of pasteurised liquid egg products, packaging of pasteurised liquid egg products, treatment and fermentation of the liquid egg products before drying, spray drying, packaging of dry products and drying of egg shells.

Imperovo uses spray dryers for the production of dry egg products. The pre-drying preparation includes warming and homogenisation, which allow the preservation of egg products' nutritional value. Dry products are pasteurised by treating such products in hot rooms. Depending on the pasteurisation time, dry egg products may have enhanced gelling or whipping qualities.

Most of Imperovo's technological processes are carried out through pipelines and closed reservoirs. Egg processing is carried out in strict compliance with modern sanitary and hygiene norms. Imperovo also monitors certain key operational processes for their compliance with critical operating norms. Imperovo is divided into so-called "dirty" and "clean" areas. In "dirty" areas, shell eggs undergo sanitary treatment following which they are transferred to so-called "clean" areas, where all of the technological processes are carried out within the closed systems. Imperovo is equipped with automated cleaning devices for its production lines, pipes and reservoirs.

Imperovo uses Sanovo's equipment for most of the technological processes at its facilities. Avangard monitors most of the technological processes at Imperovo for compliance with Sanovo's technological norms. Imperovo also constantly monitors the input of shell eggs required for the production of egg products.

In the next 2 to 3 years, Avangard intends to modernise further Imperovo and increase its processing capacities initially to 7 million eggs per day and subsequently to 10 million eggs per day. Such expansion is subject to Avangard's ongoing review of market potential and requirement for egg products.

Animal Feed Production

Animal feed is the primary cost component in the production of shell eggs and in 2009 represented approximately 72% of Avangard's production costs. Avangard produces approximately 75% of its needs for animal feed at its 6 fodder mills using agricultural commodities such as wheat, corn and animal feed additives which it purchases from third party suppliers. Avangard does not cultivate such commodities itself to any significant degree and has no plans to do so. In 2009, Avangard produced 451.9 thousand tons of animal feed, as compared to 297.1 and 251.7 thousand tons in 2008 and 2007, respectively.

Avangard sources approximately 25% of its overall animal feed requirements from third parties. In the mid-term perspective Management plans to build new fodder mills at its Avis and Chornobaivske egg production complexes to support Avangard's expansion and in order for Avangard to become fully sufficient in animal feed production.

The key operational processes at Avangard's fodder mills include purchasing animal feed ingredients, weighing and conducting laboratory analysis of animal feed ingredients, manufacturing animal feed so as to ensure the quality and safety of animal feed, conducting laboratory analysis of animal feed and delivering the animal feed to Avangard's breeder farms and farms for young and mature laying hens. The animal feed production process starts with the procurement of high quality raw materials which are purchased and tested according to strict quality control standards. Thereafter, Avangard's nutritionists develop animal feed ratios using a computer model, Bestmix (Belgium), software which Avangard's fodder mills use under licence agreements in order to determine the least-cost ratio to meet the nutritional needs of Avangard's flocks. Avangard regularly monitors compliance with such ratios. On average, wheat and/or corn constitute approximately 55%-65% of animal feed and soya and/or protein cake constitute approximately 15-25% of animal feed. Other ingredients include limestone, soya or sunflower oil, vitamin and mineral mixes and other elements of animal feed. Avangard does not use animal origin feedstuffs in its animal feed. In order to increase birds' productivity, approximately 40% of animal feed is fed to birds in the morning and approximately 60% in the evening.

Avangard produces a wide variety of animal feed types with various vitamin and protein contents. Animal feed ratios differ depending on the birds' age and breed. Avangard produces granulated and non-granulated animal feed. Granulated animal feed is of a higher quality as all nutritional elements of the feed are retained in the granules. To ensure freshness and quality, after animal feed is produced, it is delivered by Avangard's own trucks to its breeder farms and farms for young and mature laying hens.

The table below sets forth certain information on Avangard's fodder mills.

Fodder Mills	Location	Year Joined Avangard	Indicative Average Annual Production Capacity (in tons per hour)[(1)]	Actual Production in 2009 (in thousand tons)[(2)]
Volnovaskyi KHP	Donetsk region	2007	16	78.5
Vyhlehirskyi	Donetsk region	2007	10	69.6
Kamyanets-Podilsky	Khmelnytsk region	2006	20	118.0
SC PF Lozuvatska	Dnipropetrovsk region	2006	4	12.4
LLC Pershe Travnya	Cherkasy region	2009	20	53.1
Rohatyn-Korm	Ivano-Frankivsk region	2006	20	120.3
Total			**90**	**451.9**

(1) As of 31 December 2009.

(2) The annual production capacity of fodder mills usually depends on the daily load of each fodder mill. The annual average production capacity of Avangard's fodder mills constitutes approximately 520-530 thousand tons.

Other Agricultural Operations

Avangard makes limited sales of manure to third parties. Chicken droppings are a relatively poor fertiliser because of their high acidic content and cannot be used on the same land plots for extended periods.

Biosecurity

Avangard employs a broad range of biosecurity measures in order to minimise the risk of disease infection and transmission at its egg production facilities. These measures include keeping all chickens at indoor production facilities, strictly controlling access to facilities, disinfecting employees and vehicles entering production areas, allocating vehicles to specific production facilities and constantly monitoring the health of the chickens and Avangard's employees.

In line with best international practice, Avangard also uses the system of single-aged growing farms, with an 'all-in/all-out' principle, so as to prevent the transmission of disease from older flocks to younger, susceptible flocks.

Avangard also follows the practice of multi-site farming, instead of maintaining large barns at its farms. Multi-site farming involves barns within each facility being located at a certain distance away from each other, determined in accordance with the biosecurity norms to prevent the spread of disease between units. In addition, birds hatched at the same time are raised together as a group and kept in separate barns from birds of other ages in order to facilitate the thorough cleaning of barns when birds reach slaughter age prior to introduction of a new group of birds.

Avangard thoroughly disinfects the barns at its chicken farms before it introduces a new group of birds into the barn, including washing the barn with hot water, cleaning feeding systems, disinfecting the barn, repainting floors and ceilings and conducting a treatment of the barn with formalin vapour. Avangard also controls ventilation systems which dilute pathogenic organisms in the atmosphere.

Each of Avangard's egg production facilities is located at least 300 to 1,200 metres away from the nearest residential area (depending on the size of the facility). All doors, windows and vents at Avangard's facilities are netted to ensure that Avangard's chickens do not come into contact with wild birds and animals. Each production facility is surrounded by a disinfection barrier comprised of ditches filled with formalin, which neutralises bacteria on automobile tyres. The entrance passageways to Avangard's facilities are treated daily in order to neutralise bacteria on visitors' footwear. Each of Avangard's egg production facilities has restricted access and has a ''shower in/shower out'' policy for employees. Employees at Avangard's breeding and production facilities are prohibited from keeping birds at their households (and receive in-kind benefits as compensation). All employees undergo mandatory training prior to beginning their employment and receive regular updates and training on biosecurity measures. Avangard's employees' knowledge of biosecurity procedures is monitored on a regular basis.

If any infection or disease were to be found at Avangard's facilities, immediate measures in accordance with Ukrainian law and best international practice would be implemented to control its impact and to prevent its spread to other facilities.

In addition, Avangard attempts to control the risk of disease through the careful selection of breeding flock that it considers to be more resistant to disease and compliance with Hy-Line's recommendations on vaccinations. Avangard also vaccinates all of its chickens at hatching against Newcastle Disease, Marek's Disease, bronchitis, Infectious Bursal Disease and other diseases in accordance with mandatory Ukrainian law. To date, Avangard has not had any cases of bird flu, Newcastle Disease or Marek's Disease in its flocks.

Avangard employs a broad range of measures in order to minimise the risk of infection of birds with internal parasites (such as worms) including disinfecting of the indoor production facilities and using anti-parasitic drugs. Avangard's measures to minimise the risk of infection of birds by external parasites (such as mites) include disinfecting the indoor production facilities and adjacent territories and treating birds' houses with approved products.

Avangard has also implemented strict biosecurity measures at its fodder production facilities, including a restricted access policy, installation of disinfection barriers, disinfection of storage facilities and regular monitoring of animal feed on a selective basis by on-site laboratories. Animal feed and animal feed ingredients sourced from third parties are also tested on a selective basis by internal and external laboratories.

At its production facilities, Avangard introduced certain precautionary measures with regards to handling, storage, transportation and disposal of disinfectants and chemicals which it uses in its operations.

Avangard also applies strict biosecurity measures to its waste disposal procedures. Waste from Avangard's chicken processing facilities such as one-day old cockerels from its hatching facilities and slaughterhouse waste is passed to third parties for disposal. Dead chickens from Avangard's rearing sites are sent for waste processing to state-operated sanitary plants.

Avangard also culls wild birds in the immediate vicinity of its poultry facilities and vaccinates all of its employees who have direct contact with chickens. Avangard monitors wild birds in the vicinity of its poultry farms on a regular basis to enable early identification of any potential sign of diseases. Avangard's chickens spend no time outside during their life-cycle so that the possibility of external contamination is very limited.

Avangard has 23 non-accredited in-house laboratories at its production facilities with 2-3 employees each. Their operations are based on the Law of Ukraine "On Veterinary Medicine", dated 25 June 1992 (the "**Law on Veterinary Medicine**"), which provides for the possibility of operating both accredited and non-accredited in-house laboratories and decrees of the SCVM, as well as internal instructions of Avangard. Avangard employs a total of approximately 120 veterinary specialists at its facilities.

Avangard also uses the services of independent veterinary laboratories registered with the SCVM. Avangard constantly monitors innovations and new developments in the biosecurity field and regularly improves its biosecurity systems to implement the newest and most effective measures and practices. Avangard's biosecurity measures are regularly reviewed and updated by Avangard's Chief Veterinarian to ensure they are providing adequate protection against disease threats, including bird flu and Newcastle Disease.

Management believes that its biosecurity systems are in compliance with the regulations that are applicable to its operations and best international practices. See also "Certain Regulatory Matters— Biosecurity".

Quality Control

Certification

Avangard is currently developing and introducing an integrated quality and safety control system at its operational facilities to allow Avangard to improve control over its operational processes based on the standards of the ISO, the production practices of the Good Manufacturing Practice Regulations promulgated by the US Food and Drug Administration and of GLOBALGAP, the private sector body that sets voluntary standards for the certification of agricultural products around the globe.

Some of Avangard's facilities are currently developing and introducing the ISO's Quality Management System ("**QMS**") and a Food Safety Management System ("**FSMS**"). In the course of 2008 and 2009 Imperovo received ISO 9001:2008, ISO 9001:2000 and ISO 22000:2005 certificates. The certifying authorities conduct annual audits at Imperovo to confirm the validity of such certificates.

As part of the preparation for ISO certification, some of Avangard's farms are currently preparing for certification of their hygiene procedures under the internationally recognised methodology for increasing food safety, HACCP. Imperovo was certified under HACCP in 2008.

Producer's Declaration of Quality

According to Ukrainian law, any producer of food products must issue a producer's declaration in respect of each shipment of its products. The declaration certifies that the relevant products have been produced in conformity with all applicable standards and regulations. Producers are only allowed to issue a producer's declaration if they are able to confirm the accuracy of the declaration based on documentary evidence, which includes, among other things, confirmations of introduction of quality control systems at their facilities, relevant conclusions of veterinary and sanitary examinations, veterinary certificates and operational permits. Management believes that Avangard complies with these requirements.

Production Control

Ukrainian law regulates the production and distribution of eggs. The production of eggs is only permitted at facilities which operate in compliance with all applicable sanitary and veterinary norms. The distribution of eggs is only permitted following a veterinary and sanitary inspection, which is carried out by the SCVM's veterinary inspectors who examine eggs and apply, depending on a particular category of eggs, specially designed marks. Furthermore, to distribute eggs, producers are required to obtain veterinary certificates for each shipment of eggs confirming the absence of any contagious diseases at the production facilities, as well as the quality and safety of products. In addition, the quality and safety of eggs produced by the relevant producer must be checked at state veterinary laboratories at least monthly as a result of which an expert conclusion is issued. Without such expert conclusion producers may not obtain the relevant veterinary certificates mentioned above. For further details see "—Certain Regulatory Matters" below. Management believes that Avangard complies with these requirements.

Sales

Avangard constantly seeks to improve the quality of its products and services and carry out its business in line with biologically and environmentally safe practices in order to build its reputation among its customers. Although Avangard has long-standing relationships with many of its customers, it is constantly developing its customer base by identifying and developing new domestic and international sales channels for both shell eggs and egg products. During 2009, Avangard sold its products to more than 720 companies from 17 countries worldwide, including Ukraine.

Avangard intends to increase substantially and geographically diversify its export sales as a result of its expansion to other markets. Avangard considers exports to be its leading strategic sales channel. This entails the enhancement of Avangard's egg production capacities and the creation of a reliable customer base. Avangard is currently selling its shell eggs for export primarily to Iraq and Syria and intends to focus on other export markets, including the Middle East and CIS. In addition, Avangard is currently selling its eggs products for export primarily to Jordan, Indonesia and Saudi Arabia and intends to focus on export markets in Asia.

Avangard also intends to focus on exports of egg products to the European Union. Management believes that European consumers will be more willing than domestic Ukrainian consumers to pay a premium price for quality egg products. Some of Avangard's establishments are currently liaising with Ukranian state authorities in order to be accredited to sell their egg products into the EU. Ukraine is not currently an accredited importer of egg products into the European Union. Avangard's facilities are not currently approved establishments for imports of egg products into the European Union.

Management believes that the European Council Directive 99/74/EC on the welfare of laying hens may increase the production costs of EU eggs producers. Certain member states of the European Union have requested an extension for the implementation of the directive because of concerns about competition from importers not subject to the same standards but that this has been rejected by the European Commission. Avangard believes that this will increase the competitiveness of its egg products on EU markets.

The majority of Avangard's customers use their fleet to collect Avangard's products at Avangard's storage facilities. Management believes that this is by far the most efficient way to distribute shell eggs as they are extremely fragile and require additional care in handling and transportation.

Sales of Shell Eggs

Avangard's shell eggs are either sold for export or sold on a wholesale basis to domestic wholesale customers who purchase Avangard's shell eggs for subsequent resale, to Ovoline and to supermarket chains and other retailers. In 2009, approximately 11% (U.S.$26,241 thousand) of Avangard's shell eggs were sold for export, approximately 83% (U.S.$200,270 thousand) were sold to domestic wholesale customers, approximately 4% (U.S.$8,596 thousand) were sold to Ovoline and approximately 2% (U.S.$5,479 thousand) were sold to supermarket chains and other retailers. (All export sales were made through a related party intermediary.) Avangard and Ovoline are related parties which conduct all transactions on market terms.

The table below shows the principal sales channels for Avangard's shell eggs as an approximate percentage of total revenue from sales of shell eggs in 2007, 2008 and 2009.

	Year ended 31 December		
Sales Channel	**2007 (%)**	**2008 (%)**	**2009 (%)**
Sale for export	—	—	11
Wholesale customers (for subsequent resale)	84	62	83
Ovoline	16	38	4
Supermarkets and other retailers	—	—	2
Total	**100**	**100**	**100**

In order to increase its sales and better manage its inventories, Avangard currently works through a variety of sales channels. Avangard is able to adjust its product range for a particular customer or region thereby allowing Avangard to broaden its customer base and achieve better pricing by creating a competitive balance between its principal sales channels.

Shell Egg Sales for Export

Currently Avangard sells its shell eggs for export primarily to the Middle East. Avangard has entered into certain agreements for supplies of its shell eggs to Asia which are expected to ensure certain continuity of Avangard's export sales of shell eggs. This sales channel developed rapidly in 2009 due to increased demand from foreign customers. Avangard intends to develop this sales channel further and focus on other export markets, including the Middle East and CIS. Avangard has historically conducted all of its exports sales of shell eggs via a related intermediary company, LLC Myaso Prykarpattya, but intends to make such sales itself directly following the Offering.

Sales to Wholesale Purchasers

Avangard sells most of its shell eggs to wholesale customers who purchase Avangard's shell eggs for subsequent resale to third parties, including industrial food producers, foodservice businesses (including hotels, restaurants and cafes) and small retailers. Such purchasers are usually companies or private entrepreneurs, who have experience of the market, developed sales and distribution networks and storage facilities. Such purchasers are able to purchase Avangard's shell eggs in high volumes thereby allowing Avangard to operate its shell egg inventories in a most efficient manner. This is of great importance to Avangard given the high volumes of shell eggs produced by Avangard and their perishable nature. This sales channel also includes an insignificant amount of direct sales to third parties, including industrial food producers, foodservice businesses (including hotels, restaurants and cafes) and small retailers.

Ovoline Retail Network

Avangard also distributes its shell eggs through Ovoline, a retail network, which is an extensive network of points of sale including specially equipped trucks, stationary market stands, stores or concessions within bigger retail stores or at open markets, at which Ukrainian customers customarily purchase shell eggs. Avangard and Ovoline are related parties, which aim to conduct all transactions on market terms. Avangard's farms for rearing laying hens and Ovoline have entered into the agreements for the distribution of Avangard's shell eggs, all of them for the term of up to six years, under which Ovoline has agreed that it will not sell shell eggs produced by any other person.

Sales through Ovoline (as compared to other sales channels) allow Avangard to further diversify its sales structure, control its exposure to any concentration of customers, maintain flexibility in managing its inventories and facilitate better producer recognition by the Ukrainian population.

Sales to Supermarket Chains and Other Retailers

In 2009, Avangard's sales through supermarket chains and other retailers were not significant. Management believes that sales to supermarkets currently carry additional costs compared to other sales channels, connected, amongst other things, to delayed payment terms and the need for higher marketing budgets, and has therefore tended to devote more resources to those other sales channels. Avangard's sales to supermarkets are organised centrally and Avangard charged a standard mark-up on its sales to this market segment in 2009. Avangard sells shell eggs to supermarkets and other retailers in its standard packaging. Avangard's main customers are Fozzi, ECO-Market and ATB, with which Avangard has entered into long-term agreements. As supermarket chains continue their national expansion and centralise their purchases, Avangard intends to increase its focus on this market segment. Avangard also intends to introduce a national brand for its shell eggs once such branding will allow Avangard to establish a price differential sufficient to justify the costs of such a branding exercise. In addition, Avangard intends to develop 'private labels' in collaboration with some supermarket chains.

Avangard's structure of sales has evolved since 2007. In 2007 and 2008, Avangard sold most of its shell eggs to wholesale customers who purchased Avangard's shell eggs for subsequent resale and to Ovoline. In 2009, Ovoline's share decreased, primarily due to the expansion of Avangard's export sales channel in 2009.

Each of Avangard's farms for laying hens has its own customer base which typically includes at least five major customers. This prevents reliance on any one single buyer as no more than approximately 20% of each farm's shell eggs are sold to such customers.

Sales of Egg Products

Avangard's egg products are either sold for export or sold on a wholesale basis domestically. In 2009, approximately 47% (U.S.$10,315 thousand) of Avangard's egg products were sold for export and approximately 53% (U.S.$11,649 thousand) were sold domestically. (All export sales were made through a related party intermediary.)

Sales for Export

Avangard currently sells its eggs products for export primarily to Jordan, Indonesia and Saudi Arabia and also intends to focus on other export markets. Avangard distributes its egg products to large foreign trading companies purchasing Avangard's egg products for further sale to end users. Such purchasers are able to purchase Avangard's egg products in high volumes thereby allowing Avangard to optimise its transport costs. Avangard has historically conducted all of its exports sales of egg products via a related intermediary company, LLC Myaso Prykarpattya, but intends to make such sales itself directly following the Offering.

In 2009, Imperovo obtained a Halal Certificate from the Indonesian Counsel of Ulama for sales of its egg products to Indonesia. Imperovo is currently seeking accreditation for sales of Kosher egg products to Israel.

Avangard sells its egg products domestically mainly to industrial food producers for the production of food products, food ingredients or food mixes, as well as to wholesale companies who sell Avangard's egg products for further sale to small food producers.

Management believes that demand for processed egg products is likely to increase in Ukraine and elsewhere in future years due to a higher percentage of egg products being used in the production of mayonnaise and mayonnaise-based sauces, bread and other baked goods, pasta, sausages and fish ready-meal products and ice cream.

Pricing

Avangard's pricing policy is aimed at attracting new customers and retaining existing ones. Avangard's pricing is determined centrally for all of its products, taking into account, amongst other things, supply and demand levels, production costs, market conditions and seasonality. In addition, Avangard regularly monitors prices charged by its competitors. Due to the quality of its products, Avangard is able in certain regions of Ukraine to price its products marginally higher than its competitors.

The price of shell eggs in Ukraine is primarily determined by supply and demand in the market. This generally leads to fluctuations in the price of shell eggs as a result of seasonality. In a typical year, the prices for shell eggs generally reach their peak during the autumn and winter months up to and including the Easter holidays due to an increase in shell egg consumption and decrease in household production, followed by a decrease in prices after the Easter holidays until the beginning of July due to a decrease in shell egg consumption and increase in household production. From July until December prices typically increase gradually. Management believes that the effect of seasonability on shell egg prices became less pronounced over the period from 2007 to 2009. For a discussion of factors that affect prices for Avangard's products and trends related thereto see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Avangard's Results of Operations—Fluctuations in Demand and Price Levels for Shell Eggs and Egg Products".

Shell eggs

Avangard usually approves a wholesale price list for shell eggs for each of its sales channels on a regular basis, although it is able to adjust its prices more frequently in response to market conditions should this be required. Avangard operates a discount system for its long-standing customers. Avangard does not set retail prices for its shell eggs.

Egg Products

Avangard usually approves a wholesale price list for egg products for each of its sales channels on a regular basis although it is able to adjust its prices more frequently in response to market conditions. When determining prices for its egg products, Avangard takes into account its costs of production and prevailing market prices. The quality of egg products also determines their prices. On the Ukrainian market, because of the limited competition which Avangard faces in this segment, it has some flexibility to act as a price-leader. Avangard operates a discount system for its long-standing customers for both the domestic and export sales of its egg products based on volumes purchased and the purchaser's relationship with Avangard.

Poultry

When determining prices for breeder flock and laying flock at the end of their production cycle, one-day old laying hens and young laying hens, Avangard takes into account prevailing market prices.

Marketing and Advertising

As Avangard mainly produces shell eggs and egg products and currently does not market its shell eggs and egg products under a single national brand, Avangard has conducted very limited amounts of advertising in the past. Management plans to increase its advertising expenditure upon the increase of Avangard's product range and the introduction of a national brand for its shell eggs.

Raw Materials and Suppliers

Avangard makes use of competitive tenders to manage its cost base effectively and purchase raw materials at acceptable prices. Tenders are conducted on a regular basis (with increased frequency if it would allow Avangard to take advantage of price falls). Tenderers are evaluated on the basis of supply volumes, prices, quality and history of co-operation with Avangard. Although most of the ingredients are purchased on an as needed basis, Avangard will occasionally purchase ingredients in advance with a delayed delivery of several weeks or months when this is considered advantageous. Avangard currently co-operates with more than 3,000 suppliers.

Animal Feed and Animal Feed Ingredients

Avangard purchases animal feed and animal feed ingredients from a variety of suppliers following approval by Avangard's tender committee. Most purchases are made on delayed delivery terms of several weeks or months, when Avangard deems the delivery advantageous due to price trends and seasonality. Avangard's supplies of animal feed and animal feed ingredients are located primarily in Eastern and Central Ukraine so as to minimise its dependence on any particular region (and associated climatic conditions).

Avangard uses both independent laboratories and its own internal checks to monitor the quality of animal feed and animal feed ingredients which it purchases from third parties and animal feed which it produces at its own fodder mills. Any animal feed or animal feed ingredients purchased from outside which do not meet the required standards is returned to its supplier. Avangard regularly checks animal feed and animal feed ingredients purchased from outside by sending them to independent laboratories for testing.

Although animal feed and animal feed ingredients are available from a large number of suppliers, Avangard has little control over prices for animal feed and animal feed ingredients, which are subject to fluctuations due to weather, market conditions, government regulation, etc.

In 2009, Avangard purchased animal feed and animal feed ingredients from more than 20 suppliers. Suppliers from related parties accounted for 11.5% of the total animal feed and animal feed ingredients supplied in 2009. Due to its scale of operations, Avangard was able to obtain better procurement terms from its suppliers, including discount rates and trade credit. As Ukraine has a large number of feed grain producers, Management does not expect any substantial supply shortages of wheat, corn or other raw materials.

Breeder flock

Avangard's breeder farms, Slovyany and Pershe Travnya, currently source their entire breeder flock from a single supplier, Hy-Line International. Expenditures on breeder flocks accounted for approximately 0.15% of Avangard's cost of sales in 2009. See ''Risk Factors—Risks Relating to Avangard—Outbreaks of livestock diseases could have a material adverse effect on Avangard's business''.

Due to Ukrainian foreign exchange restrictions introduced in 2008, the terms of trade on which Avangard did business with Hy-Line International were changed such that no trade credit was available. This did not have a material impact on the cashflows or working capital of the Group. Other than its breeder flock, Avangard does not import any raw materials from outside Ukraine. Avangard purchases vaccines recommended by Hy-Line International from the local distributors of such vaccines.

As an alternative, Avangard may purchase breeder flock from other suppliers, such as H&N International, Lohmann Tierzucht GmbH, Hendrix Genetics or Institut de Selection Animale.

Utilities

Avangard uses gas, electricity and water provided by local utility companies for its production facilities. Avangard primarily uses gas for the heating of growout facilities for laying hens. Avangard currently obtains natural gas from gas distribution companies that purchase gas from ''NAK Naftogas'', the state owned gas company. The maximum price for natural gas is established by a regulator and is uniform for all privately owned Ukrainian enterprises. See ''Risk Factors—Risks Relating to Ukraine—Ukraine's economy depends heavily on its trade flows with Russia and the rest of the CIS and any major change in relations with Russia could have adverse effects on the economy''. Avangard currently obtains electricity at regulated rates from regional power distribution companies. Avangard has not experienced any problems with gas or electricity supply in the last 5 years.

Avangard intends to construct a biogas plant at each of the Chornobaivske and Avis farms, which are expected to fully satisfy their power requirements.

Facilities and Properties

Buildings and Facilities

Avangard owns all of its administrative buildings and production facilities except for the Imperovo egg processing facility. Management believes that all of its administrative buildings and production facilities are properly registered with the state inventory authorities.

Currently Imperovo leases all of its assets and facilities from Stanislavska Torgova Kompaniya LLC, Avangard's related party, under a 10-year lease agreement expiring on 6 April 2020. In March 2010, Stanislavska Torgova Kompaniya LLC commenced a reorganisation procedure to spin off all of the assets and facilities which are currently leased by Imperovo to a new entity, controlled by Stanislavska Torgova Kompaniya LLC, which will be formed as a result of the reorganisation. Upon the completion of this procedure, all corporate rights of the newly created entity are expected to be transferred to Imperovo for the nominal value pursuant to a sale and purchase agreement. Such reorganisation procedure requires a number of procedures to be completed at a later stage, including, amongst other things, the adoption of various corporate resolutions, publication of press announcements, evaluation of the financial and economic condition of Stanislavska Torgova Kompaniya LLC and its assets, preparation of a new balance sheet and its approval by auditors, certain corporate rights exchange actions and incorporation of a new legal entity. In addition, Management believes that the transfer of corporate rights of the newly created entity to Imperovo will require the AMC's prior approval. As part of the reorganisation process, Stanislavska Torgova Kompaniya LLC has filed a shareholders resolution approving the reorganisation dated 9 March 2010 with the Ivano-Frankivsk registrar of companies.

Avangard's Ukrainian corporate headquarters building is located at Shchorsa street 7/9 in Kyiv. Avangard leases approximately 667.2 square metres of office space from "Agroholding Avangard" LLC and "Ukrainska Gasova Finansovo-Konsaltyngova Grupa" LLC (which are both related parties of Avangard).

Land Plots

Avangard leases approximately 615 hectares of the land plots on which all of its production facilities, administrative buildings and staff facilities are located, including the Avis and Chornobaivske egg production complexes, the terms of which range from one to 49 years. All land plots are leased from local municipal authorities, other than the land plots on which the Avis farm is located, which are also leased from 12 private individuals. Management believes that all land upon which its production facilities are located is properly registered with the state land registers under executed land lease agreements. See "Risk Factors—Risks Relating to Avangard—Termination or any changes to the terms of the existing leases in respect of Imperovo's assets and production facilities or failure to successfully complete the reorganisation to transfer all of the currently leased assets and production facilities to Imperovo could affect Avangard's business".

Avangard has a right to extend each of its current leases and has not experienced any difficulties with extension of the term of its leases in the last 5 years. Management believes that Avangard's leased lands are not encumbered by any third party rights. Avangard also has 115 hectares of land plots in ownership or permanent use. Avangard also leases some arable land for manure storage.

The land plots under the Imperovo facility were leased by Stanislavska Torgova Kompaniya LLC from the local municipal authorities. This lease expired in 2009. Under Ukrainian law Stanislavska Torgova Kompaniya LLC, as the current owner of the premises, has a pre-emptive right to lease land plots underlying such premises. Stanislavska Torgova Kompaniya LLC expects to renew such lease in its favour shortly. In the interim, Stanislavska Torgova Kompaniya LLC entered into a land plot payment agreement with the local municipal authorities on 25 March 2010. This agreement, among other things, confirms that Stanislavska Torgova Kompaniya LLC is the *de facto* user of the land plot underlying the Imperovo facility. Upon the completion of the reorganisation in connection with the assets and production facilities that are currently being leased by Imperovo, Stanislavska Torgova Kompaniya LLC intends to terminate its rights to land in favour of the newly created entity so that it could subsequently enter into a new lease agreement with the local municipal authorities with regards to the land underlying Imperovo's facility. In the interim period, or if it fails to renew such lease in the name of the new entity, the new entity is expected to sublease such land from Stanislavska Torgova Kompaniya LLC.

Licences and Permits

Avangard's business depends on the continuing validity of several licences, the issuance to it of new licences and its compliance with the terms of its licences.

Production Facilities and Technological Processes

Under Ukrainian law, the operation of newly constructed properties that have not been duly commissioned is prohibited. The commissioning of a newly constructed property must be certified by a commissioning certificate issued by the respective local state inspectorates for architecture and construction control. Such certificate confirms the compliance of a constructed property with the design and construction standards, requirements of local utility providers, safety rules, sanitary, fire protection, and technical standards under Ukrainian law. Violation of this requirement may lead to imposition of fines in the amount of 10% of the value of the construction services. Not all of Avangard's existing operating facilities were formally commissioned in compliance with the applicable legislative provisions.

Under the Law of Ukraine "On Safety and Quality of the Food Products", dated 23 December 1997, as amended (the "**Food Safety Law**"), Avangard, as an operator of food production facilities, is required to obtain operational permits in respect of all of its facilities for production of food products and fodder. Without such permits, which are to be issued by local departments of each of the SCVM and the SSES, Avangard is not permitted to produce, process, store, transport or sell its shell eggs or egg products. Avangard has already obtained such permits for several of its companies and plans to obtain such permits for those other companies which operate food production facilities as soon as practicable when the register of operators of food production facilities becomes fully operational.

Most of the companies within the Group are engaged in egg production. Under Ukrainian legislation, legal entities which produce or trade food products, including egg products, must obtain Sanitary and Epidemiological Permits, issued by the sanitary supervision authorities. Not all of the companies within the Group which are engaged in egg production have obtained Sanitary and Epidemiological Permits. According to Management, those companies within the Group which do not possess Sanitary and Epidemiological Permits are currently obtaining them. Without such permits, companies are prohibited from producing, processing, storing, transporting or selling shell eggs or egg products. Furthermore, under Ukrainian legislation, failure to obtain Sanitary and Epidemiological Permits may result in the suspension of the operation or use of the infringing legal entity, its equipment or its buildings. In addition, the relevant authority may confiscate equipment and raw materials from infringing companies, as well as goods which have been produced by those companies.

Avangard must also obtain approval for all newly introduced technological processes from the Agrarian Ministry. As of the date of this Prospectus, there are no regulations or procedures in place enabling companies to obtain approval for newly introduced technological processes and, accordingly, such approvals are not currently being issued. Avangard plans to obtain all necessary approvals as soon as implementing regulations and procedures become available.

Pedigree Resources

According to the Law of Ukraine "On Licensing of Certain Types of Business Activities" dated 1 June 2000, companies engaged in the production, storage and sale of pedigree resources (including breeder flock and hatching eggs) are required to receive licences for such activities from the Agrarian Ministry. Such licences were issued for 5 years. However, in late 2009 the Law of Ukraine "On Licensing of Certain Types of Business Activities" has been amended to extend the term of licences for the production, storage and sale of pedigree resources for an unlimited period. Such licences are conditional on the issuance of a pedigree farm status certificate by the Agrarian Ministry and registration of a particular pedigree resource with the state pedigree register maintained by the Agrarian Ministry. A pedigree farm status certificate is issued following a state audit. Mandatory state audits are conducted every 4 years. Sales of pedigree resources to third parties are subject to additional certification of each consignment by local state pedigree inspectors.

Animal Feed Production

According to the Law on Veterinary Medicine, fodder mills are required to obtain operational permits. Each fodder mill is assigned an identification number by the SCVM and such number is registered in the state register of fodder mills. Not all of Avangard's fodder mills currently operate with such operational permits. Avangard intends to comply with such requirement in the future.

Only registered animal feed can be used or sold in Ukraine. Animal feed is registered by the SCVM following an application by an enterprise, expert reports and appraisals by the National Agency of Veterinary Medicine and Fodder Additives, and conclusions of the State Pharmacological Commission of the Veterinary Medicine. Once the animal feed is registered the SCVM provides the applicant with a registration certificate and includes the animal feed into the Register of Veterinary Products maintained by the SCVM. The term of validity of the registration certificate may not exceed 5 years. As of the date of the Prospectus, Avangard's animal feed has not been registered with the veterinary authorities. Avangard intends to comply with such requirement in the future.

Companies producing, shipping, storing, selling and using animal feed on its facilities are subject to regular assessments by the Scientific-and-Research Controlling Institute for Veterinary Medicine and Fodder Additives (the "**Institute**"). The Institute may temporarily suspend the activities of the companies producing, shipping, storing, selling and using compound fodder, if such companies violate applicable regulations and standards.

Environmental and Other Licences and Permits

Avangard operates a number of artesian wells. Under Ukrainian law, in order to operate artesian wells a company must obtain permits for water use and for sub-soil use. Although Avangard is in compliance with the requirement for water use permits, only one Group company, Donetska, has obtained a permit for sub-soil use. According to Management, Avangard intends to obtain such permits in the near future.

In addition, Avangard's enterprises, where applicable, must obtain other environmental permits such as permits for air emissions, permits and limits for generation and disposal of solid waste, permits for the use, storage, treatment and disposal of toxic substances. Avangard is generally in compliance with these requirements.

Avangard will be required to obtain licences and certificates for the operation of biogas facilities at the new Avis and Chornobaivske farms, if completed as currently planned and put into operation.

See "Risk Factors—Risks Relating to Avangard—Avangard's business could be adversely affected if it fails to obtain, maintain or renew necessary licences and permits or fails to comply with the terms of its licences and permits".

Regulatory Compliance

General

Other than stated above, Management believes that Avangard operates its facilities in compliance with the requirements of all applicable sanitary and epidemiological regulations and also observes all applicable fire prevention measures. Avangard outsources all of its building and construction works, which are subject to a licensing regime, to third parties. Avangard has not been subject to any material claims relating to the safety of its products, compliance with veterinary, sanitary, health and safety, processing control, labelling requirements, use of genetically modified materials, pesticides, agrochemicals, steroids or antibiotics in the last 5 years. See "Certain Regulatory Matters".

Environmental Control

Under applicable Ukrainian law, egg producing facilities are considered to pose increased environmental hazards. As such, they are subject to mandatory state ecological examinations, requiring pre-project documentation and documentation on the installation of new machinery or the introduction of new technologies to be submitted to the state for review. Other than stated below, Management believes that Avangard complies with these requirements.

In its operations, Avangard uses various chemicals and produces solid, liquid and gaseous wastes that could have a negative impact on wildlife and vegetation in adjacent areas if improperly discharged. These and other activities are subject to various laws and regulations concerning environmental protection. In accordance with applicable Ukrainian law, Avangard makes regular environmental payments to the Ukrainian state budget to compensate for pollution generated by Avangard's facilities. These payments are effectively an environmental tariff. Avangard's annual payments are based on expected emission levels, and are subject to significant increases if actual levels are higher than these expected levels. The payment scale was initially established by the environmental authorities pursuant to regulations adopted in 1999, and the payment rates are adjusted each year by the CMU. In 2009, Avangard paid to the state budget U.S.$120,092 in environmental payments.

Under the recently amended Law of Ukraine "On Waste" dated 5 March 1998, waste of animal origin, such as slaughterhouse waste, dead birds and bird manure, except for manure, used for production of biogas or organic fertilisers, must be disposed of through specialised enterprises and generally may not be disposed of by the producers of such waste, unless they have specialised departments dealing with the disposal of waste of animal origin. Avangard intends to comply with this requirement.

Avangard has not incurred material environmental liabilities and has not been subject to material environmental investigations in the past.

Avangard does not recycle or dispose of any packaging as its disposal is the responsibility of Avangard's customers purchasing Avangard's products.

Use of Genetically Modified Materials

Ukrainian law only prohibits the use of genetically modified materials ("**GMM**") for the productions of baby food products. Import to, or production in, Ukraine of other food products produced with the use of GMM is permitted, provided that a particular GMM has been registered with the state register of GMM.

Recently Ukraine has introduced a system of mandatory labelling of food products which contain GMM, or were produced with the use of products containing GMM. Avangard does not use GMM in its products. So far as Management is aware, Avangard does not purchase grain or animal feed which contains GMM.

Use of Steroids, Antibiotics and Other Substances in the Egg Production Process

Under Ukrainian law, the use of certain steroids, antibiotics and other substances in the chicken production process is allowed, provided that certain maximum thresholds are not exceeded. It is expected that Ukrainian laws regulating the use of steroids, antibiotics and other substances in the food production process will be harmonised with the relevant EU legislation, which applies similar principles to the use of such substances. Management believes that Avangard fully complies with Ukrainian requirements in relation to use of such substances. Avangard does not use steroids other than in regular vaccines given to its chickens, which all meet international standards. The use of steroids would generally be detrimental to Avangard's business as it does not sell poultry meat and therefore has no interest in artificially increasing the weight of its flock. Antibiotics are used only in cases of outbreak of disease. When antibiotics are used, any eggs that may contain traces of such antibiotics are not sold for human consumption.

Use of Pesticides and Agro-Chemicals

Avangard does not currently use pesticides or other agro-chemicals in its operations.

Competition Regulation

As the leading shell egg production company in Ukraine and having recently carried out a number of acquisitions, Avangard is subject to Ukrainian antitrust law, including merger control and concerted practices rules.

Avangard's Group companies, Volnovaska and Donetska were each fined UAH25,000 in November 2009 by the AMC for price fixing activities. Although Management believes that the amount of the fine is insignificant and is unlikely to have a significant impact on Avangard's activities, there can be no assurance that Avangard will not be subject to more significant fines in the future if new violations are discovered by the AMC. If the AMC discovers more such violations and if Avangard is deemed to have a dominant market position, such violations will constitute an abuse of a dominant position.

Other than described above, Avangard has not incurred any material liabilities related to competition legislation, and has not been subject to any material investigations by the competition authorities, in the past. See also "Industry Overview—Competition in the Ukrainian Egg Market". As shell eggs are an important food product and given Avangard's current market shares on the shell eggs and egg products markets, the AMC may in future review Avangard's activities for compliance with the relevant laws and regulations with particular scrutiny.

Intellectual Property

Avangard holds four trademarks registered with the Ukrainian patent authorities for, amongst other things, shell eggs and egg products. Its trademarks comprise the Zorya trademark owned by Zorya, the Kalibr trademark owned by Pershe Travnya, the Dzherelo Zhyttya trademark owned by Pershe Travnya and the Imperovo trademark owned by Imperovo. Other than trademarks, Avangard does not hold any other types of registered intellectual property rights.

Avangard does not incur significant expenditure on research and development.

Information Technology

Avangard uses Windows XP (including MS Office), accounting software 1C 8.0, the "MIXT: Agricultural company" and "MIXT: Salary and Staff" configuration ("**MIXT**") and the animal feed mixing programme Bestmix to support its key functions, including production, marketing, planning and sales. Avangard backs up its IT systems on a daily basis, has 2 additional back up servers and copies all financial reporting information on a monthly basis onto alternative storage media.

Avangard has implemented an integrated information system with 1C 8.0 software which covers all operating subsidiaries within the Avangard group and allows Avangard to implement uniform accounting and reporting processes. The system allows Avangard to consolidate financial data from its group companies. MIXT, (which is an additional configuration of 1C), allows Avangard to apply unified accounting standards within the group and control financial flows of the companies of the group.

Insurance

Avangard insures its pledged assets (which include buildings and operational equipment) against the risk of loss or damage caused by fire, lightning, explosions, arson, natural disasters, water damage, burglary, robbery and mechanical damages. Avangard also insures its pledged vehicles against the risk of loss or damage.

Avangard's companies that own vehicles are required to maintain mandatory insurance against liability for damage to third parties. Not all of Avangard's companies that own vehicles currently maintain this type of mandatory insurance, which is required by law. There are however no material sanctions for failure to maintain the mandatory insurance required.

Avangard is required by law to maintain product liability insurance with respect to products of animal origin. However, Avangard does not maintain these forms of insurance because of their general unavailability in the Ukrainian market and the absence of implementing regulations for maintaining these types of insurance. There are no prescribed penalties for non-compliance with these insurance requirements, and Management does not believe there are material risks associated with its failure to comply with these requirements.

Avangard does not maintain any other types of insurance. It does not have any insurance against losses arising from the interruption of its business or damage to some of its property and equipment, including environmental damage, or any insurance coverage in respect of any losses it may incur as a result of outbreaks of bird flu, Newcastle, Marek's or any other livestock disease.

Avangard does not have any material insurance claims outstanding and has not made any material claims since the Group was established. See "Risk Factors—Risks Related to Avangard—Avangard's insurance coverage may be inadequate".

Legal Proceedings

Avangard is subject to various legal proceedings and claims (such as disputes with leasing companies, suppliers and customers), as well as proceedings involving Ukrainian state authorities, which arise in the ordinary course of business. In the opinion of Management, the amount of ultimate liability with respect to these proceedings and claims will not materially affect Avangard's financial position or results of operations.

Employees

The average number of employees in Avangard for the years ended 31 December 2009, 31 December 2008 and 31 December 2007 was 4,798, 5,366 and 4,721, respectively. Avangard's facilities operate year-round without significant seasonal fluctuations in labour requirements. None of Avangard's employees belong to industrial or regional professional trade unions or labour or workers' syndicates. There are collective bargaining agreements in force between most of Avangard's companies and their employees. Avangard considers its employee relations to be generally satisfactory. Avangard has never been subject to any industrial actions, industrial accidents or claims.

As of 31 December 2009 Avangard's central management team consisted of approximately 90 employees. Avangard's centrally integrated management system defines responsibilities for and controls the results of operations of each of its business units. This allows Avangard to detect any deviations from the norm based on various key performance indicators and quickly adjust its business processes in order to meet its short- to medium-term objectives. Avangard has not entered into any formal contracts of employment with any of the general managers of its Group companies.

Avangard operates a two-tier remuneration policy scheme for its management, where overall compensation consists of both fixed salary and a performance-based bonus, paid monthly based upon performance indicators of production capacity, survival rates and sales volumes. Minimum sales volumes targets must be hit in order for any bonus to be payable. Occasionally, Avangard provides personal loans and cars to its management on an *ad hoc* basis. Poultry personnel are paid in part by reference to survival rates. All other employees receive only a fixed salary set at the level of industrial enterprises. Management believes that the salaries paid to Avangard's employees are in excess of the local market average. There is significant variation in the salaries paid by Avangard in different regions, in order to reflect local market conditions.

In accordance with Ukrainian law, the state provides child birth and bereavement assistance to Avangard's employees.

Avangard has a programme aimed at attracting and retaining qualified young professionals as employees. Key features of the programme include offering summer employment to students from leading Ukrainian agricultural educational institutions and subsequently recruiting the best students. Avangard provides industry-related training to its employees.

Avangard regularly inspects its equipment and maintains a labour protection department that is responsible for ensuring compliance with health and safety requirements. Regular inspections to monitor compliance are carried out by state authorities. No material breaches have been identified and Avangard has not had any significant workplace accidents since the establishment of the Group.

The Law of Ukraine "On Foundations of Social Protection of Handicapped Individuals", dated 21 March 1991, implemented a quota system that safeguards the employment of handicapped individuals. Ukrainian companies employing more than 25 people must ensure that at least 4% of their payroll are handicapped (companies employing between 8 and 25 employees must have at least 1 handicapped individual on their payroll). Non-compliance results in a penalty equal to the average annual salary paid by that company multiplied by the shortfall in handicapped employees. Avangard complies with these requirements.

Pursuant to Ukrainian law, Avangard is currently paying four types of social security payments to the state funds: (i) pension contributions; (ii) insurance against unemployment; (iii) insurance against temporary loss of productivity; and (iv) insurance against accidents at work and professional illness that cause loss of productivity. Except for the latter, all social security payments are made on a monthly basis (i) as a percentage on top of the gross monthly payment to all employees; and (ii) as a percentage deducted from the gross monthly payment to each individual employee.

Currently, the social insurance payments made by Ukrainian companies registered as FAT payers are as follows: (i) pension fund payments equal to 33.2% of the gross monthly payment paid to all employees and 2% of the gross monthly payment made to each individual employee; (ii) insurance payments against unemployment equal to 1.6% of the gross monthly payment paid to all employees and 0.6% of the gross monthly payment made to each individual employee and (iii) insurance payments in case of temporary loss of productivity equal to 1.4% of the gross monthly payment to all employees, 0.5% of the gross monthly payment made to employees whose remuneration is below the minimum subsistence level and 1% of the gross monthly payment for employees whose monthly remuneration is above the minimum subsistence level. From 1 April 2010 to 30 June 2010 the minimum subsistence level of an employable individual in Ukraine is UAH884 per month.

Insurance payments against accidents at work and professional illness that cause the loss of productivity are calculated on a company-by-company basis. The insurance premium is calculated according to the risk of accidents or illness for each employee in carrying out their daily tasks. Agricultural companies must pay a discounted tariff of 0.2% of the gross monthly payment paid to all employees, whereas fodder mills pay a tariff of 1.83% and Imperovo pays 0.98% of such amount. Companies servicing and managing agricultural companies pay a discounted tariff of 0.5% of the gross monthly payments paid to all employees.

The maximum taxable amount per employee for all four types of social security payments is capped at 15 times the then existing minimum subsistence level of an employable individual.

Avangard does not operate a private pension plan for its employees and is not liable for any supplementary pensions, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees. Avangard's contributions to the state pension fund in 2009 amounted to U.S.$3,912 thousand.

Avangard's employees do not hold any shares in the capital of the company.

Neither Avangard's controlling beneficial shareholder, nor any of Avangard's Management, supervisory or administrative bodies intends to subscribe in the offer and, so far as Avangard is aware, no person intends to subscribe for more than 5% of the offer.

CERTAIN REGULATORY MATTERS

See also "Industry Overview—Recent Developments in the Ukrainian Egg Production Industry" for the description of certain regulatory matters related to the Ukrainian egg production industry.

Regulation of Ukrainian Egg Industry

The Ukrainian egg industry is subject to governmental regulation and licensing, in particular in the food safety, health and environmental areas. See also "Business—Quality Control", "Business—Licences and Permits", "Business—Regulatory Compliance" and "Business—Employees" for the description of certain regulatory matters related to the Ukrainian egg production industry.

Food Safety

The Food Safety Law and the Law of Ukraine "On the Protection of Consumers' Rights", dated 12 May 1991, as amended, are the principal laws in Ukraine dealing with food safety. According to the Food Safety Law, entities engaged in producing foodstuffs are prohibited from producing and/or putting into circulation products that are dangerous, unsuitable for consumption or incorrectly labelled. Producers are further required to use only permitted and safe ingredients in the permitted amounts and of sufficient quality for producing food products. Producers and sellers of food products must ensure that sufficient and reliable information on nutritional value, ingredients, proper conditions for storage and preparation of food products, as well as health warnings associated with such products, are available to consumers. Producers and sellers are allowed to sell only those food products of animal origin for which relevant veterinary documents have been issued confirming their safety.

Under Ukrainian law, a consumer who has sustained damage as a result of buying and consuming a low-quality, dangerous or incorrectly labelled food product may bring a claim for damages against both the producer and the seller of the product.

Veterinary and Sanitary Control and Supervision

The SCVM and its local bodies are authorised to exercise state control and supervision over the production of all unprocessed food products of animal origin, including eggs. SCVM officials monitor compliance with applicable sanitary standards of fodder production, eggs production, storage and transportation. In particular, such officials authorise the commissioning into operation of newly built or renovated production facilities, approve food products for further circulation and issue veterinary certificates confirming the quality and safety of unprocessed food products of animal origin, including eggs. SCVM officials also inspect food production facilities and products of animal origin, including eggs, for compliance with applicable sanitary standards and regulations. The SCVM is authorised to determine the frequency of such inspections and generally carries them out on a monthly basis.

In addition, facilities for the production of processed meat products and facilities for the production, processing and storage of grains and sunflower seeds are monitored by the SSES and by the State Inspectorate on the Control of Quality of Agricultural Products and on the Monitoring of the Market for Agricultural Products. Grain storage facilities are also subject to certification by local grain inspectorates.

Fire Safety

Under Ukrainian law, it is prohibited to commence operation of new or refurbished premises or other facilities, or to lease any premises, without obtaining Fire Safety Permits. Failure to obtain such permits may result in the suspension of the operation or use of the infringing legal entity, its equipment or its buildings. In addition, the relevant authority may confiscate equipment and raw materials from infringing companies, as well as goods which have been produced by those companies.

Biosecurity

All Ukrainian producers of food products of animal origin must comply with the principal legislation related to biosecurity measures. This legislation is the Law on Veterinary Medicine, the Law of Ukraine "On Ensuring the Sanitary and Epidemiological Welfare of the Population", dated 24 February 1994, the Food Safety Law and the Law of Ukraine "On the Withdrawal from Circulation, Processing, Utilisation, Destruction and Further Usage of Dangerous and Low-Quality Products", dated 14 January 2000.

The SCVM has enacted more precise regulations based on the foregoing biosecurity legislation applicable to companies operating poultry production facilities.

In light of the recently increased threat of bird flu in the world and following the detection of bird flu in Ukraine, in October 2005, the SCVM enacted the Instruction on Bird Flu Control, which established mandatory measures for bird flu prevention to be undertaken by all entities operating poultry production facilities. It also provides for a series of veterinary and sanitary measures to be undertaken in the event of a bird flu outbreak and that all poultry production facilities must operate in a closed regime. In the event of a bird flu outbreak, all infected birds are subject to culling. Moreover, depending on the epizootic situation, clinical course and other factors, the relevant state authorities are authorised to take a decision to cull all bird livestock within a particular unit. In such cases, the owners of such livestock are entitled to receive compensation.

In addition, the SCVM adopted a number of instructions aimed at the prevention and elimination of various other bird diseases, including Newcastle and Marek's diseases. The measures include compulsory vaccination.

Labelling Requirements

All products must have labels in the Ukrainian language containing the product name, producer's details, weight, ingredients (including food supplements and flavourings), nutritional value and sell-by date.

Health and Safety

The production and processing of food products, including egg products, involves the performance of certain hazardous activities, including sanitising and disinfecting production, storage and transportation facilities, working with dangerous substances, gas-hazardous work and work with objects under high pressure, which give rise to a general risk of accidents.

Ukrainian producers are subject to various Ukrainian laws governing workplace safety. Their operations are monitored by the State Committee of Ukraine for Industrial Safety, Labour Protection and Mining Supervision (the "**Labour Protection Committee**"). The Labour Protection Committee has the power to inspect, at any time, the condition of Avangard's equipment and to monitor dangerous manufacturing processes. The Labour Protection Committee also has wide powers to take remedial measures, including stopping any equipment and processes not in compliance with applicable laws and regulations or deemed to be dangerous to the health and safety of employees. The Labour Protection Committee is authorised to impose fines for violations of applicable labour regulations.

Pricing regulation

Under Ukrainian law, the local state authorities may regulate prices of certain food products, including chicken eggs. In particular, the local state authorities may from time to time oblige producers of certain food products, including chicken eggs, to obtain, subject to a positive conclusion of the local offices of the State Prices Inspection, an approval before increasing the wholesale prices of such products by more than 1% during any given month. Furthermore, the CMU introduced a procedure for the formation of prices of food products which are subject to state regulation. This procedure provides for a formula for the calculation of wholesale prices of food products and profits from such sales and it limits the profit margin charged on such products. Management believes that the approach Avangard uses for determining the wholesale prices for Avangard's products is in line with the formula established by the above procedure, and that the Ukrainian price regulation mechanism described above will not have a negative impact on Avangard's business and financial results.

Ukrainian Law Related to Land and Other Real Estate

General

Ukraine recognises private ownership of real estate. The Constitution of Ukraine, together with the Civil Code, the Commercial Code, the Land Code of Ukraine, dated 25 October 2001 (the "**Land Code**") and other laws, recognise and protect the right to own private property.

Ukrainian law specifically permits the use of privately owned property for commercial purposes, including leasing of such property, and permits the retention of revenues, profits and production derived from the commercial use of property. According to the applicable Ukrainian law, private ownership is judicially protected.

Ukrainian law distinguishes between ownership rights with respect to land and buildings. These are treated separately so that, upon the transfer of ownership rights relating to a building, the ownership of the underlying land may or may not pass to the new owner, depending on a number of factors.

On 25 October 2001, the Parliament of Ukraine adopted the new Land Code which came into effect on 1 January 2002 and introduced a number of essential changes to the regulation of the Ukrainian real estate market. The Land Code introduced the general right to own land. Under prior law, only Ukrainian citizens were permitted to own land in Ukraine and land sale transactions were permitted only under very limited circumstances. The new Land Code also permitted the mortgage of privately owned land, provided, however, that with respect to agricultural land only banks may hold mortgages of such land.

The Land Code provides for the following basic rights with respect to land: (i) ownership; (ii) land use rights, including the right of permanent use or lease; (iii) a right of use granted under servitude; (iv) a right to use one's land for agricultural purposes (emphyteusis) or construction purposes (superficies). It also classifies land ownership as private, municipal and state ownership. The right of permanent use is available only to enterprises and organisations which are under state or municipal ownership, to social organisations for the benefit of disabled persons and to religious organisations with duly registered charters. Ukranian law provides that if a company, which holds a land plot under permanent use title, does not fall into one of the above groups, such company must change the title to its land plot either to ownership or to lease. However, currently Ukranian law does not establish a procedure for such change of title. Accordingly, only when such procedure is established by the law, may the right to permanent use be re-registered into land ownership or lease.

Land is divided into various categories based upon its designated purpose (for example, residential, industrial, agricultural). Residential land includes land plots used for residential buildings or buildings designated for public use. Industrial land is used for industrial, mining, transportation and other commercial enterprises. Agricultural land is to be used for farming and other agricultural purposes. Moreover, land in Ukraine is subdivided into the different kinds of the designated use within each category, which is indicated in the relevant documentation for a land plot. Under Ukrainian law, a land plot must be used strictly in accordance with its categorised purpose.

Private Ownership of Land in Ukraine

Generally, Ukrainian individuals and legal entities are permitted to acquire ownership rights in private, state and municipal land in Ukraine. Foreign individuals, foreign legal entities and foreign states are allowed to own, use and dispose of certain non-agricultural land in Ukraine, but are explicitly prohibited from acquiring or owning agricultural land. In contrast, lease rights of foreign individuals and foreign legal entities are not restricted under Ukrainian legislation.

The Land Code does not explicitly grant the right to own any land in Ukraine to Ukrainian companies with 100% foreign ownership. Although this is sometimes viewed as a technical flaw and such subsidiaries are generally treated in the same way as joint ventures, there is a risk that ownership rights of such subsidiaries to land in Ukraine may be challenged. As a practical matter, if a Ukrainian company which owns land is owned by another Ukrainian company, even if that second company is foreign-owned, then there should not be any issues related to land ownership by the first Ukrainian company. Those Ukrainian legal entities which have been established by Ukrainian individuals or legal entities, or joint ventures, may own land in Ukraine, subject to the above restrictions. Joint ventures established by foreign and Ukrainian individuals or legal entities may purchase non-agricultural land owned by the state or by a municipality from the CMU with the approval of the Parliament of Ukraine, or from the relevant municipal council, with the approval of the CMU, respectively. Pursuant to the letter of the State Committee of Ukraine on Land Resources dated 1 October 2009, Ukrainian legal entities, which are wholly owned by foreign individuals or legal entities (so called "foreign enterprises" under the Commercial Code) are regarded as "foreign legal entities" for the purposes of acquiring rights to land. Such treatment places them at a disadvantage as compared to other Ukrainian legal entities. Furthermore, the Ukrainian law envisages that only those foreign legal entities which have registered permanent representative offices and are permitted to conduct business activities in Ukraine, may hold ownership rights to land.

According to the Land Code, the ownership rights to a land plot must be confirmed in each case by a certificate known as the State Act on the Ownership Rights to the Land Plot (the "**State Act**"), a duly certified sale and purchase agreement or an inheritance certificate.

The Land Code contains a number of transitional provisions which postpone or limit the application of certain provisions of the Land Code until a future date (the "**Transitional Provisions**"). In particular, until the laws of Ukraine "On the Land Market" and "On the State Land Cadastre" are adopted, but in any event until 1 January 2012, several major restrictions apply to certain types of agricultural land. These restrictions are as follows:

- agricultural land owned by the state or municipalities may not be sold, except for its withdrawal for public purposes;
- sale, alienation in any other way, or change of designated purpose of privately owned commodity agricultural or individual farming land plots and land shares, which have been allocated and delimited on site, is prohibited. An exception is made for the exchange of such land plots, inheritance and withdrawal for public purposes.

Leasing of Land in Ukraine

All Ukrainian and foreign individuals and legal entities, as well as foreign states, may lease land in Ukraine. The Land Code provides for short-term (up to five years) and long-term (up to 50 years, the maximum lease term permitted under Ukrainian law) land leases.

The Land Code also allows subleasing arrangements, subject to the lessor's consent. Land lease relations are regulated in detail by the Land Lease Law.

According to the Land Lease Law, land lease agreements must be executed in writing and must contain the following essential provisions:

- the subject matter of the lease (i.e., the property's location and size);
- the term of the agreement;
- the amount of the rent and the terms and means of payment, indexation of the rent, procedure for changing its amount, and liability for the failure to pay;
- the terms of use and designated purpose of the leased land plot;
- the terms of maintenance of the leased property;
- the terms for transfer of the land plot by the lessor to the lessee;
- the terms for return of the land plot by the lessee to the lessor;
- a description of all existing restrictions and encumbrances of the land plot;
- provisions allocating the risk of damage or loss of the land plot;
- liability of the parties;
- provisions regarding encumbrance over rights to a land plot; and
- provisions regarding contribution of rights to a land plot to a charter capital of a legal entity.

The absence in a land lease agreement of any of these conditions can result in the refusal of the state registration of the agreement and the invalidation of the agreement.

All land lease agreements must comply with the model land lease agreement approved by the Resolution of the CMU "On Adoption of the Model Land Lease Agreement" dated 3 March 2004, No. 220, and must be registered with the state land authorities.

A land lease agreement becomes effective only after state registration, giving a lessee lease rights to the land. Any amendments to a land lease agreement also require state registration.

A lease agreement is required to contain the following:

- the plan or scheme of land plot being leased;
- the cadastral plan of the land plot indicating restrictions (encumbrances) on use and established servitudes;
- the certificate of determination of land plot boundaries afield;
- the delivery-acceptance certificate on the transfer of the land plot; and
- the lease allocation project (when and if required under Ukrainian law).

The original lease term may be extended as many times as the parties desire, provided that they re-execute the lease agreement upon each extension and register the re-executed agreement with the land authorities. Under Ukrainian law, the lessee has a pre-emptive right to extend the lease, provided it has duly fulfilled all of its obligations under the original lease and upon all other conditions being equal, including paying the price equal to the highest bid if the lease right to the land plot is auctioned. However, the Ukrainian courts have held that a lessee has no right to extend the lease in the event that the lessor decides not to lease the subject property any longer.

The ownership of leased land may not automatically pass to the lessee under the terms of a lease agreement. However, under the Land Lease Law, the lessee has a pre-emption right in the event that the lessor seeks to sell the leased property. In order to exercise such right, the lessee must pay the price at which the land is offered for sale, or, if a property is auctioned by the lessor, the lessee's offered price must be equal to the highest bid.

Under the Land Lease Law, the parties to a lease agreement are generally free to determine the amount and timing of the land rent under the lease. However, the rent relating to land held in state or municipal ownership must be paid in cash and may not be lower than the amount of the land tax applicable at the respective period of time for the same land plot with agricultural designated use and triple amount of the land tax for the same land plot of non-agricultural designated use, as calculated in accordance with the Law of Ukraine "On the Land Tax", dated 3 July 1992 (the "**Land Tax Law**"). In addition, for such properties, the annual land rent may not exceed 12% of the normative state valuation of the particular land plot. However, the amount of land rent may be higher in case the lease rights to the land plot are sold through auction. Land lease agreements may be concluded in a simple written form.

Under Ukrainian law, the amount of land rent may be revised upon the mutual consent of the parties to the lease. Also, the lease agreements for state and municipal lands generally provide that the actual amount of the land rent fluctuates annually based on the updated normative state valuation ascribed to the land according to the coefficient determined and published in the beginning of each year by the State Agency on Land Resources. As of 1 January 2010, such coefficient is 1.059.

Acquisition of Land into Ownership and Lease

The Land Code contains provisions governing acquisition of ownership and other rights to land. The ownership right of individuals to land may arise pursuant to land sale and purchase transactions, gift, exchange, inheritance or other civil law contracts. Moreover, Ukrainian citizens are entitled to acquire land in the course of privatisation, allotment of land shares in kind or under other procedures established by the law, whereas foreign and stateless individuals may acquire the land underlying the buildings in their ownership. The law distinguishes between the grounds for obtaining ownership rights to land by Ukrainian and foreign legal entities. In contrast to Ukrainian legal entities, Ukrainian law provides for certain restrictions for foreign legal entities. Foreign legal entities are entitled to acquire non-agricultural land within the borders of the city (town, village) when acquiring real estate, or for the purpose of constructing real estate, which is related to a business activity in Ukraine. With respect to land outside of the city borders, foreign legal entities may only purchase it if such land has existing buildings sited on it.

As a general rule, state or municipal land or a right thereto must be sold at an auction. There are a number of exceptions to this rule, such as that land under privately owned buildings may be sold without auction procedures. As a matter of practice, some implementing legislation is yet to be adopted for the land auctions to work efficiently. The procedure for acquisition of ownership rights to land varies depending on the transferor and transferee of such rights. Under applicable land legislation, as a general rule, ownership to the state owned or municipal land passes to a new owner upon approval of such a transfer by a relevant state executive body or municipal authority and execution of a land acquisition agreement. The process of land acquisition by foreign legal entities requires prior approval of the transaction by the CMU with further consideration of the same matter by a relevant state executive body or municipal authority. Upon execution of a land sale acquisition agreement, the state registration of the transferee's ownership of the land is performed and the state act on ownership rights to a land plot is issued in the name of the new owner.

Leasing of Real Estate Other Than Land (Buildings and Structures)

The Civil Code contains general provisions governing the leasing of movable and immovable property. In particular, according to the Civil Code, the lease of a building (or other capital structure) or part thereof must be concluded in writing and must be notarised and registered with the State Register of Deeds if entered into for a period of three years or longer.

State Registration of Rights to Immovable Property and Certain Transactions

Sale and purchase agreements, gift agreements or other types of agreements which address ownership rights to real estate must be notarised and registered with the State Register of Deeds. In addition to registration of the agreement with the State Register of Deeds, the property rights must also be registered: in relation to a building, with the local Bureau of Technical Inventory and in relation to a land plot, with the local Department for Land Resources.

Information concerning encumbrances on real estate is contained in the following State Registers:

- the Uniform Register of Prohibitions on the Alienation of Real Estate;
- the State Register of Mortgages;
- the Register of Encumbrances of Movable Property (in respect of tax liens); and
- the Land Cadastre.

According to the Law of Ukraine "On the State Registration of Rights to Immovable Property and Encumbrances Thereof", dated 1 July 2004, the State Register of Rights to Immovable Property and their Limitations (the "**Register of Rights to Immovable Property**") is yet to be established in Ukraine. The Register of Rights to Immovable Property should contain consolidated information on all property rights to real estate as well as the limitations of such rights and, as such, should replace those respective registers previously in existence. However, the Register of Rights to Immovable Property has not been established as of now, so that ownership rights/rights of lease to immovable property should be registered separately from encumbrances thereon.

In case of any dispute over particular real estate object, registered rights to that real estate object prevail over non-registered rights. Furthermore, the real estate owner may enter into an agreement in respect of real estate only after the ownership right is duly registered. Thus, real estate, the ownership right to which is not duly registered, may not be legally sold.

Liabilities of Owners

Owners of land plots and buildings must comply with various environmental, public health, fire, residential, urban planning and other requirements of Ukrainian law. The owner of a building is generally liable for claims that may arise in connection with the building. Owners and leaseholders are required to use the land in accordance with its intended use, not to cause harm to the environment, assume the liability and financial costs relating to compliance with the various land use standards and not to allow the pollution of, littering on, or degradation of, the land.

Land and Real Estate Taxation

Owners of land and those with permanent rights to use land must pay a land tax and lessees must pay the land rent as set forth in the lease agreement. Currently, the general land tax for land plots located within city limits, subject to certain exceptions established by the Land Tax Law, is 1% per year of the normative appraised value of the land, which is updated periodically. The general land tax for agricultural land is established at the rate of 0.1% per year of the normative appraised value of the land for tillage, pastures and hayfields and 0.03% per year of the normative appraised value of the land for perennial plantations. The tax is payable in 12 equal monthly instalments.

The appraisal of land is carried out by authorised licensing organisations in accordance with the methodology adopted by the CMU. This methodology accounts for various factors, including, but not limited to, the location of the land and the purpose for which the land is to be used. The valuation of a particular land plot is carried out at least once every five years with respect to agricultural land and at least once every seven years with respect to non-agricultural land.

With each new valuation, the original valuation is to be adjusted pursuant to a formula adopted by the CMU. The market value of land is not uniform across Ukraine and may vary greatly from place to place depending on the factors affecting the valuation. Furthermore, the valuation of land, which is the basis for the computation of the land tax, fluctuates from year to year.

Antimonopoly Laws

Under Ukrainian antitrust law, a company having more than 35% of the relevant market share is considered to have a dominant position on that product market, unless it can prove that high competition exists on such product market. Ukrainian law also provides that a company with a market share of 35% or less can also be recognised as having a dominant market position, if such company does not face high competition on such product market, for example, due to the low market shares of its competitors.

Dominant position status is not itself sanctioned. However, the law applies additional restrictions on companies with a dominant position and the AMC reviews the activities of such companies with particular scrutiny. Ukrainian law provides a non-exhaustive list of activities that can be regarded as abuse of dominant market position. The abuse of dominant position is prohibited by law and is punishable by (i) fines in the amount of up to 10% of the annual global group turnover of the company and its related entities; and/or (ii) the compulsory break-up of the company.

Ukrainian law provides that if damages are caused to third parties as a result of abuse of a dominant position by a company, such damages can be sought by third parties through court proceedings in a punitive amount. The company's directors may be personally subject to fines.

The activities which can be regarded as abuse of monopolistic position include, but are not limited to, fixing of unreasonably high prices with no alternatives for consumers to purchase the same goods from other producers; fixing of unreasonably low prices making the prices of other competitors uncompetitive; fixing of such prices or conditions for the sale of goods which would not be possible in a competitive environment; limiting or stopping the production and sale of goods so as to create a shortage of such goods; substantially limiting the competitiveness of other producers or distributors of the same goods; and creating barriers to enter the product market for new competitors or eliminating existing competitors from the product market.

Intellectual Property

In recent years Ukraine has enhanced the legal protection of intellectual property rights, including trademarks. Amongst other things, the legislation extended the scope of liability for intellectual property rights infringement, expanded the "use of a trademark" concept, simplified the procedure for the registration of "well-known" trademarks and changed the official fee scale for the registration of intellectual property objects. Certain other amendments to harmonise Ukrainian law relating to intellectual property rights with the EU and the Agreement on Trade-Related Aspects of Intellectual Property Rights have been adopted by the Ukrainian parliament. Despite this, the legal system in Ukraine generally offers a lower level of intellectual property rights protection than legal systems in other countries in Europe and in North America.

Directors

Avangardco Investments Public Limited's Directors (together, the "**Board of Directors**") at the time of the Offering are:

Name	Year of Birth	Position
Oleg Bakhmatyuk	1974	Non-Executive Chairman
Nataliya Vasylyuk	1983	Executive Director
Iryna Marchenko	1976	Executive Director
Oksana Prosolenko	1981	Executive Director

The Company intends to appoint two independent non-executive directors and a Cypriot-resident administrative director shortly after the Offering.

Oleg Bakhmatyuk is the Non-Executive Chairman of the Company. He founded Avangard in 2003. Mr. Bakhmatyuk graduated from the Chernivtsi Economic and Legal Institute with a diploma in business administration in 1996 and from the Ivano-Frankivsk National University of Oil and Gas with a diploma in engineering and physics and business administration in 2005. During his career, Mr. Bakhmatyuk held a number of executive positions. He served as the director of "Prykarpatska Finansova Kompaniya" LLC (a related party of the Group) in 2004, as the president of "Stanislavska Torgova Kompaniya" LLC (a related party of the Group) in 2005, as the Deputy Chairman of the Management Board of "NAK Naftogaz" of Ukraine from 2005 until 2006 and as the honorary chief financial officer of "Ukrayinska Gasova Finansovo-Konsaltyngova Grupa" LLC (a related party of the Group) in 2007. Mr Bakhmatyuk has served as the honorary chief financial officer of LLC "Agroholding Avangard" (a related party of the Group) since 2007. Mr. Bakhmatyuk owns other companies in the food, transport, real estate and financial sectors. Avangard remains his largest business holding.

Nataliya Vasylyuk is the Executive Director of the Company and is the chief executive officer of the Group. Ms. Vasylyuk graduated from the Ivano-Frankivsk National University of Oil and Gas with a diploma in finance and accounting in 2005. She served as the director of sales and marketing in "Prykarpatska Finansova Kompaniya" LLC in 2004. She served as the chief financial officer of "Stanislavska Torgova Kompaniya" LLC from 2004 until 2007. Ms Vasylyuk served as the chief executive officer of LLC "Agroholding Avangard" from 2007 until 2009. Ms. Vasylyuk commenced working for CJSC "Avangard" in 2010 and has served as a director since 29 April 2010. Ms. Vasylyuk has served as the chairman of the supervisory board of "Finansova Initsiatyva" LLC (a related party of the Group) since 2006. Although Ms. Vasylyuk was formally employed by the Group in 2010, she has worked for the Group since 2007. Ms. Vasylyuk is the sister of Mr. Bakhmatyuk.

Iryna Marchenko is the Executive Director of the Company and is the chief financial officer of the Group. Ms. Marchenko graduated from the Kyiv Academy of Municipal Management with a diploma in accounting and audit in 2004. From 2005 until 2007, Ms. Marchenko served as the chief accountant of "Manufactura" LLC. Ms. Marchenko has served as the director of LLC "Agroholding Avangard" since 2007 and as the head of the financial department of CJSC "Avangard" since 2010. Although Ms. Marchenko was only formally employed by the Group in 2010, she has worked for the Group since 2007.

Oksana Prosolenko is the Executive Director of the Company and is the chief marketing officer of the Group. Ms. Prosolenko graduated from the V. Hetman National Economic University with a diploma in economic science in 2008. Ms. Prosolenko served as the head of marketing and analysis of the Association of the Union of Poultry Breeders of Ukraine from 2005 until 2006. She then served as the chief marketing officer of "Boryspil Agro-Trade" LLC, a company active in the poultry sector. Ms. Prosolenko served as the chief marketing director of LLC "Agroholding Avangard" from 2007 until 2009. Ms. Prosolenko has served as the head of the marketing department of CJSC "Avangard" since 2010. Although Ms Prosolenko was only formally employed by the Group in 2010, she has worked for the Group since 2007.

The Company intends to appoint Keith Leddington-Hill with effect from shortly after the launch of the Offering as a non-executive director of the Company. Mr Leddington-Hill graduated from Aberystwyth University with a degree in Agriculture in 1981 and from Seale Hayne College with a diploma in Farm Management in 1982. Mr Leddington-Hill has worked as an agricultural consultant for more than 27 years with Laurence Gould Partnership Limited, Deloitte and the UK's Agricultural Development Advisory Service. Mr Leddington-Hill is a Chartered Environmentalist, a member of the British Institute of Agricultural Consultants and a member of the Institute of Farm Management. Mr. Leddington-Hill has served as a director of the Laurence Gould Partnership Limited since 1998, including serving as Managing Director since 2007. Mr. Leddington-Hill served as company secretary at Berry Growers Limited. Mr. Leddington-Hill previously served as the non-executive chairman of Tandem Foods Limited and sits on the industry/government experts group for grower producer organisations in the UK.

The business address for all of the members of the Board of Directors is Shchorsa Street 7/9, Kyiv.

Senior Management of the Avangard Group

Members of Avangard's senior management, other than the Company's executive Directors, are:

Oleg Stus has been the chief legal officer of CJSC "Avangard" since 2010. He is responsible for Avangard's corporate and legal issues. Mr. Stus graduated from the Kyiv Open International University of Human Development "Ukraine" with a diploma in law in 2008. He served as the deputy chief legal officer of "Stanislavska Torgova Kompaniya" LLC in 2005 and the chief legal officer of "Ukrayinska Gasova Finansovo-Konsaltyngova Grupa" LLC from 2005 until 2009. Although Mr. Stus was only formally employed by the Group in 2010, he has worked for the Group since 2007.

Andriy Chirkov has been the director of APP CJSC "Chornobaivske" since 2003. APP CJSC "Chornobaivske" is one of Avangard's farms, where the new Chornobaivske egg production complex is currently being developed in addition to the existing facilities. He graduated from the Kherson Agricultural Institute as a livestock engineer in 1991. He has more than 15 years of experience in livestock management.

Svitlana Chyzhakovska is the director of LLC "Cross-P/F Zorya", one of Avangard's farms since 2008. Ms. Chyzhakovska graduated from the Kharkiv Institute for Mechanisation and Electrification of Agriculture in 1988 as a mechanic engineer. She has served at LLC "Cross-P/F Zorya" in various positions, including as the chief accountant and the financial director since 2004.

Tamara Kovalenko is the chairman of the board of OJSC "Ptakhofabryka Pershe Travnya". Ms. Kovalenko graduated from the Kyiv Ukrainian Agricultural Academy of Sciences in 1985 as a livestock engineer. She has served at OJSC "Ptakhofabryka Pershe Travnya" in various positions since 1977, including as a livestock technician, and has more than 30 years of experience in agriculture.

Volodymyr Krasutskyi has been the acting chairman of OJSC "Ptakhohospodarstvo Chervonyi Prapor" since 2009. Mr. Krasutskyi graduated from the Donetsk Polytechnics Institute in 1986 as a mechanic engineer. He has held a number of executive positions, including as the director, at PSPC "Interbusiness", one of the Group's companies, since 1993.

Yuriy Tymofiyev has been the director of CJSC "Agrofirma Avis" since 2009. Avis is one of Avangard's farms, where the new Avis egg production complex is currently being developed in addition to the existing facilities. Mr. Tymofiyev graduated from the Kamyanets-Podilsky Agricultural Institute as a mechanic engineer in 1995. He has served at CJSC "Agrofirma Avis" in various positions, including as a chief engineer, since 1994.

Mr. Stus's business address is Shchorsa Street 7/9, Kyiv. The business addresses of the other members of Avangard's senior management are the registered offices of the relevant companies listed in the "General Information" section.

Corporate Governance

Although the Company was incorporated in Cyprus, it is not required to comply with the corporate governance regime of Cyprus because its shares are not listed on the Cyprus Stock Exchange. As a company incorporated in Cyprus, the Company is not subject to the UK combined code on corporate governance issued by the financial reporting council.

The Company has implemented its own corporate governance system under which it will appoint six Directors, two of whom will be independent. The Company considers this to be a satisfactory balance for the purposes of decision making at the Board of Directors and has established audit, nomination and remuneration committees of the Board of Directors.

Board of Directors

Pursuant to the Articles, the Company's Board of Directors is vested with the management of the business and the conduct of the affairs of the Company in compliance with its corporate objects, which include the ability to borrow money, to charge or mortgage its undertakings, property and uncalled capital, or any part thereof, and to issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

The Directors may delegate their powers to committees. The Directors have already formed an audit committee, a remuneration committee and a nomination committee, the composition and functions of which are set out in Article 133 of the Articles.

A Director may, and the Secretary on the requisition of a Director shall, at any time convene a meeting of the Board of Directors. The quorum for the Board of Directors may be fixed by the Directors, and unless so fixed, the quorum shall be a simple majority of the Directors present in person or through their alternates. Each Director has the power to appoint an alternate Director, who shall be entitled to receive notices of all meetings of the Directors and to attend, speak and vote at any such meeting at which his or her appointer is not present. Actions approved by the Directors will be decided by a simple majority of votes of all the Directors present, whether voting or not. In case of a tie, the Chairman shall have a second or casting vote.

Resolutions signed by all or a majority of the Directors entitled to notice of a meeting of the Directors or by all the members of a committee will be as valid and effective as if passed at a Board meeting or a meeting of the committee duly convened and held.

One third of the Directors, other than the chairman, a Director who holds an executive office or the administrative Director, are required to retire at each annual general meeting but are eligible for re-election. No person other than a Director retiring by rotation shall be appointed a Director at any general meeting unless he or she is recommended by the Board of the Directors or has been proposed by a shareholder by notice given to the Company no less than three and no more than 21 days before the date appointed for the meeting accompanied by a notice executed by that person signifying his or her willingness to be appointed.

Pursuant to Article 124 of the Articles, the office of a Director shall be vacated, *inter alia*, if a Director is adjudicated bankrupt, becomes of unsound mind or resigns from his or her position, or if he or she has been absent for more than six continuous months without the permission of the Board of Directors. The number and the term of the Directors, is determined by the general meeting of shareholders.

The amount of remuneration and benefits paid to all members of the Board of Directors, regardless of whether such remuneration or benefits is paid by the Company or by any other entity within the Avangard group of companies, is established by the Nominations and Remuneration Committee. In addition, the amount of remuneration paid to all members of the Board of Directors by the Company is approved by the Company's general meeting of shareholders.

The Board of Directors will meet at least four times per year and when required. To enable the Board of Directors to perform its duties, it is intended that each Director will have full access to all relevant information.

Audit, Nomination and Remuneration Committees

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

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

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

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

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

Relationship Agreement

The Company entered into an agreement (the "**Relationship Agreement**") with Mr Bakhmatyuk, acting on his own behalf and on behalf of Quickcom Limited, Mobco Limited, Omtron Limited and Tanchem Limited (collectively the "**Majority Shareholder**"), the Company's controlling shareholder, on 30 April 2010. The Relationship Agreement provides that the Majority Shareholder will, for as long as he continues to hold, directly or indirectly, at least 50% plus one share of the shares carrying voting rights in the Company, at all times:

(a) to the extent permissible under any applicable laws or regulations:

  (i) refrain from exercising his voting rights, or any influence he may have over the exercise of voting rights, to elect or re-elect any affiliates to the Board of Directors if the election or re-election of such persons would have the result that the number of directors who are affiliates of the Majority Shareholder would exceed the number of independent directors (directors of the Company who are independent of the Majority Shareholder) and administrative directors by more than one person, unless such election or re-election is approved at a general meeting of the Company by a majority of shareholders (with no voting rights being exercised on behalf of the Majority Shareholder); and

  (ii) exercise his voting rights, or any influence he may have over the exercise of voting rights, in favour of the election or re-election of independent directors in order to ensure that the number of directors who are affiliates of the Majority Shareholder would not exceed the number of independent directors and administrative directors by more than one person, unless such election or re-election is declined at a general meeting of the Company by a majority of shareholders (with no voting rights being exercised on behalf of the Majority Shareholder);

(b) subject to any duty of confidentiality owed to third parties, promptly provide to the Company any information in his possession or control which the Company reasonably requests in order to assess and meet its obligations under the Listing Rules of the FSA and any applicable laws or regulations;

(c) keep confidential and not use for his own benefit any confidential information relating to the Company or the Group to which he has been given access by reason of his interest in the share capital of the Company or any role as Director of the Company or any member of the Group; and

(d) exercise any of his voting rights so as to procure, insofar as he is able to do so by the exercise of voting rights attaching to the shares, that:

  (i) the Company and its subsidiaries are capable at all times of carrying on business independently of him;

  (ii) all transactions, agreements or arrangements entered into between the Majority Shareholder or any of his affiliates and the Company (or any subsidiary of the Company) are, and will be made, on an arm's length basis and on normal commercial terms (and that any such transaction, agreement or arrangement (or series thereof) with a value of U.S.$15 million or more are entered into without the approval of both independent directors or a majority of the independent directors (if more than two)); and

  (iii) no variations are made to the Company's articles of association that would be contrary to the Company's independence from the Majority Shareholder.

In addition, the Majority Shareholder has agreed that he shall not, from the date of the Relationship Agreement and till the date on which the aggregate number of shares and/or voting interests over shares, together with any options, warrants, rights or other instruments convertible or exchangeable into shares held by the Majority Shareholder (together with any of his related parties) falls to 50% or less of the total number of shares in issue (the "**Restricted Period**") carry on, set up, be employed, engaged or interested in any egg or egg processing business (or any other business in an industry in which any member of the Company Group, as named in the Relationship Agreement, is then carrying on a business and which is material for the Company Group) in Ukraine which is or is about to be in competition with any business of any member of the Company Group, at any time during the Restricted Period without the prior written approval of both of the independent directors (or a majority if more than two) and provided that his or any of his related parties' involvement in such a business is not considered by both of the independent directors (or a majority if more than two) to restrict, affect or otherwise interfere with the performance of his duties and obligations to the Company.

The Company will not agree to any amendments to, or waive any provisions of, the Relationship Agreement unless both independent directors (or a majority if more than two) agree in writing to such amendment or waiver.

The Majority Shareholder has also undertaken that he will not sell, transfer, dispose of or otherwise deal with any right or interest in the shares for so long as the Relationship Agreement is in effect except where:

(a) such sale, transfer, disposal or dealing is to a *bona fide* third party which is not an affiliate of the Majority Shareholder and would not result in the transferee, (together with its affiliates) holding directly or indirectly 25% or more of the shares; or

(b) the Majority Shareholder first procures that the transferee executes a deed of adherence (in such form as the independent directors (or a majority if more than two) may require) undertaking to be bound by the terms of the Relationship Agreement.

Remuneration of Directors and Management

In the year ended 31 December 2009, the Company's Directors did not receive any remuneration (or any form of benefits-in-kind) from Avangard as they were each employed by related parties which do not form part of the Group. As noted above, all Directors (other than Mr. Bakhmatyuk) entered into formal employment with the Group in 2010.

The aggregate amount of remuneration paid by Avangard to its management, including the senior management of its subsidiaries, as a group during the year ended 31 December 2009 was approximately U.S.$1,207 thousand in salary and bonuses. See "Shareholders and Related Party Transactions—Related Party Transactions" below.

The letters of appointment with the members of the Board of Directors and with other members of Avangard's senior management do not provide for any pension or other benefits upon termination of respective contracts.

Litigation Statement about Directors and Officers

As of the date of this Prospectus, no member of the Board of Directors or of Avangard's senior management for at least the previous five years:

- has any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior manager or a member of the administrative management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of a company.

Share Options

As of the date of this Prospectus, none of the Company or the Company's Ukrainian subsidiaries has a share option plan and no share options have been granted to members of the Board of Directors, members of Avangard's senior management or employees. Although the Company has no current plans to establish such a plan and grant share options, it may do so in the future.

Conflicts of Interests

Mr. Bakhmatyuk has direct and indirect interests in companies with which Avangard has engaged in transactions, including those in the ordinary course of business. As a result, potential conflicts of interest between his duties to the Company and private interests may arise or have arisen. See "Shareholders and Related Party Transactions", on page 150.

Except as discussed immediately above, there is no actual or potential conflict of interests between the duties of any of the members of the Board of Directors to the Company and their respective private interests.

SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Shareholders

The table below sets forth certain information regarding ownership of the Shares (i) as of the date of this Prospectus and (ii) as of the Closing Date, as adjusted to give effect to the issue or sale (as the case may be) of the Shares in the form of GDRs by the Company in the Offering. All information given in this section assumes that the Over-allotment option is exercised in full.

	Shares Owned Before the Offering		Shares Owned After the Offering	
Shareholder	Number	%	Number	%
Quickcom Limited	1,074,684	21.5	1,074,684	17.2
Omtron Limited	1,848,575	37.0	1,848,575	29.6
Tanchem Limited	926,280	18.5	926,280	14.8
Mobco Limited	1,130,458	22.6	1,130,458	18.1
Oleg Bakhmatyuk	20,000	0.4	20,000	0.3
Avonex Limited	1	—	1	—
Maltofex Limited	1	—	1	—
Ultrafinance Limited	1	—	1	—
Others	—	—	1,250,000	20
Total	**5,000,000**	**100**	**6,250,000**	**100**

As shown above, the Company has four controlling shareholders, each of which is owned by Oleg Bakhmatyuk, the Chairman of the Company's Board of Directors, who is also a direct shareholder of the Company. Prior to the Offering, the Company's controlling shareholders and Oleg Bakhmatyuk controlled 100% of the Company's issued share capital. Following the Offering, the controlling shareholders and Oleg Bakhmatyuk will continue to own approximately 80% of the Company's issued share capital (or approximately 77.7% if the Over-Allotment Option is exercised in full). The controlling shareholders and Oleg Bakhmatyuk will continue to control the Company following the Offering, such as in electing or appointing members of the Board of Directors, approving significant transactions, declaring dividends, if any, limiting or waiving pre-emption rights of the Company's shareholders, increasing or decreasing the Company's authorised share capital and influencing other policy decisions. In addition, the controlling shareholders and Oleg Bakhmatyuk, may engage in business activities with entities that compete with Avangard or which may involve increased risk for the GDR holders.

There are no arrangements in place which would result in a change of control. Except for the Relationship Agreement described in "Directors, Corporate Governance and Management—Relationship Agreement", above, there are no arrangements between the shareholders or beneficial owners or any other party in relation to the control of the Company.

Save as disclosed above, there are no other persons who could, directly or indirectly, exercise control over the Company.

Save as disclosed in this section "Shareholders and Related Party Transactions", none of the members of the Board of Directors had or has any interests in any transactions which are or which were unusual in their nature or conditions or significant to Avangard's business and which were effected by Avangard during the current financial year or during the years ended 31 December 2007, 2008 and 2009 or during any previous financial year and which remain in any respect outstanding or unperformed.

None of the Company's shareholders has voting rights different from any other holders of the Company's shares.

Related Party Transactions

In the ordinary course of its business, Avangard has engaged, and continues to engage, in transactions with related parties. Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence over the other party in making financial or operational decisions or if such parties are under common control. Other than the transactions with entities under common control described herein, Avangard did not engage in any transactions with members of the Board of Directors during the period under review. See Note 36 to the Consolidated Financial Information.

Avangard seeks to conduct all transactions with entities under common control or otherwise related to it on market terms and in accordance with relevant Ukrainian law. The terms and conditions of sales to related parties are determined based on arrangements specific to each contract or transaction. However, there can be no assurance that any or all of these transactions have been or will be conducted on market terms.

The Board of Directors intends to adopt, shortly after the launch of the Offering, certain procedures relating to the approval of transactions with the Majority Shareholder and his affiliates, including requiring the approval of independent directors (or a majority if more than two) for any transactions exceeding U.S.$15 million in value. See "Directors, Corporate Governance and Management—Relationship Agreement" for a discussion of these procedures.

Significant transactions with related parties during the years ended 31 December 2007, 2008 and 2009 are set out below. Avangard has had no significant related party transactions from 31 December 2009 to the date of this Prospectus other than continuations of the trading and other relationships described under "Past and Ongoing Transactions with Other Related Parties".

Related party transactions

The related parties of the Group are divided into the following categories:

(a) Top management;

(b) Companies having the same top management;

(c) Companies in which the Group's owners have a share in share capital;

(d) Companies whose activities are significantly influenced by the Group's owners.

Expenses on salaries of top management for the years ended 31 December 2009, 31 December 2008 and 31 December 2007 were as follows:

	31 December 2009	31 December 2008	31 December 2007
	(U.S.$'000)	(U.S.$'000)	(U.S.$'000)
Salary	932	1,346	730
Contributions to pension funds	244	278	106
Other contributions	31	43	20
	1,207	**1,667**	**856**

The Group's transactions with related parties as at 31 December 2009, 31 December 2008 and 31 December 2007 were as follows:

	Amount of transactions with related parties for the year ended 31 December 2009	Amount of transactions with related parties for the year ended 31 December 2008	Amount of transactions with related parties for the year ended 31 December 2007
	(U.S.$ '000)	(U.S.$ '000)	(U.S.$ '000)
Sales revenues:			
(b) Companies having the same top management;	—	2	—
(c) Companies in which the Group's owners have a share in share capital;	14,413	84,454	1,925
(d) Companies whose activities are significantly influenced by the Group's owners.	83,507	81,974	1,639
	97,920	**166,430**	**3,564**

	Amount of transactions with related parties for the year ended 31 December 2009	Amount of transactions with related parties for the year ended 31 December 2008	Amount of transactions with related parties for the year ended 31 December 2007
	(U.S.$ '000)	(U.S.$ '000)	(U.S.$ '000)
General administrative expenses:			
(b) Companies having the same top management;....	(66)	(217)	(1)
(c) Companies in which the Group's owners have a share in share capital;	—	(54)	(2)
	(66)	**(271)**	**(3)**
Other operating incomel(expenses), net:			
(b) Companies having the same top management;....	(18)	—	—
(c) Companies in which the Group's owners have a share in share capital;	80	1,239	—
(d) Companies whose activities are significantly influenced by the Group's owners.	(30)	(594)	4
	32	**645**	**4**
Financial income:			
(d) Companies whose activities are significantly influenced by the Group's owners.	40,472	24,625	507
	40,472	**24,625**	**507**
Financial expenses:			
(d) Companies whose activities are significantly influenced by the Group's owners.	41,510	(41,036)	(1,524)
	41,510	**(41,036)**	**(1,524)**

Past and Ongoing Transactions with Other Related Parties

Imperovo Lease Arrangements

As at 31 December 2009, Imperovo leased all of its assets and facilities from a related party, Stanislavska Torgova Kompaniya LLC. The total payments made by Imperovo under such lease arrangements in 2009 were U.S.$740,000. Such lease arrangements were extended under a 10-year lease agreement expiring on 6 April 2020.

Stanislavska Torgova Kompaniya LLC has commenced a reorganisation procedure to spin off all the assets and facilities leased by Imperovo to a new entity, controlled by Stanislavska Torgova Kompaniya LLC. It is expected that on completion of this procedure, all corporate rights of the newly created entity will be transferred to Imperovo for the nominal value pursuant to a sale and purchase agreement. For further details, see ''Business—Facilities and Properties—Buildings and Facilities''.

Ovoline Retail Network

Avangard distributes its shell eggs through Ovoline, a retail network, which is an extensive network of points of sale including specially equipped trucks, stationary market stands, stores or concessions within bigger retail stores or at open markets, at which Ukranian customers customarily purchase shell eggs. Avangard and Ovoline are related parties, which aim to conduct all transactions on market terms. Avangard's farms for rearing laying hens and Ovoline have entered into an agreement for the distribution of Avangard's shell eggs for a term of six years, under which Ovoline has agreed during such period that it will not sell shell eggs produced by any other person. In 2009, the amount of sales by Avangard to Ovoline was U.S.$8,596 thousand.

Export sales

To date, the Group has made export sales of shell eggs and egg products through a related party intermediary, LLC Myaso Prykarpattya. The amount of such sales in 2009 was U.S.$26,241 thousand (for shell eggs) and U.S.$10,315 thousand (for egg products). The Group intends to make such sales itself directly following the Offering.

Finansova Initsiatyva LLC

Finansova Initiatyva LLC is a Ukranian bank which is a related party of the Group. Some of the Group companies are the bank's customers. As of 31 December 2009, the Group's companies had entered into facility agreements with Finansova Initiatyva LLC in the total amount of U.S.$184,368 thousand and deposit agreements in the total amount of U.S.$155,917 thousand.

Centralised purchases of grain

Avangard makes some of its centralised purchases of grains for its fodder mills via a related party, Stanislavska Torgova Kompaniya LLC. All such purchases are generally conducted via Avangard tender committees.

SHARE CAPITAL AND CERTAIN REQUIREMENTS OF CYPRIOT LEGISLATION

Set out below is a summary of material information concerning the share capital of the Company, including a description of certain rights of the holders of Ordinary Shares (as defined herein) and related provisions of the Articles and of relevant Cyprus law e.g. Cyprus Companies Law, Cap.113. This description does not purport to be complete and is qualified in its entirety by reference to the Articles and relevant Cyprus law.

Described below are the Company's registered shares, the material provisions of its articles of association in effect on the date of this prospectus and certain requirements of Cypriot legislation. GDR holders will be able to exercise their rights with respect to the shares underlying the GDR only in accordance with the provisions of the Deposit Agreement and the relevant requirements of Cypriot law. See "Terms and Conditions of the Global Depositary Receipts" for more information.

General

The Company was incorporated as a private limited liability company limited by shares and was registered in Cyprus on 23 October 2007 under the name Ultrainvest Limited, pursuant to the certificate of incorporation issued by the Office of the Registrar of Companies in Cyprus, and has conducted business since that date. The principal legislation under which the Company operates, and under which the ordinary Shares are created, is the Companies Law, Cap. 113 of Cyprus (as amended). The shareholders of the Company resolved on 17 June 2009 that Ultrainvest Limited be converted into a public company and that its name be changed to Avangardco Investments Public Limited. The formal registration of the change of name with the Registrar of Companies in Cyprus occurred on 8 July 2009. The Company's registered number is HE 210868, and its registered office is at 16-18 Zinas Kanther Street, 3035 Limassol, Cyprus. The telephone number of the Company's registered office is +357 25 362 233.

Purpose

The Company's purpose is to carry on business as a commercial company, empowered to, amongst others, carry out investments and trade. The objects of the Company are set out in full in Clause 3 of its Memorandum of Association.

Share Capital

As at the date of this Prospectus, the Company's issued share capital consisted of 5,000,000 shares, which are fully paid, each with a par value of €0.10 and which were issued by the Company in accordance with the Articles and the applicable legislation of Cyprus. The Company's authorised share capital consists of 6,500,000 ordinary shares. If the Over-Allotment Option is exercised in full the Company's authorised and issued fully paid share capital immediately following the Offering will be 6,437,500 ordinary shares.

The Company's authorised share capital on incorporation was €2,000 divided into 2,000 ordinary shares of €1, each of which was allotted fully paid.

On 28 November 2008, by special resolution of the shareholders of the Company, the authorised share capital of the Company was subdivided into 20,000 ordinary shares of €0.10 each and, on 1 December 2008, the authorised share capital of the Company was increased to €500,000 divided into 5,000,000 ordinary shares of €0.10 each, all of which were allotted fully paid.

The ordinary shares in the capital of the Company are in registered form. Ownership of registered shares is established by an entry into a register of the shareholders of the Company, which is maintained at the registered office of the Company.

The shareholders of Ultrainvest Limited resolved by way of special resolution on 17 June 2009 to (a) convert the Company into a public limited company and to adopt new articles of association, as well as (b) change the Company's name to Avangardco Investments Public Limited.

The Company does not have in issue any listed or unlisted securities not representing its share capital. Neither the Company nor any of its subsidiaries (nor any party on its behalf) holds any of its ordinary shares.

Neither the Company nor any of its subsidiaries has any outstanding convertible securities, exchangeable securities or securities with warrants or any relevant acquisition rights or obligations over the Company's or either of the subsidiaries' authorised but unissued capital or undertakings to increase its issued share capital.

The Company's articles of association and the Companies Law, Cap. 113 (as amended), to the extent not disapplied by shareholders' resolution, confer on shareholders certain rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash and, following the Offering, will apply to the Company's authorised but unissued share capital. Subject to certain limited exceptions, unless the approval of the Company's shareholders in a general meeting is obtained, the Company must offer shares to be issued for cash to holders of shares on a *pro rata* basis. None of the Company's shares currently in issue have a fixed date on which entitlement to a dividend arises and there are no arrangements in force whereby future dividends are waived or agreed to be waived.

Articles of Association

In this section **Law** means the Companies Law, Cap. 113 of Cyprus and any successor statute or as the same may from time to time be amended. The Company's current Articles were adopted on 17 June 2009.

The following is a brief summary of certain material provisions of the Law and the Articles as will be in effect on and immediately prior to the Closing Date.

Rights Attaching to Shares

All issued and outstanding shares in the share capital of the Company have the same rights attaching to them, a summary of which is set forth below.

Issue of New Shares

Any unissued shares shall be at the disposal of the Directors who, upon complying with the provisions of the Articles and Sections 60A and 60B of the Law, may allot or otherwise dispose of any unissued shares in the appropriate manner as regards the persons, the time and, in general, the terms and conditions as the Directors may decide, provided that no share shall be issued at a discount.

Pre-emption Rights

Subject to the provisions of Article 53 of the Articles and Section 60B of the Law, all new shares and/or other securities giving rights to purchase shares in the Company, or which are convertible into shares in the Company that are to be issued for cash, shall be offered to the existing shareholders of the Company on a pro-rata basis to the participation of each shareholder in the capital of the Company, on a specific date fixed by the Directors. Any such offer shall be made upon written notice to all the shareholders specifying the number of the shares and/or other securities giving rights to purchase shares in the Company, or which are convertible into shares in the Company, which the shareholder is entitled to acquire and the time periods (which shall not be less than fourteen days from the dispatch of the written notice), within which the offer, if not accepted, shall be deemed to have been rejected. If, until the expiry, of the said time period no notification is received from the person to whom the offer is addressed or to whom the rights have been assigned that such person accepts all or part of the offered shares or other securities giving rights to purchase shares in the Company, or which are convertible into shares of the Company, the Directors may dispose of them in any manner as they deem more advantageous for the Company.

According to Section 60(B) of the Law, whenever shares will be issued in exchange for a cash consideration, the shareholders have pre-emption rights with respect to such issuance of shares. These pre-emption rights may be disapplied by a resolution of the general meeting which is passed by a two-thirds majority if more than half of all the votes are represented at the meeting and by an ordinary resolution if at least half of all the votes are represented at the meeting. The Directors have an obligation to present to the relevant general meeting a written report which explains the reasons for the disapplication of the pre-emption rights and justifies the proposed allotment price of the shares.

Voting Rights

Subject to any special rights or restrictions as to voting attached to shares (of which there are none at present), every holder of shares who is present in person or by proxy shall have one vote and on a poll every holder who is present in person or by proxy shall have one vote for each share held by him or her. A corporate member may, by resolution of its Directors or other governing body, authorise a person to act as its representative at general meetings and that person may exercise the same powers as the corporate shareholder could exercise if it were an individual member. No shareholder shall be entitled to vote at any general meeting unless all cash-calls or other sums presently owed by him in respect of his shares in the Company have been paid.

Dividends and Distribution Rights

The Company may in a general meeting of shareholders declare dividends, but no dividend shall exceed the amount recommended by the Directors. The Directors may from time to time and subject to the provisions of Section 169C of the Law pay to shareholders such interim dividends on any preference shares or other shares issued from time to time as appear to the Directors to be justified by the Company's profits but no dividend will be paid otherwise than out of profits or reserves available for distribution.

The Directors may set aside out of the Company's profits such sums as they think proper as a reserve or reserves which shall, at the discretion of the Directors, be applicable for any purpose to which the Company's profits may, at their discretion, either be employed in the Company's business or be invested in such investments (other than the Company's shares) as the Directors may from time to time think fit. The Directors may also, without placing the same in the reserve, carry forward to the next year any profits which they may think prudent not to distribute.

Variation of rights

If at any time the share capital is divided into different classes of shares, the rights attached to any class may, subject to the provisions of Sections 59A and 70 of the Law, whether or not the Company is being wound up, be amended or abolished with the sanction of a resolution approved in accordance with the provisions of Section 59A of the Law at a separate general meeting of the holders of the shares of the class. The decision shall be taken by a two-thirds majority of the votes, corresponding either to the represented stock or to the represented share capital. Where at least half of the issued capital is represented, a simple majority shall be sufficient.

Alteration of capital

The Company may by ordinary resolution taken in accordance with the provisions of Articles 52 and 55 of the Articles and Section 60 of the Law:

- increase its share capital by such sum, to be divided into shares of such amount, as the resolution shall prescribe;
- consolidate and divide all or any of its share capital into shares of larger amounts than its existing shares;
- subdivide its existing shares, or any of them, into shares of a smaller amount than is fixed by the memorandum of association subject, nevertheless, to the provisions of Section 60(1)(d) of the Law; and
- cancel any shares which, at the date of the passing of the resolution, have not been taken nor agreed to be taken by any person and diminish the amount of the share capital by the amount of the shares so cancelled.

The Company may also, by special resolution, reduce its share capital, any capital redemption reserve fund or any share premium account in any manner and subject to any terms required by the Law but not below the statutory minimum registered capital of €25,629.

Power to Issue Redeemable Preference Shares

Subject to the provisions of Section 57 of the Law and the provisions of Article 57 of the Articles, any preference shares may, with the sanction of a special resolution, be issued on the condition that they are, or at the discretion of the Company or the holder(s) of such shares are liable to be, redeemed on such terms and in such manner as the Company, prior to the issue of such shares, may determine.

Winding up

If the Company is wound up, the liquidator shall take into his custody or under his control all the property and things in action to which the Company is or appears to be entitled.

The liquidator has a duty to pay the debts of the Company and adjust the rights of the contributories (shareholders) amongst themselves.

Under Cyprus insolvency laws, the following debts shall be paid in priority to all other debts of a wound up (bankrupt) company:

(i) local rates and government taxes and dues;

(ii) wages or salary due to persons in the employment of the company;

(iii) compensation payable by the company to its employees for personal injuries sustained in the course of their employment; and

(iv) accrued holiday remuneration becoming payable to the employees of the company.

If the company shall be wound up, the liquidator may, with the sanction of an extraordinary resolution of the company's shareholders, and any other sanction required by the Law:

- divide amongst the shareholders in kind or in specie all or part of the assets of the company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as the liquidator deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the shareholders or different classes of shareholders; and
- vest the whole or any part of such assets in trustees upon such trusts for the benefit of the contributories as the liquidator shall think fit, but so that no shareholder shall be compelled to accept any shares or other securities whereon there is any liability.

Form and transfer of shares

The instrument of transfer of any certificated Share shall be executed by or on behalf of the transferor and the transferee, and the transferor shall be deemed to be the holder of the share until the name of the transferee is entered into the register of members in relation to such Share. Subject to the restrictions in the Articles, as they may apply, shareholders are entitled to transfer all or any of their certificated Shares by instrument of transfer in any usual or common form or in any other form, including electronic form, which the Directors may approve.

The Directors may refuse to register the transfer of a share on which the Company has a lien and may refuse to recognise any instruments of transfer unless;

- the instrument of transfer is accompanied by the certificate of the shares to which it relates, and such other evidence as the Directors may reasonably require, to prove the transferor's right to proceed with the transfer; and
- the instrument of transfer is in respect of only one class of shares.

Other than as set out above, there are no provisions in the Articles limiting the transferability of the Shares and the Shares are therefore freely transferable.

Directors

Number of Directors

Unless and until otherwise determined by the Company in general meeting, the number of Directors shall be no less than two. The Company may, from time to time, by ordinary resolution of the shareholders, increase or reduce the number of Directors, provided that such number shall not be smaller or greater than the minimum or maximum number of Directors as provided in the Articles.

Board of Directors

The quorum necessary for the transaction of the business of the Directors shall be at least half of all the Directors of the Company. Additionally, a resolution in writing, signed and approved by letter, cable, radiogram or telex by all the Directors shall be as valid and effective for all purposes as if the same had been passed at a meeting of the Directors duly convened and held.

Questions arising at any meeting of the Board of Directors shall be decided by a majority of votes. In the case of equality of votes, the chairman shall have a second or casting vote. A Director may, and the secretary on the requisition of a Director shall, at any time, summon a meeting of the Directors. A resolution in writing signed or approved by letter, telex, facsimile or telegram by all Directors or their alternates, shall be as valid and effectual as if it had been passed at a meeting of the Directors duly convened and held. Any such resolution in writing signed as aforesaid may consist of several documents each signed by one or more of the persons aforesaid.

The Directors may delegate any of their powers to a committee or committees consisting of one or more members of their body as they think fit; any committee so formed shall, in the exercise of the powers so delegated to it, comply with the rules which may have been imposed on it by the Directors, in respect of its powers, composition, proceedings, quorum or any other matter.

Retirement of Directors

At each annual general meeting, one third of the Directors of the Company at the time (other than a managing Director and a Director who holds any other executive office as well as an administrative Director) shall withdraw from office. A withdrawing Director shall be entitled to run for re-election.

Appointment of Directors

No person may be elected as a Director at any general meeting unless proposed by the Directors, or unless a written notice, signed by a shareholder who is entitled to attend and vote at the said meeting of the Company is delivered to the registered office of the Company, stating his or her intention to propose the said person for election, along with a written notice signed by the said person, stating his readiness to be elected, at least three and no more than 21 days before the date fixed for the meeting.

The Company may by ordinary resolution of the shareholders, of which special notice has been given in accordance with Section 136 of the Law, remove any Director before the expiration of his period of office notwithstanding anything in the articles of association or in any agreement between the Company and such Director. Such removal shall be without prejudice to any claim such Director may have for damages for breach of any contract of service between him and the Company.

The shareholders of the Company may, at any time and from time to time appoint by ordinary resolution any person as Director either to fill a causal vacancy or as an additional Director and specify the period during which the said person shall hold this position.

In accordance with Article 124 of the Articles, the office of Director shall be vacated if the Director:

- becomes bankrupt or makes any arrangement or composition with his creditors generally; or
- becomes prohibited from being a Director by reason of any court order made under Section 180 (disqualification from holding the position of Director on the basis of fraudulent or other conduct) of the Law; or
- becomes of unsound mind or an order is made by a court having jurisdiction in matters concerning mental disorder; or
- resigns his office by notice in writing to the Company; or
- if he is absent from meetings of the Directors for six months without leave and the Directors resolve that his office be vacated.

Directors' interests

A Director who is in any way directly or indirectly interested in a contract or proposed contract with the Company shall declare the nature of his interest at a meeting of the Directors in accordance with Section 191 of the Law. Directors who have an interest in any contract, agreement or settlement proposed to be concluded between the Company and a third party may attend the meeting at which the matter is discussed but shall not have the right to vote.

A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract with the Company shall declare the nature of his interest at the meeting of the Directors at which the question of entering into the contract is first taken into consideration, if he knows his interest then exists, or in any other case at the first meeting of the Directors after he knows that he is or has become so interested.

The Directors may hold any other office or profit making position in the Company along with the office of Director for such period and on such terms (as to remuneration and other matters) as the Directors may determine; and no Director or prospective Director shall be disqualified on the grounds of holding such office, from contracting with the Company whether with regard to his tenure or any such other office or place of profit or as a vendor, purchaser or otherwise; nor shall any such contract, or any contract or settlement concluded by or on behalf of the Company in which any Director has, in any way, interest, be liable to be cancelled; nor shall any Director so contracting or having such an interest be liable to account to the Company for any profit realised by any such contract or settlement by reason of such Director holding that office or of the fiduciary relationship thereby established.

The Directors may act either personally or in a professional capacity for the Company, and the Director or his firm shall be entitled to remuneration for professional services as if he were not a

Director; provided that nothing herein contained shall authorise a Director or his firm to act as auditor to the Company.

The remuneration of the Directors shall be determined from time to time by the shareholders of the Company in a general meeting. Any Director who, upon the request of the Company, offers special services to the Company or needs to travel or stay abroad serving the purposes of the Company, shall receive from the Company such additional remuneration in the form of salary, grant, out-of-pocket expenses or in any other manner as the Directors may decide. In addition to and independently of such remuneration, any managing Directors shall receive such remuneration as the Directors may determine from time to time.

The shareholding qualification for Directors may be determined by the Company in general meeting; unless and until so determined, no qualification shall be required.

Directors' powers

The business of the Company shall be managed by the Directors, who may exercise all such powers of the Company as are not, by the Law or by the Articles, required to be exercised by the shareholders in general meeting, subject to any provisions of the Articles, of the Law and of any regulations (which are not in conflict with the articles of association or the provisions of the Law) as may be prescribed by the Company in general meeting; but no regulation made by the Company in general meeting shall invalidate any prior act of the Directors which would have been valid if that regulation had not been made.

Meetings of shareholders

The first annual general meeting must be held within 18 months of incorporation and thereafter, not more than 15 months shall elapse between the date of one annual general meeting and the next.

The Directors may, whenever they think fit, decide by a majority vote to convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on requisition or, in default, they may be convened by such requisitionists as provided by Section 126 of the Law (meaning shareholders holding at least 10% of the issued share capital of the Company). If at any time there are not, within Cyprus, sufficient Directors capable of forming a quorum, any Director or any two shareholders may convene an extraordinary general meeting in the same manner or as approximately as possible as such meetings would be convened by the Directors.

The annual general meeting and a meeting called for the passing of a special resolution shall be called by at least 21 days' written notice. The Company's other meetings shall be called by fourteen days' written notice at least. In case of special business, the notice shall specify the general nature of that business. Provided that the meetings of the Company may be called by shorter notice and shall be deemed to have been duly called if it is so agreed:

- in the case of a meeting called as the annual general meeting, by all the shareholders entitled to attend and vote; and
- in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving the right to attend and vote at the meeting.

A notice convening a general meeting must be sent to each of the shareholders, provided that the accidental failure to give notice of a meeting to, or the non-receipt of notice of a meeting by any person entitled to receive notice, shall not invalidate the proceedings at that meeting to which such notice refers. All shareholders are entitled to attend the general meeting or be represented by a proxy authorised in writing. Subject to any rights or restrictions for the time being attached to any class or classes of shares, on a show of hands, every member present in person or by proxy shall have one vote, and on a poll, every member shall have one vote for each share of which he is the holder (which may be given personally or by proxy).

The quorum for a general meeting will consist of at least three shareholders, representing at least 50% of the issued share capital of the Company, present in person or by proxy. If within half an hour from the time appointed for the meeting a quorum is not formed, the meeting, if convened upon the requisition of members, shall be dissolved. In any other case, it shall stand adjourned on the same day the following week, at the same time and place or on such other day and at such other time and place as the Directors may determine and specify and if at the adjourned meeting a quorum is not formed within half an hour from the time appointed for the meeting, one or more members present shall form a quorum.

Subject to the provisions of the Law, a resolution in writing which bears the signature or has been passed by letter, facsimile, electronic mail, telegram or other means of transmission of written documents by each shareholder, who has the right to receive notice of the holding of general meetings, attend and vote (or in the case of legal persons the signature of their authorised representatives), is valid and has the same legal effect as if the resolution had been passed at a meeting of the Company duly convened and held.

Indemnity of officers

Subject to the Law, each of the Company's current or former officers (other than an auditor) shall be indemnified out of the Company's assets against any liability, loss or expenditure incurred in the execution and/or discharge of his duties and/or powers and/or otherwise in relation to or in connection with his duties, powers or office including (without prejudice to the foregoing) any liability incurred by him in defending any proceedings, whether civil or criminal, which relate to anything done or omitted to be done or alleged to have been done or omitted to be done by him as a Director or officer of the Company and in which judgment is given in his favour or in which he is acquitted or which are otherwise disposed of without any finding or admission of guilt or breach of duty on his part or incurred in connection with any application in which relief is granted to him from liability in respect of any such act or omission or from liability to pay any amount.

To the extent permitted by the Law, the Board of Directors may purchase and maintain insurance cover at the cost of the Company in respect of any liability, loss or expenditure incurred by any liability, loss or expenditure incurred by any Director or other officer of the Company in relation to anything done or alleged to have been done or omitted to be done by him as a Director or officer.

Cypriot Law

The principal legislation under which the shares have been created and under which the Company was formed and now operates is the Cyprus Companies Law, Cap. 113 (as amended). The liability of shareholders is limited. Under the Cyprus Companies Law, Cap. 113 (as amended), a shareholder of a company is not personally liable for the acts of the company, save that a shareholder may become personally liable by reason of his or her own acts.

Potential Mandatory Offer Rules

Pursuant to Article 5(1) of Directive 2004/25/EC of the Parliament and Council of the European Union dated 21 April 2004 on takeover bids (the "**Takeover Directive**"), all member states of the European Union are required to introduce legislation requiring any person who, together with those acting in concert with him, acquires "control" of a company having its registered office in that member state, to make a mandatory offer to all holders of securities of the company. Pursuant to the Takeover Directive, the percentage of voting rights conferring "control " is to be determined by the rules of the member state in which the company has its registered office. Cyprus implemented the Takeover Directive by Law No. 41 (I) of 2007 (the "**Takeover Law**"). This contains provisions relating to mandatory offers requiring any person (i) who acquires shares in a company to which such law applies, which together with the shares already held by him and by persons acting in concert with him, carry 30% or more of such company's voting rights, or (ii) to a person whose existing holding represents 30% or more than 30% but less than 50% of the voting rights and intends to increase his holding to make a general offer for that company's entire issued share capital. However, these provisions are expressed to apply only to companies listed on a regulated market in Cyprus. The Company is not listed on a regulated market in Cyprus. Accordingly, notwithstanding the requirements of the Takeover Directive, it appears there would currently be no requirement under currently applicable Cyprus law for any person acquiring control of the Company to make an offer to acquire the GDRs or Ordinary Shares held by other holders.

Anti-Takeover Protection

The Company is not subject to the City Code. Accordingly, any person or persons acting in concert will be able to acquire Shares which, when taken together with the Shares already held by them, carry 30% or more of the Company's voting rights without being required to make a general offer for the Company's entire issued share capital. Additionally, any party intending to acquire all or a substantial part of the Company's issued share capital will not be obliged to comply with the provisions of the City Code as to announcements and equal treatment for shareholders as to the value and type of consideration offered, and will not be subjected to the scrutiny and sanctions of the U.K. Panel on Takeovers and Mergers.

As noted above, the Company is not subject to the Takeover Law and therefore any person or persons acting in concert will be able to acquire shares which, when taken together with the shares already held by them, carry 30% or more of the Company's voting rights or which has as its objective the acquisition of 30% or more of the Company's voting rights without being required to make a takeover bid (as this is defined in the Takeover Law) for the Company's entire issued share capital. Additionally, any party intending to acquire all or a substantial part of the Company's issued share capital will not be obligated to comply with the provisions of the aforesaid Law as to announcements and equality of treatment for shareholders of the same class, and will not be subjected to the scrutiny and sanctions of the Cyprus Securities and Exchange Commission which is the competent authority to ensure the supervision and application of the Takeover Law.

There have been no public takeover bids by third parties for all or any part of the Company's equity share capital since the Company's date of incorporation.

Squeeze Out Rights

The Cyprus Companies Law provides that where a scheme or contract involving the transfer of shares (or any class of company shares) in a company, to another company occurs, the transferee company may at any time within two months after the expiration of the offer give notice to any dissenting shareholder that it desires to acquire their shares, provided that it has been approved within four months after the making of the offer on behalf of the transferee company by shareholders of no less than nine-tenths in value of the shares whose transfer is involved (other than those already held by the transferee company or an affiliate). If the offer is accepted by nine-tenths in value of the remaining shares and provided that the dissenting shareholders have not successfully applied to the Court against such action and the Court has not ordered otherwise, the transferee shall be entitled and bound to acquire those shares.

Right of minority shareholder to be bought out by transferee company

Where, further to any scheme or contract involving the transfer of shares in a company, shares in a company are transferred to another company or its nominee, the transferee, and those shares, together with any other shares in the first mentioned company held by the transferee or by a nominee for the transferee or its subsidiary at the date of the transfer, comprise not less than nine tenths in the value of the shares in the target or any class of those shares then:

(a) the transferee company shall, within one month from the date of the transfer, give notice of that fact in the prescribed manner to all holders of the remaining shares or of the remaining shares in that class, as the case may be, who have not assented to the scheme or contract;

(b) any such holder of shares may, within three months from the receipt of such notice, require the transferee company to acquire the shares in question; and

(c) where a holder of such shares gives notice under Paragraph (a) above, the transferee shall be entitled and bound to acquire those shares on the same terms as those under the scheme or contract pursuant to which it has already acquired shares in the target from approving shareholders, or on any such terms as may be agreed or as the court on the application of either the transferee or the shareholder thinks fit to order.

Disclosure of Interests in Shares and in GDRs

The European Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 has been transposed into Cypriot law (No. 190 (I)/2007). The overview below is a brief and non-exhaustive outline of the main provisions of the aforesaid law, in relation to the disclosure obligations applying to shareholders.

Where a holder of shares acquires or directly or indirectly disposes of them it must notify the issuer of the percentage of voting rights of the issuer held by it as a result of the acquisition or disposal where such percentage reaches, exceeds or falls below any of the following thresholds: 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75%.

The voting rights shall be calculated on the basis of all the shares to which voting rights are attached even if the exercise thereof is suspended. This information shall also be given in respect of all the shares which are of the same class and to which voting rights are attached.

The notification requirements equally apply to a person who has the right to acquire, dispose of or exercise voting rights in various circumstances including without limitation contractual arrangement as to the exercise of voting rights for a common policy as to the management of the issuer, if the person has the usufruct of the relevant shares, if the shares are held by a company controlled by such person, shares held for his account by a third party and the voting rights that can be cast by such third party on his behalf.

Provisions on Insider Dealing and Market Manipulation

Cyprus

Cyprus has adopted the Insider Dealing and Market Manipulation (Market Abuse) Law (L. 116 (I)/2005) implementing the provisions of Directive 2003/6/EC of the European Parliament and of the Council, dated 28 January 2003, on insider dealing and market manipulation (market abuse), which applies to the following actions:

(a) actions carried out in Cyprus or abroad concerning financial instruments that are admitted to trading on a regulated market situated or operating in the Republic or for which a request for admission to trading on such market has been made;

(b) actions carried out in Cyprus concerning financial instruments that are admitted to trading on a regulated market abroad or for which a request for admission to trading on such market has been made; and

(c) every financial instrument admitted to trading on a regulated market at least in Cyprus, or for which a request for admission to trading in Cyprus has been made, irrespective of whether or not the transaction itself actually takes place on this market.

L.116 (I)/ 2005 does not apply in relation to:

(a) transactions carried out solely in pursuit of monetary, exchange rate or public debt-management policy by the government of Cyprus, the European System of Central Banks (ECSB) established pursuant to Title VII of the Treaty establishing the European Community, the Central Bank of Cyprus or by any other body officially designated by the government of the Republic of Cyprus or the Central Bank of Cyprus, or pursuant to their instruction; or

(b) transactions in own shares in "buy-back" programmes, and the measures taken for the stabilisation of a financial instrument, provided that such transactions are carried out in accordance with implementing measures adopted in accordance with the provisions of Regulation (EC) no. 2273/2003.

United Kingdom

Because the GDRs will be admitted to trading on a regulated market operating in the United Kingdom, the civil prohibition on market abuse contained in Part VIII of FSMA (which works in tandem with criminal sanctions against insider dealing and market manipulation) will apply (irrespective of whether the behaviour constituting market abuse occurs in the United Kingdom).

Under Part VIII of FSMA, the FSA is empowered to decide that certain conduct constitutes market abuse. It can then impose unlimited fines and/or other penalties. FSMA provides for the FSA to publish a Code of Market Conduct, the purpose of which is to assist in establishing what type of conduct would be permitted and what type would be prohibited as market abuse for the purposes of FSMA.

The core of the Code of Market Conduct is concerned with descriptions of the seven categories of market abuse:

(1) dealing or attempted dealing by an insider on the basis of inside information;

(2) disclosure by an insider of inside information to another person, other than in the proper performance of his employment, profession or duties;

(3) other behaviour that is not acceptable to a "regular user" of the market and is based on relevant information that is not generally available to the market;

(4) effecting transactions (other than for legitimate reasons and in conformity with certain accepted market practices) that give a false or misleading impression as to the supply, demand or price of the securities or secure the price at an abnormal or artificial level;

(5) effecting transactions which employ fictitious devices, deceptions or contrivances;

(6) disseminating information which is known or could reasonably be expected to be likely to give a false or misleading impression regarding a security; and

(7) other behaviour likely to give a regular user of the market a false or misleading impression as to supply, demand, price or value, or that would be regarded by the regular user as likely to distort the market and which in each case would be considered unacceptable behaviour by a regular user.

Broadly speaking, market abuse may be described as:

(a) behaviour (which includes action or inaction) in relation to any qualifying investments admitted to trading on a prescribed market or in respect of which a request has been made for admission; and

(b) which falls within at least one of the seven categories set out above.

In relation to the "misuse of information" and "misleading behaviour or market distortion" categories of market abuse, the behaviour must also be likely to be regarded by a regular user of the market in question as a failure on the part of the person concerned to observe the standard of behaviour reasonably expected of a person in their position.

FSMA provides that there are certain "safe harbours" from market abuse for behaviour which conforms with a rule which specifies that it will act in such a manner. In particular, behaviour conforming to certain of the Listing Rules and Disclosure Rules made by the FSA under Part VI of FSMA will not amount to market abuse.

THE FSA MAY INSTITUTE PROCEEDINGS NOT ONLY FOR DIRECT ENGAGEMENT IN MARKET ABUSE BUT ALSO FOR ACTS OR OMISSIONS WHICH REQUIRE OR ENCOURAGE ANOTHER TO ENGAGE IN BEHAVIOUR WHICH WOULD CONSTITUTE MARKET ABUSE IF ENGAGED IN BY THE PERSON WHO ENCOURAGED THE OTHER.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The following terms and conditions (subject to completion and amendment and excepting sentences in italics) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt certificate:

The GDRs represented by this certificate are issued in respect of the ordinary shares (the "**Shares**") in Avangardco Investments Public Limited (the "**Company**") pursuant to and subject to an agreement to be dated on or about 6 May 2010, and made between the Company and The Bank of New York Mellon in its capacity as Depositary for the **"Facility"** (such agreement, as amended from time to time, being hereinafter referred to as the "**Deposit Agreement**"). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed BNY (Nominees) Limited as the Custodian to receive and hold on its behalf any relevant documentation respecting certain Shares (the "**Deposited Shares**") and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the "**Deposited Property**"). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to their holdings of GDRs. In these terms and conditions (the "**Conditions**"), references to the "Depositary" are to The Bank of New York Mellon and/or any other depositary which may from time to time be appointed under the Deposit Agreement, references to the "Custodian" are to BNY (Nominees) Limited or any other custodian from time to time appointed under the Deposit Agreement and references to the "Main Office" mean, in relation to the relevant Custodian, its head office in the city of London or such other location of the head office of the Custodian in the United Kingdom as may be designated by the Custodian with the approval of the Depositary (if outside the city of London) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

The GDRs will upon issue be represented by interests in a Master GDR, evidencing GDRs (as each such term is defined in the Deposit Agreement). The GDRs are exchangeable in the circumstances set out in "Overview of Provisions Relating to the GDRs while in Master Form", below, for a certificate in definitive registered form in respect of GDRs representing all or part of the interest of the holder in the Master GDR.

References in these Conditions to the "Holder" of any GDR shall mean the person or persons registered on the books of the Depositary maintained for such purpose (the "**Register**") as holder. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificates in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. **Holders of GDRs are not party to the Deposit Agreement and thus, under English Law, have no contractual rights against, or obligations to, the Company or Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the "Depositary" in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any Holder of a GDR or any other person.**

1. Withdrawal of Deposited Property and Further Issues of GDRs

1.1 Any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence of the entitlement of the Holder to the relative GDR as the Depositary may reasonably require, at the specified office of the Depositary or any Agent accompanied by:

(a) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder, and only if permitted by applicable law from time to time) at the specified office located in New York, London or Cyprus of the Depositary or any Agent, or to the order in writing of, the person or persons designated in such order;

(b) the payment of such fees, taxes, duties, charges, costs, expenses and governmental charges as may be required under these Conditions or the Deposit Agreement;

(c) the surrender (if appropriate) of GDR certificates in definitive registered form properly endorsed in blank or accompanied by proper instruments of transfer satisfactory to the Depositary to which the Deposited Property being withdrawn is attributable; and

(d) the delivery to the Depositary of a duly executed and completed certificate substantially in the form set out in Schedule 3, Part B to the Deposit Agreement (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8), if Deposited Property is to be withdrawn or delivered during the Distribution Compliance Period (such term being defined as the 40 day period beginning on the latest of the commencement of the Offering, the original issue date of the GDRs, and the issue date with respect to the additional GDRs, if any, issued to cover over-allotments) in respect of surrendered GDRs.

1.2 Upon production of such documentation and the making of such payment as aforesaid for withdrawal of the Deposited Property in accordance with Condition 1.1, the Depositary will direct the Custodian, by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:

(a) a certificate (if any) for, or other appropriate instrument of title (if any) to or evidence of a book entry transfer in respect of the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and

(b) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof; **provided however that** the Depositary may make delivery at its specified office in New York of any Deposited Property which is in the form of cash;

PROVIDED THAT the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

(i) will direct the Custodian to deliver the certificates for, or other instruments of title to, or book-entry transfer in respect of, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraphs 1.2(a) and (b) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or

(ii) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof);

in each case to the specified office located in New York or London of the Depositary (if permitted by applicable law from time to time) or at the specified office in Cyprus of any Agent as designated by the surrendering Holder in the order accompanying such GDR.

1.3 Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.

1.4 The Depositary may, in accordance with the terms of the Deposit Agreement and upon delivery of a duly executed order (in a form reasonably approved by the Depositary) and a duly executed certificate substantially in the form of Schedule 3, Part A of the Deposit Agreement (*which is described in the following paragraph*) (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8), by or on behalf of any investor who is to become the beneficial owner of the GDRs from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares represented by such further GDRs) and, subject to the terms of the Deposit Agreement, the Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in these

Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

*The certificate to be provided in the form of Schedule 3, Part A, of the Deposit Agreement certifies, among other things, that the person providing such certificate is not a US person (as defined in Regulation S under the US Securities Act of 1933, as amended (the "**Securities Act**")), is located outside the United States and will comply with the restrictions on transfer set forth under "Selling and Transfer Restrictions".*

1.5 Any further GDRs issued pursuant to Condition 1.4 which (i) represent Shares which have rights (whether dividend rights or otherwise) which are different from the rights attaching to the Shares represented by the outstanding GDRs, or (ii) are otherwise not fungible (or are to be treated as not fungible) with the outstanding GDRs, will be represented by a GDR certificate in definitive form or a separate temporary Master GDR. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Master GDR (by increasing the total number of GDRs evidenced by the Master GDR by the number of such further GDRs).

1.6 The Depositary may issue GDRs against rights to receive Shares from the Company (or any agent of the Company recording Share ownership). No such issue of GDRs will be deemed a "Pre-Release" as defined in Condition 1.7.

1.7 Unless requested in writing by the Company to cease doing so, and notwithstanding the provisions of Condition 1.4, the Depositary may execute and deliver GDRs or issue interests in a Master GDR, as the case may be, prior to the receipt of Shares (a "**Pre-Release**"). The Depositary may, pursuant to Condition 1.1, deliver Shares upon the receipt and cancellation of GDRs, which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDR has been Pre-Released. The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation and agreement from the person to whom GDRs or Deposited Property are to be delivered (the "**Pre-Releasee**") that such person, or its customer, (i) owns or represents the owner of the corresponding Deposited Property or GDRs to be remitted (as the case may be), (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depositary in its capacity as such and for the benefit of the Holders, and (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such GDRs or Deposited Property, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralised with cash or such other collateral as the Depositary determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days' notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of GDRs which are outstanding at any time as a result of Pre-Release will not normally represent more than 30% of the total number of GDRs then outstanding; **provided**, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate and may, with the prior written consent of the Company, change such limit for the purpose of general application. The Depositary will also set dollar limits with respect to Pre-Release transactions hereunder with any particular Pre-Releasee on a case by case basis as the Depositary deems appropriate. The collateral referred to in sub-paragraph (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee's obligations in connection herewith, including the Pre-Releasee's obligation to deliver Shares and/or other securities or GDRs upon termination of a Pre-Release transaction anticipated hereunder (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing including, without limitation, earnings on the collateral.

The person to whom any Pre-Release of GDRs or Shares is to be made pursuant to this Condition 1.7 shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 Part A of the Deposit Agreement (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8).

1.8 The Depositary may make such amendments to the certificates contained in the Deposit Agreement in Schedule 3 Parts A and B as it may determine are required in order for the Depositary to perform its duties under the Deposit Agreement, or to comply with any applicable law or with the rules and regulations of any securities exchange, market or automated quotation system upon which the GDRs may be listed or traded, or to comply with the rules or requirements of any book entry system by which the GDRs may be transferred, or to confirm compliance with any special limitations or restrictions to which any particular GDRs are subject.

2. Suspension of Issue of GDRs and of Withdrawal of Deposited Property

The Depositary shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its opinion practicable for it to do so, the Depositary will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Company in writing that the Deposited Shares or GDRs or any depositary receipts representing Shares are listed on a U.S. Securities Exchange or quoted on a U.S. automated inter dealer quotation system. Further, the Depositary may suspend the withdrawal of Deposited Property during any period when the Register, or the register of shareholders of the Company is closed or, generally or in one or more localities, suspend the withdrawal of Deposited Property or deposit of Shares if deemed necessary or desirable or advisable by the Depositary in good faith at any time or from time to time, in order to comply with any applicable law or governmental or stock exchange regulations or any provision of the Deposit Agreement or for any other reason. The Depositary shall (unless otherwise notified by the Company) restrict the withdrawal of Deposited Shares where the Company notifies the Depositary in writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Company's constitutive documents or would otherwise violate any applicable laws.

3. Transfer and Ownership

The GDRs are in registered form. Title to the GDRs passes by registration in the Register and accordingly, transfer of title to a GDR is effective only upon such registration. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDRs is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of any certificate issued in respect of it) and no person will be liable for so treating the Holder.

4. Cash Distributions

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property, the Depositary shall, as soon as practicable, convert the same into United States dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 23, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the earliest date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares represented by the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11; **PROVIDED THAT**:

(a) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and

(b) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary, and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16.1(d).

5. Distributions of Shares

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, additional GDRs representing an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs represented by the Master GDR or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; **PROVIDED THAT**, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell such Shares so received and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

6. Distributions other than in Cash or Shares

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; **PROVIDED THAT**, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof, in such way as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale) distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders, in accordance with Condition 23, of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specifying details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:

(a) if and to the extent that the Depositary shall, at its discretion, deem it to be lawful and reasonably practicable, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in USD or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the Holders entitled thereto by an increase in the numbers of GDRs represented by the Master GDR or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or

(b) if and to the extent that the Depositary shall at its discretion, deem it to be lawful and reasonably practicable, the Depositary will distribute such rights to the Holders entitled thereto in such manner as the Depositary may at its discretion determine; or

(c) if and to the extent that the Depositary deems any such arrangement and distribution as is referred to in paragraphs (a) and (b) above to all or any Holders not to be lawful and reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary (i) will, **PROVIDED THAT** Holders have not taken up rights through the Depositary as provided in (a) above, sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (ii) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

(d) (i) Notwithstanding the foregoing, in the event that the Depositary offers rights pursuant to Condition 7(a) (the "**Primary GDR Rights Offering**"), if authorised by the Company to do so, the Depositary may, in its discretion, make arrangements whereby in addition to instructions given by a Holder to the Depositary to exercise rights on its behalf pursuant to Condition 7(a), such Holder is permitted to instruct the Depositary to subscribe on its behalf for additional rights which are not attributable to the Deposited Shares represented by such Holder's GDRs ("**Additional GDR Rights**") if at the date and time specified by the Depositary for the conclusion of the Primary GDR Rights Offering (the "**Instruction Date**") instructions to exercise rights have not been received by the Depositary from the Holders in respect of all their initial entitlements. Any Holder's instructions to subscribe for such Additional GDR Rights ("**Additional GDR Rights Requests**") shall specify the maximum number of Additional GDR Rights that such Holder is prepared to accept (the "**Maximum Additional Subscription**") and must be received by the Depositary by the Instruction Date. If by the Instruction Date any rights offered in the Primary GDR Rights Offering have not been subscribed by the Holders initially entitled thereto ("**Unsubscribed Rights**"), subject to Condition 7(d)(iii) and receipt of the relevant subscription price in USD or other relevant currency, together with such fees, taxes, duties, charges, costs and expenses as it may deem necessary, the Depositary shall make arrangements for the allocation and distribution of Additional GDR Rights in accordance with Condition 7(d)(ii).

(ii) Holders submitting Additional GDR Rights Requests shall be bound to accept the Maximum Additional Subscription specified in such Additional GDR Rights Request but the Depositary shall not be bound to arrange for a Holder to receive the Maximum Additional Subscription so specified but may make arrangements whereby the Unsubscribed Rights are allocated *pro rata* on the basis of the extent of the Maximum Additional Subscription specified in each Holder's Additional GDR Rights Request.

(iii) In order to proceed in the manner contemplated in this Condition 7(d), the Depositary shall be entitled to receive such opinions from Cypriot counsel and US counsel as in its discretion it deems necessary, which opinions shall be in a form and provided by counsel satisfactory to the Depositary and at the expense of the Company and may be requested in addition to any other opinions and/or certifications which the Depositary shall be entitled to receive under the Deposit Agreement and these Conditions. For the avoidance of doubt, save as provided in these Conditions and the Deposit Agreement, the Depositary shall have no liability to the Company or any Holder in respect of its actions or omissions to act under this Condition 7(d) and, in particular, the Depositary will not be regarded as being negligent, acting in bad faith, or in wilful default if it elects not to make the arrangements referred to in Condition 7(d)(i).

The Company has agreed in the Deposit Agreement that it will, unless prohibited by applicable law or regulation, give its consent to, and if requested use all reasonable endeavours (subject to the next paragraph) to facilitate, any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4, 5, 6, 7 or 10 (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depositary concerning such matters as the Depositary may reasonably specify).

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Conditions 4, 5, 6, 7 or 10 or the securities to which such rights relate in order for the Company to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities corresponding to such rights, the Depositary will not offer such rights or distribute such securities or other property to the Holders or sell such securities unless and until the Company procures the receipt by the Depositary of an opinion from counsel reasonably satisfactory to the Depositary that a registration statement is in effect or that the offering and sale of such rights or securities to such Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and they shall not be liable for any losses, damages or expenses resulting from any failure to do so.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in paragraphs (a), (b), (c) and (d) above, the Depositary shall permit the rights to lapse. The Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Holders or owners of GDRs in general or to any Holder or owner of a GDR or Holders or owners of GDRs in particular.

8. Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable convert or cause to be converted, by sale or in any other manner that it may reasonably determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary may make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may deem desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency without liability for interest for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may at its discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance for the account of, the Holders entitled thereto, and notify the Holders accordingly.

9. Distribution of any Payments

9.1 Any distribution of cash under Conditions 4, 5, 6, 7 or 10 will be made by the Depositary to Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable) and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDR, according to usual practice between the Depositary and Clearstream or Euroclear, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law or regulation in respect of such GDR or the relative Deposited Property.

9.2 Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Company when the Depositary shall retain the same) return the same to the Company for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation.

10. Capital Reorganisation

Upon any sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders and at its discretion, subject, in all cases, to the provisions of applicable law and regulation, may treat such event as a distribution and comply with the relevant provisions of Conditions 4, 5, 6 and 9 with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

11. Withholding Taxes and Applicable Laws

11.1 Payments to Holders of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of Cypriot and other withholding taxes, if any, at the applicable rates.

11.2 If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Cyprus in order for the Depositary to receive from the Company Shares or other securities to be deposited under these Conditions, or in order for Shares, other securities or other property to be distributed under Conditions 4, 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company has agreed to apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such laws. In this connection, the Company has undertaken in the Deposit Agreement to the extent reasonably practicable to take such action as may be required in obtaining or filing the same. The Depositary shall not be obliged to distribute GDRs representing such Shares, Shares, other securities or other property deposited under these Conditions or make any offer of any such rights or sell any securities corresponding to any such rights with respect to which (as notified to the Depositary by the Company) such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain any such authorisation, consent, registration or permit, or to file any such report.

12. Voting Rights

12.1 Holders will have the right to instruct the Depositary with regard to the exercise of voting rights with respect to the Deposited Shares. The Company has agreed to notify the Depositary of any resolution to be proposed at a General Meeting of the Company and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 12.

The Company has agreed with the Depositary that it will promptly provide to the Depositary sufficient copies, as the Depositary may reasonably request, of notices of meetings of the shareholders of the Company and the agenda therefor as well as written requests containing voting instructions by which each Holder may give instructions to the Depositary to vote for or against each and any resolution specified in the agenda for the meeting, which the Depositary shall send to any person who is a Holder on the record date established by the Depositary for that purpose (which shall be the same as the corresponding record date set by the Company or as near as practicable thereto) as soon as practicable after receipt of the same by the Depositary in accordance with Condition 23. The Company has also agreed to provide to the Depositary appropriate proxy forms to enable the Depositary to appoint a representative to attend the relevant meeting and vote on behalf of the Depositary.

12.2 In order for each voting instruction to be valid, the voting instructions form must be completed and duly signed by the respective Holder (or in the case of instructions received from the clearing systems should be received by authenticated SWIFT message) in accordance with the written request containing voting instructions and returned to the Depositary by such record date as the Depositary may specify.

12.3 The Depositary will exercise or cause to be exercised the voting rights in respect of the Deposited Shares so that a portion of the Deposited Shares will be voted for and a portion of the Deposited Shares will be voted against any resolution specified in the agenda for the relevant meeting in accordance with the voting instructions it has received.

12.4 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permitted by Cypriot law to exercise the voting rights in respect of the Deposited Shares differently (so that a portion of the Deposited Shares may be voted for a resolution and a portion of the Deposited Shares may be voted against a resolution) the Depositary shall, if the opinion referred to in Condition 12.7 below confirms it to be permissible under Cypriot law, calculate from the voting instructions that it has received from all Holders (x) the aggregate number of votes in favour of a particular resolution and (y) the aggregate number of votes opposed to such resolution and cast or cause to be cast in favour of or opposed to such resolution the number of votes representing the net positive difference between such aggregate number of votes in favour of such resolution and such aggregate number of votes opposed to such resolution.

12.5 The Depositary will only endeavour to vote or cause to be voted the votes attaching to Shares in respect of which voting instructions have been received and in accordance with such instructions, except that if no voting instructions are received by the Depositary (either because no voting instructions are returned to the Depositary or because the voting instructions are incomplete, illegible or unclear) from a Holder with respect to any or all of the Deposited Shares represented by such Holder's GDRs on or before the record date specified by the Depositary, such Holder shall be deemed to have instructed the Depositary to give a discretionary proxy to a person designated by the Company with respect to such Deposited Shares, and the Depositary shall give a discretionary proxy to the Chairman of the Company or a person designated by him to vote such Deposited Shares, **PROVIDED THAT** no such instruction shall be deemed given, and no such discretionary proxy shall be given, with respect to any matter as to which the Company informs the Depositary (and the Company has agreed to provide such information in writing as soon as practicable) that (i) the Company does not wish such proxy to be given, or (ii) such matter materially and adversely affects the rights of holders of Shares.

12.6 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permissible under Cypriot law or the Depositary determines that it is not reasonably practicable to vote or cause to be voted such Deposited Shares in accordance with Conditions 12.3, 12.4 or 12.5 the Depositary shall not vote or cause to be voted such Deposited Shares.

12.7 Where the Depositary is to vote in respect of each and any resolution in the manner described in Conditions 12.3, 12.4 or 12.5 above the Depositary shall notify the Chairman of the Company and appoint him or a person designated by him as a representative of the Depositary to attend such meeting and vote the Deposited Shares in the manner required by this Condition. The Depositary is entitled to request the Company to provide to the Depositary, and where such request has been made shall not be required to take any action required by this Condition 12 unless it shall have received, an opinion from the Company's legal counsel (such counsel being reasonably acceptable to the Depositary) at the expense of the Company to the effect that such voting arrangement is valid and binding on Holders under Cypriot law and the statutes of the Company and that the Depositary is permitted to exercise votes in accordance with the provisions of this Condition 12 but that in doing so the Depositary will not be deemed to be exercising voting discretion.

12.8 By continuing to hold GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition as it may be amended from time to time in order to comply with applicable Cypriot law.

12.9 The Depositary shall not, and the Depositary shall ensure that the Custodian and its nominees do not, vote or attempt to exercise the right to vote that attaches to the Deposited Shares, other than in accordance with instructions given, or deemed given, in accordance with this Condition.

13. Recovery of Taxes, Duties and Other Charges, and Fees and Expenses due to the Depositary

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR (the "**Charges**") shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. The Depositary may sell (whether by way of public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) for the account of the Holder an appropriate number of Deposited Shares or amount of other Deposited Property and will discharge out of the proceeds of such sale any Charges, and any fees or expenses due to the Depositary from the Holder pursuant to Condition 16, and subsequently pay any surplus to the Holder. Any request by the Depositary for the payment of Charges shall be made by giving notice pursuant to Condition 23.

14. Liability

14.1 In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or owners of GDRs or any other person.

14.2 Neither the Depositary, the Custodian, the Company, any Agent, nor any of their agents, officers, directors or employees shall incur any liability to any other of them or to any Holder or owner of a GDR or any other person with an interest in any GDRs if, by reason of any provision of any present or future law or regulation of Cyprus or any other country or of any relevant governmental authority, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control, or in the case of the Depositary, the Custodian, any Agent, or any of their agents, officers, directors or employees, by reason of any provision, present or future, of the constitutive documents of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor shall any of them incur any liability to any Holder or owner of GDRs or any other person with an interest in any GDRs by reason of any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).

14.3 Neither the Depositary nor any Agent shall be liable (except for its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of GDRs or any other person, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic or for its failure to perform any obligations under the Deposit Agreement or these Conditions.

14.4 The Depositary and its agents may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or any other person for any profit arising therefrom.

14.5 The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5, 6, 7, 10, 13 or 21 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures but shall have no liability (in the absence of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable.

14.6 The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.

14.7 The Depositary shall have no responsibility whatsoever to the Company, any Holders or any owner of GDRs or any other person as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.

14.8 In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22, be obliged to have regard to the consequence thereof for the Holders or the owners of GDRs or any other person.

14.9 Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.

14.10 The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise, and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfers thereof.

14.11 Any such advice, opinion, certificate or information (as discussed in Condition 14.10 above) may be sent or obtained by letter, telex, facsimile transmission, telegram or cable and the Depositary shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter, telex or facsimile transmission although (without the Depositary's knowledge) the same shall contain some error or shall not be authentic.

14.12 The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by a director of the Company or by a person duly authorised by a director of the Company or such other certificate from persons specified in Condition 14.10 above which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.

14.13 The Depositary shall have no obligation under the Deposit Agreement except to perform its obligations as are specifically set out therein without wilful default, negligence or bad faith.

14.14 The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such Conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interests of the Holders think fit, **PROVIDED THAT** no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not in any circumstances and the Depositary shall not (**PROVIDED THAT** it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Condition which includes the power to sub-delegate shall provide that the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Company and the Depositary.

14.15 The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.

14.16 The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute, and the Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, wilful default, or bad faith or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit.

14.17 Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its performance or non-performance, or the exercise or attempted exercise of (or the failure to exercise any of) its powers or discretions, under the Deposit Agreement, except to the extent that such loss or damage arises from the wilful default, negligence or bad faith of the Depositary or that of its agents, officers, directors or employees. Without prejudice to the generality of the foregoing, in no circumstances shall the Depositary have any liability for any act or omission of any securities depository, clearing agency or settlement system in connection with or arising out of book-entry settlement of Deposited Shares or otherwise.

14.18 No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

14.19 For the avoidance of doubt, the Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Cypriot law as the same may be amended from time to time. Notwithstanding the generality of Condition 3, the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of GDRs if notified by the Company, or the Depositary becomes aware of the fact, that such transfer or issuance would result in a violation of the limitations set forth above.

14.20 No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.

15. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of the destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the Holder) at the specified office of any Agent.

16. Depositary's Fees, Costs and Expenses

16.1 The Depositary shall be entitled to charge the following remuneration and to receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:

(a) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Offering) or the cancellation of GDRs upon the withdrawal of Deposited Property: U.S.$5.00 or less per 100 GDRs (or portion thereof) issued or cancelled;

(b) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;

(c) for issuing GDR certificates in definitive registered form (other than pursuant to (b) above): the greater of U.S.$1.50 per GDR certificate (plus printing costs) or such other sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;

(d) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of U.S.$0.05 or less per GDR for each such dividend or distribution;

(e) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: U.S.$5.00 or less per 100 outstanding GDRs (or portion thereof) for each such issue of rights, dividend or distribution;

(f) a fee of U.S.$0.03 or less per GDR (or portion thereof) per calendar year for depositary services which shall be payable as provided in paragraph (h) below;

(g) for any inspections by the Depositary (or the Custodian or their respective agents) of the register of shareholders of the Company: a fee of U.S.$0.01 per GDR per annum, which shall be payable as provided in paragraph (h) below, save that the aggregate of the inspection fee under this paragraph (g) and the fee for depositary services under paragraph (f) above shall not exceed U.S.$0.03 per calendar year; and

(h) any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents, in connection with the servicing of Deposited Shares or other Deposited Property (which charge shall be assessed against Holders as of the date or dates set by the Depositary and shall be payable at the sole discretion of the Depositary by billing such Holders for such charge or deducting such charge from one or more cash dividends or other cash distributions),

together with all expenses (including currency conversion expenses), transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian, or any of their agents, in connection with any of the above.

16.2 The Depositary is entitled to receive from the Company the fees, taxes, duties, charges, costs and expenses as specified in a separate agreement between the Company and the Depositary.

17. Agents

17.1 The Depositary shall be entitled to appoint one or more agents (the "**Agents**") for the purpose, *inter alia*, of making distributions to the Holders.

17.2 Notice of appointment or removal of any Agent or of any change in the specified office of the Depositary or any Agent will be duly given by the Depositary to the Holders.

18. Listing

The Company has undertaken in the Deposit Agreement to use all reasonable endeavours to maintain, so long as any GDR is outstanding, a listing for the GDRs on the official list of the Financial Services Authority (the "**Official List**") and admission to trading on the London Stock Exchange.

For that purpose the Company will pay all fees and sign and deliver all undertakings required by the Financial Services Authority or the London Stock Exchange in connection with such listings. In the event that the listing on the Official List and admission to the London Stock Exchange is not maintained, the Company has undertaken in the Deposit Agreement to use all reasonable endeavours with the reasonable assistance of the Depositary (provided at the Company's expense) to obtain and maintain a listing of the GDRs on any other internationally recognised stock exchange in Europe.

19. The Custodian

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian **PROVIDED THAT** the Custodian shall not be obliged to segregate cash comprised in the Deposited Property from cash otherwise held by the Custodian. The Custodian shall be responsible solely to the Depositary **PROVIDED THAT**, if and so long as the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving prior notice, except that if a replacement Custodian is appointed which is a branch or affiliate of the Depositary, the Custodian's resignation or discharge may take effect immediately on the appointment of such replacement Custodian. Upon the removal of or receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian ((i) after consultation with the Company and (ii) approved by the relevant authority in Cyprus, if necessary), which shall, upon acceptance of such appointment, and the expiry of any applicable notice period, become the Custodian. The Depositary in its discretion may appoint a substitute or additional custodian or custodians ((i) after consultation with the Company and (ii) approved by the relevant authority in Cyprus, if necessary), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement. The Depositary shall notify Holders of such change in accordance with Condition 23. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as therein specified; **PROVIDED THAT**, in the case of such temporary deposit in another place, the Company shall have consented to such deposit, and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if and to the extent that the obtaining of such insurance is reasonably practicable and the premiums payable are of a reasonable amount.

20. Resignation and Termination of Appointment of the Depositary

20.1 The Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 120 days' prior notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving at least 120 days' prior notice in writing to the Company and the Custodian. Within 30 days after the giving of either such notice, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in such notice; **PROVIDED THAT** no such termination of appointment or resignation shall take effect until the appointment by the Company of a successor depositary under the Deposit Agreement and the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions, by the successor depositary. The Company has undertaken in the Deposit Agreement to use all reasonable endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23.

20.2 Upon the termination of the appointment or resignation of the Depositary and against payment of all fees and expenses due to the Depositary from the Company under the Deposit Agreement, the Depositary shall deliver to its successor as depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all property and cash held by it under the Deposit Agreement. The Deposit Agreement provides that, upon the date when such termination of appointment or resignation takes effect, the Custodian shall be deemed to be the Custodian thereunder for such successor depositary, and shall hold the Deposited Property for such successor depositary, and the Depositary shall thereafter have no obligation under the Deposit Agreement or the Conditions (other than liabilities accrued prior to the date of termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations).

21. Termination of Deposit Agreement

21.1 Either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 days of the date on which the Depositary has given notice pursuant to Condition 20 that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' prior notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23.

21.2 During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of Condition 1.1 and upon compliance with Condition 1, payment by the Holder of the charge specified in Condition 16.1(a) and Clause 10.1(a)(i) of the Deposit Agreement for such delivery and surrender, and payment by the Holder of any sums payable by the Depositary and/or any other expenses incurred by the Depositary (together with all amounts which the Depositary is obliged to pay to the Custodian) in connection with such delivery and surrender, and otherwise in accordance with the Deposit Agreement.

21.3 If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action, except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, *pro rata* to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are the Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligation to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

22. Amendment of Deposit Agreement and Conditions

22.1 Subject to Condition 22.3, all and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22) may at any time and from time to time be amended by written agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary, and any amendment (except as aforesaid) which shall increase or impose fees payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders until the expiration of three months after such notice shall have been given. During such period of three months, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 1, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, payment of the charge specified in Condition 16.1(a) for such delivery and surrender and otherwise in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 1, the Deposited Property attributable to the relevant GDR.

22.2 For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares **PROVIDED THAT** temporary GDRs will represent such Shares until they are so consolidated.

22.3 The Company and the Depositary may at any time by agreement in any form amend the number of Shares represented by each GDR, provided that each outstanding GDR represents the same number of Shares as each other outstanding GDR, and at least 30 calendar days' notice of such amendment is given to the Holders, but in no circumstances shall any amendment pursuant to this Condition 22.3 be regarded as an amendment requiring three months' notice in accordance with Condition 22.1.

23. Notices

23.1 Any and all notices to be given to any Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class, if overseas, first class airmail) or air courier, or by facsimile transmission confirmed by letter sent by mail or air courier, addressed to such Holder at the address of such Holder as it appears on the transfer books for GDRs of the Depositary, or, if such Holder shall have filed with the Depositary a written request that notices intended for such Holder be mailed to some other address, at the address specified in such request.

23.2 Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after despatch, and any notice sent by facsimile transmission, as provided in this Condition, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The Depositary or the Company may, however, act upon any facsimile transmission received by it from the other or from any Holder, notwithstanding that such facsimile transmission shall not subsequently be confirmed as aforesaid.

24. Reports and Information on the Company

24.1 The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of:

(a) in respect of the financial year ending on 31 December 2009 and in respect of each financial year thereafter, the consolidated balance sheets as at the end of such financial year and the consolidated statements of income for such financial year in respect of the Company, prepared in conformity with international financial reporting standards (as adopted in the European Union ("**IFRS**")) and reported upon by independent public accountants selected by the Company, as soon as practicable (and in any event within 120 days) after the end of such year;

(b) if the Company publishes semi-annual financial statements for holders of Shares, such semi-annual financial statements of the Company, as soon as practicable, after the same are published; and

(c) if the Company publishes quarterly financial statements for holders of Shares, such quarterly financial statements, as soon as practicable, after the same are published.

24.2 The Depositary shall upon receipt thereof give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.

25. Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary on or before the day when the Company first gives notice, by mail, publication or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, such number of copies of such notice and any other material (which contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company (or such number of English translations of the originals if the originals were prepared in a language other than English) in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company's expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. Except as provided below, the Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to Condition 9.1, and shall make the same available to Holders in such manner as it may determine.

26. Moneys held by the Depositary

The Depositary shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such moneys from other moneys belonging to the Depositary.

27. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

28. Governing Law

28.1 The Deposit Agreement, the GDRs, and all non-contractual obligations arising from or connected with the Deposit Agreement and the GDRs, are governed by, and shall be construed in accordance with, English law except that the certifications set forth in Schedule 3 to the Deposit Agreement and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The rights and obligations attaching to the Deposited Shares will be governed by Cypriot law. The Company has submitted in respect of the Deposit Agreement and the Deed Poll to the jurisdiction of the English courts and the courts of the State of New York and any United States Federal Court sitting in the Borough of Manhattan, New York City. The Company has also agreed in the Deposit Agreement, and the Deed Poll to allow, respectively, the Depositary and the Holders to elect that Disputes are resolved by arbitration.

28.2 The Company has irrevocably appointed Law Debenture Corporate Services Limited, as its agent in England to receive service of process in any Proceedings in England based on the Deed Poll and appointed Law Debenture Corporate Services Inc. as its agent in New York to receive service of process in any Proceedings in New York. If for any reason the Company does not have such an agent in England or New York as the case may be, it will promptly appoint a substitute process agent and notify the Holders and the Depositary of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

28.3 The courts of England are to have jurisdiction to settle any disputes (each a "**Dispute**") which may arise out of or in connection with the GDRs (including any dispute relating to the existence, validity or termination of the GDRs, or any non-contractual obligation arising out of or in connection with the GDRs, or the consequences of the nullity of the GDRs), and accordingly any legal action or proceedings arising out of or in connection with the GDRs ("**Proceedings**") may be brought in such courts. Without prejudice to the foregoing, the Depositary further irrevocably agrees that any Proceedings may be brought in any New York State or United States Federal Court sitting in the Borough of Manhattan, New York City. The Depositary irrevocably submits to the non-exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

28.4 These submissions are made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not).

28.5 In the event that the Depositary is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceeding (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Company, or which contains allegations to such effect, upon notice from the Depositary, the Company has agreed to fully cooperate with the Depositary in connection with such litigation, arbitration or Proceeding.

28.6 The Depositary irrevocably appoints The Bank of New York Mellon, London Branch, (Attention: The Manager) of 48th Floor, One Canada Square, London E14 5AL as its agent in England to receive service of process in any Proceedings in England based on any of the GDRs.

If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

28.7 To the extent that the Company may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Company or its assets or revenues, the Company has agreed not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

OVERVIEW OF PROVISIONS RELATED TO GDRS WHILE IN MASTER FORM

The GDRs will initially be evidenced by a Master GDR in registered form. The Master GDR will be deposited with The Bank of New York Mellon, London Branch as common depositary for Euroclear and Clearstream, Luxembourg (and registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for the common depositary) on the date the GDRs are issued.

The Master GDR contains provisions which apply to the GDRs while they are in master form, some of which modify the effect of the Conditions of the GDRs set out in this document. The following is a summary of certain of those provisions. Words and expressions given a defined meaning in the Conditions shall have the same meanings in this section unless otherwise provided in this section.

The Master GDR will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances described in (i), (ii) or (iii) below in whole but not in part. The Depositary will irrevocably undertake in the Master GDR to deliver certificates in definitive registered form representing GDRs in exchange for the Master GDR to the Holders within 60 calendar days in the event that:

(i) Euroclear or Clearstream, Luxembourg notifies the Company that it is unwilling or unable to continue as depositary and a successor depositary is not appointed within 90 calendar days; or

(ii) either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 calendar days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and, in each case, no alternative clearing system satisfactory to the Depositary is available within 45 calendar days; or

(iii) the Depositary has determined that, on the occasion of the next payment in respect of the Master GDR, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the Master GDR which would not be required were the GDRs represented by certificates in definitive registered form, provided that the Depositary shall have no obligation to so determine or to attempt to so determine.

Any exchange shall be at the expense (including printing costs) of the Company.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through Euroclear or Clearstream, Luxembourg. Upon any exchange of the Master GDR for certificates in definitive registered form or any distribution of GDRs pursuant to Conditions 5, 7 or 10 or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property pursuant to Condition 1, the relevant details shall be entered by the Depositary on the register maintained by the Depositary whereupon the number of GDRs represented by the Master GDR shall be reduced or increased (as the case may be) for all purposes by the number so exchanged and entered on the register. If the number of GDRs represented by the Master GDR is reduced to zero the Master GDR shall continue in existence until the obligations of the Company under the Deposit Agreement and the obligations of the Depositary pursuant to the Deposit Agreement and the Conditions have terminated.

Payments, Distributions and Voting Rights

Payments of cash dividends and other amounts (including cash distributions) will be made by the Depositary through Euroclear and Clearstream, Luxembourg on behalf of persons entitled thereto upon receipt of funds therefor from the Company. A free distribution or rights issue of Shares to the Depositary on behalf of the Holders will result in the record maintained by the Depositary being marked up to reflect the enlarged number of GDRs represented by the Master GDR.

Holders of GDRs will have voting rights as set out in the Conditions.

Surrender of GDRs

Any requirement in the Conditions relating to the surrender of a GDR to the Depositary shall be satisfied by the production by Euroclear or Clearstream, Luxembourg on behalf of a person entitled to an interest therein of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or

Clearstream, Luxembourg, as appropriate. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all money or other property payable or distributable in respect of the Deposited Property represented by such GDRs.

Notices

For as long as the Master GDR is registered in the name of a nominee for a common depositary holding on behalf of Euroclear and Clearstream, Luxembourg, notices to Holders may be given by the Depositary by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication to persons entitled thereto in substitution for delivery of notices in accordance with Condition 23.

The Master GDRs shall be governed by and construed in accordance with English law.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. The Depositary was constituted in 1784 in the State of New York. It is a wholly-owned subsidiary of The Bank of New York Mellon Corporation, a New York bank holding company. The principal office of the Depositary is located at One Wall Street, New York, New York 10286. Its principal administrative offices are located at 101 Barclay Street, New York, New York 10286. A copy of the Depositary's Articles, as amended, together with copies of The Bank of New York Mellon Corporation's most recent financial statements and annual report are available for inspection at the principal office of the Depositary located at One Wall Street, New York, NY 10286 and at The Bank of New York Mellon, One Canada Square, London E14 5AL.

TAXATION

The following summary of material United Kingdom and Cyprus tax consequences of ownership of GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of GDRs. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of GDRs. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of GDRs, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of the date of this Prospectus, and of any actual changes in applicable tax laws after such date.

United Kingdom Tax Considerations

The comments below are of a general nature and are based on current U.K. law and published H.M. Revenue & Customs practice, both of which are subject to change, possibly with retrospective effect. The summary only covers the principal U.K. tax consequences for the absolute beneficial owners of Shares or GDRs and any dividends paid in respect of them, in circumstances where the dividends paid are regarded for U.K. tax purposes as that person's own income (and not the income of some other person), and who are resident (or, in the case of individuals only, ordinarily resident and domiciled) in (and only in) the U.K. for tax purposes (except insofar as express reference is made to the treatment of non-UK residents). In addition, the summary (a) only addresses the tax consequences for holders who hold the Shares or GDRs as an investment (other than under an individual savings account) and does not address the tax consequences which may be relevant to certain other categories of holders, for example, dealers; (b) does not address the tax consequences for holders that are insurance companies, collective investment schemes or persons connected with the Company; (c) assumes that the holder does not control or hold, either alone or together with one or more associated or connected persons, directly or indirectly, 10.0% or more of the Shares, GDRs, voting power or rights to profits or capital of the Company; (d) assumes that there will be no register kept in the U.K. in respect of the Shares or GDRs; (e) assumes that the Shares will not be held by, and that the GDRs will not be issued by, a depositary incorporated in the U.K.; and (f) assumes that neither the Shares nor the GDRs will be paired with shares issued by a company incorporated in the U.K.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular holder. Potential investors should satisfy themselves as to the overall tax consequences, including, specifically, the consequences under U.K. law and H.M. Revenue & Customs practice, of acquisition, ownership and disposition of Shares or GDRs in their own particular circumstances, by consulting their own tax advisors.

Taxation of Dividends

This section is drafted on the basis that the Company should not be required to make any withholding from payments of dividends to UK holders for or on account of Cypriot tax. See below, "Cyprus Tax Considerations—Taxation of income and gains of the GDR holders—Dividends to be received by the GDR holders".

Withholding Tax and Tax Credits

The Company is not required to make any withholding or deduction from payments of dividends for or on account of U.K. tax.

Tax Liability for U.K. Resident Individual Holders

Dividends received by individual holders will be subject to U.K. income tax on the amount of the dividend received as increased for any U.K. tax credit available as described below.

Individual holders will generally be entitled to a non-payable tax credit of one ninth of the amount of the dividend received, equivalent to 10% of the aggregate of the dividend and credit. An individual holder who is liable to U.K. tax on the dividend at the dividend ordinary rate (currently 10%), will therefore have no U.K. income tax liability to pay. For an individual holder who is liable to U.K. tax on the dividend at the dividend upper rate (currently 32.5%), or the dividend additional rate (currently 42.5%), the U.K. tax will be chargeable on the dividend received as increased for any UK tax credit available.

Tax Liability for U.K. Resident Corporate Shareholders

Holders within the charge to U.K. corporation tax and resident (for tax purposes) in the U.K. should note that legislation has recently been enacted that has made significant changes to the corporation tax treatment of dividends, including the corporation tax treatment of dividends paid to UK-resident companies by companies not resident in the U.K. (such as the Company). Although it is likely that most dividends paid on the Shares or GDRs to UK resident corporate shareholders would fall within one or more of the classes of dividend qualifying for exemption from corporation tax the exemptions are not comprehensive and are also subject to anti-avoidance rules. Holders within the charge to corporation tax should consult their own professional advisers in relation to the implications of the legislation.

Taxation of Capital Gains

The disposal or deemed disposal of the Shares or GDRs by a holder who is (at any time in the relevant tax year) resident (or, in the case of individuals only, ordinarily resident) in the U.K. for tax purposes may give rise to a chargeable gain or an allowable loss for the purposes of U.K. taxation of chargeable gains, depending on the holder's circumstances and subject to any available exemption or relief (such as the annual exemption for individuals holders or indexation allowance for corporate holders).

Holders who are individuals and who dispose of all or part of their Shares or GDRs while they are temporarily non-resident may be treated as disposing of them in the tax year in which they again become resident or ordinarily resident in the U.K.

Tax Liability for U.K. Resident Individual Holders

As regards a holder who is an individual, the principal factors that will determine the extent to which such gain will be subject to capital gains tax (''**CGT**'') are the extent to which the holder realises any other capital gains in that year, the extent to which the holder has incurred capital losses in that or any earlier year and the level of the annual allowance of tax-free gains in the tax year in which the disposal takes place (the ''**annual exemption**'').

The annual exemption for individuals is £10,100 for the 2010-2011 tax year. Under current legislation, this exemption is, unless the U.K. Parliament decides otherwise, increased annually in line with the rate of increase in the retail price index. Holders should be aware that the U.K. Parliament is entitled to withdraw this link between the level of the annual exemption and the retail price index or even to reduce the level of the annual exemption for future tax years below its current level. The U.K. Parliament decided not to increase the annual exemption for the 2010-2011 tax year, but to maintain the 2009-2010 level.

Subject to the availability of any exemptions, reliefs or allowable losses, a gain realised on the disposal or deemed disposal of the Shares or GDRs by an individual holder will generally be subject to CGT at the rate of 18%, with no taper relief or indexation allowance available.

Tax Liability for U.K. Resident Corporate Holders

A holder which is a U.K. resident company is entitled to an indexation allowance which applies to reduce chargeable gains to the extent that they arise due to inflation. Indexation allowance is calculated by reference to increases in the retail price index during the period of ownership. The allowance may reduce a chargeable gain but not create any allowable loss.

Stamp Duty and Stamp Duty Reserve Tax

No U.K. stamp duty will be payable on the issue of the Shares or GDRs, and no U.K. stamp duty will be payable on the transfer of the Shares or GDRs provided that any instrument of transfer is not executed in the U.K. and does not relate to any property situated or to any matter or thing done or to be done, in the U.K. No U.K. stamp duty reserve tax will be payable on the issue or transfer of Shares or GDRs, provided that the Shares or GDRs are not registered in any register kept in the UK by or on behalf of the Company. Currently there are no proposals for such a register to be kept in the UK.

Cyprus Tax Considerations

The following is a general discussion of certain Cypriot tax consequences of the acquisition, ownership and disposal of GDRs by Cyprus resident or non-resident purchasers in Cyprus. The discussion is based on laws currently in force and as applied in practice on the date of this document, all of which are subject to change, possibly with retroactive effect. **The information provided below does not purport to be a complete or exhaustive summary of the tax laws and practice currently applicable in Cyprus.** Prospective investors should therefore consult their own tax advisers regarding the tax consequences of investing in the GDRs in their own particular circumstances.

The discussion is based on an assessment of the Deposit Agreement and a conclusion that the GDRs will be treated as equity/shares for Cyprus tax purposes. Investors are nonetheless urged to consult their own legal and tax advisors regarding the specific legal treatment of the GDRs and for confirmation that the GDRs qualify as equity/shares.

Taxation of income and gains of the GDR holders

Gains from disposal of GDRs by the GDR holders

A gain realised on the sale of GDRs by a non-resident holder will not be subject to tax in Cyprus.

A gain realised on the sale of GDRs by a resident holder will be exempt from tax in Cyprus as GDRs are considered to fall within the definition of securities for Cypriot tax purposes.

Dividends received by the GDR holders

Dividends received from the Company by non-resident GDR holders and corporate resident GDR holders will not be subject to tax in Cyprus, whether by way of withholding or otherwise.

Dividends received from the Company by resident individual GDR holders will be subject to Special Defence Contribution at the rate of 15%.

Stamp duty

Cyprus levies stamp duty on every instrument if:

- it relates to any property situated in Cyprus; or
- it relates to any matter or thing which is performed or done in Cyprus.

There are instruments which are subject to stamp duty in Cyprus at a fixed fee (ranging from three cents to €34) and instruments which are subject to stamp duty based on the value of the instrument (0.15% for sums up to €170,860 and 0.2% plus €256.30 for sums exceeding €170,860). Contracts are generally subject to stamp duty based on the value of the instrument. There is a maximum stamp duty of €17,086 per principal agreement/contract where several instruments are used in a single transaction. This obligation arises irrespective of whether the instrument is executed in Cyprus or abroad. Enforcement of any instrument against any Cypriot company through court proceedings in Cyprus may trigger the provisions of the stamp laws of Cyprus and render the instrument stampable. If the instruments are executed outside Cyprus, payment of the stamp duty may be deferred until the instruments are first brought into Cyprus for the purpose of enforcement through court proceedings, whereupon they shall be deemed, for the purpose of the payment of stamp duty, to have been first executed on the date of their receipt in Cyprus.

Subject to the above there will be no stamp duty payable in Cyprus on any document evidencing or effecting sale or transfer or disposal of GDRs.

Registration Taxes

No registration tax will be payable by GDR holders upon the disposal of GDRs by sale or exchange.

SUBSCRIPTION AND SALE

Under the terms of, and subject to the conditions contained in, the Underwriting Agreement dated 30 April 2010 entered into between TD Investments Limited and NCB Stockbrokers Limited (the "**Managers**") and the Company, the Managers have agreed to procure purchasers for, or failing which, themselves to purchase, at the Offer Price, and otherwise on the terms of the Underwriting Agreement, 1,250,000 Shares, in the form of GDRs.

The Underwriting Agreement contains, among others, the following further provisions:

- The Company has granted to the Stabilising Manager the Over-allotment Option, to require the Company to issue up to 187,500 additional Shares in the form of Additional GDRs at the Offer Price for the purpose of meeting over-allotments in connection with stabilisation activities before the end of the stabilisation period. The Over-allotment Option is exercisable upon written notice to the Company by the Stabilising Manager.
- The Managers will deduct from the purchase money to be paid to the Company:
  - (i) costs and expenses incurred by the Managers in connection with the Offering in the amount of U.S.$100,000; and
  - (ii) fees and commissions payable by the Company of approximately 7,030,000, or a total of up to 8,090,000 (assuming that the Over-allotment Option is exercised in full).
- The obligations of the parties to the Underwriting Agreement are subject to certain conditions that are typical for an agreement of this nature. These conditions include, amongst others, the accuracy of the warranties under the Underwriting Agreement and the application for Admission having been approved not later than 8.00am London time on the Closing Date. The Managers may terminate the Underwriting Agreement prior to Admission in certain specified circumstances that are typical for an agreement of this nature. These include the occurrence of certain material changes in the condition, financial or otherwise, prospects, results of operations or business affairs of the Company or the Group and certain changes in financial, political or economic conditions (as more fully set out in the Underwriting Agreement). If any of the above mentioned conditions are not satisfied (or waived, where capable of being waived) by, or the Underwriting Agreement is terminated prior to, Admission, then the Offering will lapse.
- The Company has given customary representations and warranties to the Managers, including in relation to the business, the accounting records and the legal compliance of the Company, in relation to the Shares and GDRs and in relation to the contents of this Prospectus.
- The Company has given customary indemnities to the Managers in connection with the Offering.

The Company has agreed with the Managers that, during the period beginning with the date of the Underwriting Agreement and continuing to, and ending 180 days after the Closing Date (the "**Lock-Up Period**"), it will not offer, issue, lend, sell or contract to sell, issue or grant any option, right or warrant to subscribe or purchase or allow any encumbrance to be created over or otherwise dispose of any Shares or GDRs or any securities substantially similar to the Shares or GDRs (or publicly announce any intention to do any such thing) or enter into any transaction with the same economic effect as any of the foregoing, without the prior written consent of the Managers. Mr Bakhmatyuk has entered into a separate lock-up agreement with the Managers on similar terms.

The Managers have represented and agreed that: (i) they have not made and will not make an offer of the Shares and/or GDRs to the public in the United Kingdom prior to the publication of a prospectus, except that they may make an offer of GDRs to persons who fall within the definition of "qualified investors" as defined in section 86(1) of FSMA, (ii) they have complied and will comply with all applicable provisions of FSMA with respect to anything done by them in relation to the Shares and/or GDRs in, from or otherwise involving the United Kingdom and (iii) they have only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received by them in connection with the issue or sale of any Shares and/or GDRs in circumstances in which section 21(1) of FSMA does not apply to the Company.

In connection with the Offering, Troika Dialog (UK) Limited, acting as Stabilising Manager, or any of its agents, may, to the extent permitted by applicable laws and regulations, at its discretion, engage in stabilisation activities, including any activity contemplated by the price stabilisation rules made by the FSA under FSMA, on or before the end of the stabilisation period. Specifically, the Stabilising Manager or any of its agents may, for a limited period, over-allot in connection with the Offering or effect transactions with a view to supporting the market price of the GDRs at a higher level than that which might otherwise prevail in the open market. However, there is no obligation on the Stabilising Manager or any of its agents to do this and there can be no assurance that any such activities will be undertaken. To the extent permitted by applicable law, such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise. Such stabilising, if commenced, may be discontinued at any time or end after a limited period. Save as required by law or regulation, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any stabilisation and/or any over-allotment transactions in connection with the Offering.

For the purposes of allowing it to cover over-allotments, if any, in the Offering and/or to cover short positions relating to stabilisation activities, the Stabilising Manager has been granted by the Company the Over-allotment Option pursuant to which the Stabilising Manager may subscribe for, or procure subscribers for, up to a maximum of 187,500 additional shares in the form of Additional GDRs at the Offer Price. The Over-allotment Option is exercisable in whole or in part within 30 days after the Closing Date, upon notice to the Company by the Stabilising Manager.

There can be no assurance that the prices at which the GDRs will trade in the market after the Offering will not be lower than the Offer Price or that an active trading market for the Shares or GDRs will develop and continue after the Offering. The Managers have advised the Company that they currently intend to make a market in the GDRs. However, they are not obliged to do so and they may discontinue any market making activities with respect to the GDRs at any time without notice. Accordingly, there can be no assurance as to the liquidity of or the trading market for the GDRs.

The Managers have performed investment banking and advisory services for the Company from time to time for which they have received customary fees and expenses. The Managers may, from time to time, engage in transactions with and perform services for the Company in the ordinary course of their business.

In connection with the Offering, the Managers and any of their affiliates acting as an investor for their own account may take up the Shares and in that capacity may retain, purchase or sell the Shares, in the form of GDRs (or related investments), for its own account and may offer or sell such securities (or other investments) otherwise than in connection with the Offering. The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

SELLING AND TRANSFER RESTRICTIONS

Selling Restrictions

The distribution of this document and the offer of GDRs in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any restrictions, including those set out in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

General

No action has been or will be taken in any jurisdiction, other than the United Kingdom, that would permit a public offering of the GDRs, or possession or distribution of this document or any other offering material, in any country or jurisdiction where action for that purpose is required. Accordingly, the GDRs may not be offered or sold, directly or indirectly, and neither this document nor any other offering material or advertisement in connection with the GDRs may not be offered or sold, directly or indirectly, and neither this document nor any other offering material or advertisement in connection with the GDRs may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Persons into whose possession this document comes should inform themselves about and observe any restrictions on the distribution of this document and the offer of GDRs, including those in the paragraphs above. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This document does not constitute an offer to subscribe for or buy any of the GDRs offered hereby to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

United States

The Shares and the GDRs have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act. GDRs are being offered to institutional investors outside the United States in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering, an offer or sale of GDRs within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

The Managers have represented and agreed that (a) they have not made and will not make an offer of the GDRs to the public in the United Kingdom prior to the publication of a prospectus in relation to the GDRs and the Offering that has been approved by the FSA, except that they may make an offer of the GDRs to persons who fall within the definition of "qualified investor" as that term is defined in section 86(1) of FSMA or otherwise in circumstances which do not require the publication by the Company of a prospectus pursuant to section 85(1) of FSMA; (b) they have only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by them in connection with the issue or sale of any GDRs in circumstances where section 21(1) of the FSMA does not apply to the Company; and (c) they have complied and will comply with all applicable provisions of the FSMA with respect to anything done by them in relation to the Shares or GDRs in, from or otherwise involving the United Kingdom.

Russia

The GDRs may only be offered in Russia privately to "qualified investors" (in accordance with the applicable requirements of Russian law). This Prospectus may only be distributed in Russia to these Russian "qualified investors" in a manner that does not constitute an "advertisement" (as defined in Russian law) of the GDRs and may sell the GDRs to these "qualified investors" only in a manner that does not constitute a "placement" or "public circulation" of the GDRs in Russia (as defined in Russian law). The Managers have agreed that, other than described above, the GDRs will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in Russia or to any person located in Russia.

European Economic Area

The Managers have represented and agreed that, in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive, other than the United Kingdom, (each a "**Relevant Member State**"), an offer to the public of any GDRs which are the subject of the Offering contemplated by this document may not be made to the public in that Relevant Member State except that an offer of GDRs may be made to the public in that Relevant Member State at any time under the following exemptions under the Prospectus Directive, if they are implemented in that Relevant Member State:

- to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000 and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive subject to obtaining the prior consent of the Managers for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of the GDRs shall result in a requirement for the publication by the Company or any Managers of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of any GDRs to the public" in relation to any GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any GDRs to be offered so as to enable an investor to decide to purchase any GDRs, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Ukraine

Under Ukrainian law, the GDRs are securities of a foreign issuer. The GDRs are not eligible for initial offering and public circulation in Ukraine. Neither the issue of the GDRs nor a securities prospectus in respect of the GDRs has been, or is intended to be, registered with the State Commission on Securities and Stock Market of Ukraine. The information provided in this document is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer the GDRs in Ukraine.

Transfer Restrictions

Each purchaser of GDRs in the Offering, by its acceptance thereof, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Regulation S are used herein as defined therein):

1. The purchaser (i) is, and the person, if any, for whose account it is acquiring the GDRs is, outside the United States, (ii) is not an affiliate of the Company or a person acting on behalf of such an affiliate and (iii) is not a securities dealer or, if it is a securities dealer, it did not acquire the GDRs or the Shares represented thereby from the Company or an affiliate thereof in the initial distribution of GDRs.
2. The purchaser is aware that the GDRs and the Shares represented thereby have not been and will not be registered under the Securities Act and are being offered outside the United States in reliance on Regulation S.
3. The purchaser will not offer, resell, pledge or otherwise transfer such GDRs, except in accordance with the Securities Act and all applicable securities laws of each relevant state of the United States.

SETTLEMENT AND TRANSFER

Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

Registration and Form

Book-entry interests in the GDRs held through Euroclear and Clearstream, Luxembourg will be represented by the Master GDR registered in the name of BNY (Nominees) Limited, as nominee for The Bank of New York Mellon, as common depositary for Euroclear and Clearstream, Luxembourg. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear and Clearstream, Luxembourg.

The aggregate holdings of book-entry interests in the GDRs in Euroclear and Clearstream, Luxembourg will be reflected in the book-entry accounts of each such institution. Euroclear and Clearstream, Luxembourg, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interest in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common depositary for Euroclear and Clearstream, Luxembourg. The Depositary will be responsible for ensuring that payments received by it from the Company for holders holding through Euroclear or Clearstream, Luxembourg are paid to Euroclear or Clearstream, Luxembourg as the case may be.

The Company will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear or Clearstream, Luxembourg and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreement. See "Terms and Conditions of the Global Depositary Receipts".

Global Clearance and Settlement Procedures

Initial Settlement

The GDRs will be in global form evidenced by the Master GDR. Purchasers electing to hold book-entry interests in GDRs through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures applicable to depositary receipts.

Secondary Market Trading

For a description of the transfer restrictions relating to the GDRs, see "Selling and Transfer Restrictions—Transfer Restrictions".

Trading between Euroclear and Clearstream, Luxembourg participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear or Clearstream, Luxembourg and will be settled using the normal procedures applicable to depositary receipts.

General

Although the foregoing sets out the procedures of Euroclear and Clearstream, Luxembourg in order to facilitate the transfers of interests in the GDRs among participants of Euroclear and Clearstream, Luxembourg, neither Euroclear nor Clearstream, Luxembourg is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Company, the Managers, the Depositary, the Custodian or their respective agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations.

LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon for the Company with respect to English law by Freshfields Bruckhaus Deringer LLP and with respect to Ukrainian law by LLC Avellum Partners. Certain legal matters with respect to Cyprus law will be passed upon for the Company by Mouaimis & Mouaimis.

INDEPENDENT REPORTING ACCOUNTANTS AND AUDITORS

The Consolidated Financial Information prepared in accordance with IFRS, included elsewhere in this Prospectus, has been audited in accordance with International Standards on Auditing (UK & Ireland) by Baker Tilly Corporate Finance LLP ("**Baker Tilly**"), independent reporting accountants, with their address at 2 Bloomsbury Street, London WC1B 3ST as stated in their report appearing elsewhere herein.

For the purpose of compliance with the Prospectus Rules, Baker Tilly has given and not withdrawn its written consent to the inclusion on page F-2 of this Prospectus of its accountants' report on the Consolidated Financial Information, and has authorised the contents of its said accountants' report for the purposes of Annex X item 23.1 in Appendix 3 to the Prospectus Rules. Baker Tilly has also accepted responsibility for its said accountants' report as part of the Prospectus and declared that it has taken all reasonable care to ensure that the information contained in that report is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex X item 1.2 of the Prospectus Rules.

Baker Tilly is a member of the Institute of Chartered Accountants in England and Wales.

The Company's auditors are Baker Tilly Klitou, of 11 Bouboulinas Street, 1060 Nicosia, Cyprus. Baker Tilly Klitou is authorised and regulated by the Institute of Certified Public Accountants of Cyprus.

GENERAL INFORMATION

1. The principal objectives of the Company, as set out in Clause 3 of its Memorandum of Association, are described in the section of this document entitled "Share Capital and Certain Requirements of Cypriot Legislation—Purpose".
2. The Company was incorporated as a private limited liability company on 23 October 2007 under the name Ultrainvest Limited (which was subsequently changed to its current name "Avangardco Investments Public Limited") by the filing of the Company's original Memorandum and Articles of Association with the Cyprus Registrar of Companies. On 17 June 2009 the Company was converted into a public company limited by shares under the name Avangardco Investments Public Limited, by filing the prescribed documents, including a new set of Articles of Association suitable for a public company, with the Cyprus Registrar of Companies. The Company is domiciled in Cyprus. The principal legislation under which the Company is established and operates (and under which the Company's Shares are created) is the Cyprus Companies Law, Cap. 113. The Company's registered number is HE 210868 and the Company's registered office is situated at 16-18 Zinas Kanther Street, 3035 Limassol, Cyprus. The telephone number of the Company's registered office is +357 25 362 233. No information posted on any website, including the Company's, constitutes a part of this Prospectus.
3. Avangard conducts its business in Ukraine through a number of wholly-owned subsidiaries. The chart below shows Avangard's corporate structure and certain ownership information relating to its subsidiaries, all as of the date of this Prospectus.

Notes:

(1) Avangardco Investments Public Limited owns 99.96% of the share capital of Avis and the remaining shares are held by 185 unaffiliated individuals.

(2) Avangardco Investments Public Limited owns 99.36% of the share capital of CJSC Avangard and the remaining shares are held by 421 unaffiliated individuals.

(3) Avangardco Investments Public Limited owns 92.7% of the share capital of Pershe Travnya and the remaining 7.28% of the share capital of Pershe Travnya is held by approximately 280 unaffiliated individuals.

(4) Avangardco Investments Public Limited owns 79.2% of the share capital of Vuhlehirskyi, 19.164% of shares is held by approximately 600 unaffiliated individuals and the remaining 1.6% is held by Interbusiness and six unaffiliated legal entities each holding less than 0.5% of the shares of Vuhlehirskyi.

(5) Avangardco Investments Public Limited owns 72.4% of the share capital of Volnovaskyi, 22.067% of shares is held by 1966 unaffiliated individuals, 2.83% of shares is held by CJSC "Golden Gate Business", 1.897% of shares is held by LLC "Vohnetryvprom" and the remaining 0.763% of shares is held by 4 legal entities, each of which is unaffiliated with Avangard.
(6) Avangardco Investments Public Limited owns 99.834% of the share capital of Kirovskyi and the remaining shares are held by approximately 130 unaffiliated individuals.
(7) Avangardco Investments Public Limited owns 97.3% of the share capital of Chornobaivske and the remaining shares are held by 196 unaffiliated individuals.
(8) Avangardco Investments Public Limited owns 98.19% of the share capital of Chernivetska, OJSC "Ptakhofabryka Zorya", which is unaffiliated with Avangard, owns 1.8% of the share capital of Chernivetska and the remaining 0.01% of shares is held by 4 affiliated individuals.
(9) Avangardco Investments Public Limited owns 97.73% of the share capital of Chervonyi Prapor, and the remaining 2.274% of shares is held by 763 unaffiliated individuals and LLC Financial Group "Partner", which is unaffiliated with Avangard, none of whom owns more than 0.5%.
(10) Avangardco Investments Public Limited owns 99.826% of the charter capital of Makarivska and Limited Liability Company "Production-commercial firm "Finansova Initsiatyva", which is unaffiliated with Avangard owns the remaining 0,174% of the charter capital.
(11) Avangardco Investments Public Limited owns 89.43% of the charter capital of Zorya and the remaining 10.57% of charter capital are held by 647 unaffiliated individuals.
(12) Avangardco Investments Public Limited owns 90% of the charter capital of Slovyany and the remaining 10% of charter capital are held by Mr. Y. L. Hmil, who is unaffiliated with Avangard.
(13) Avangardco Investments Public Limited owns 99.9914%. of the charter capital of Volnovaska and the remaining 0.0086% of charter capital are held by Limited Liability Company "Karpatska Turystuchna Company", which is unaffiliated with Avangard.
(14) Zorya is currently being reorganised from a limited liability company into a joint stock company.

The Company's significant subsidiaries include the following:

Company	Effective Interest	Registered Office
CJSC "Avangard"	99%	Village Zagvizdya, Tysmenytskyi Region, Ivano-Frankivsk Oblast, 77450, Ukraine
SC "Avangard-Agro" of CJSC "Avangard"	99%	Village Zagvizdya, Tysmenytskyi Region, Ivano-Frankivsk Oblast, 77450, Ukraine
SC "Rohatynska Ptakhofabryka" of CJSC "Avangard"	99%	Village Zaluzhzhya, Rogatynskyi Region, Ivano-Frankivsk Oblast, 77000, Ukraine
LLC "Areal-Snigurivka"	100%	7, Pozamiska Str., Snihurivka, Snihurivskiy Region, Mykolayiv Oblast, 57303, Ukraine
CJSC "Agrofirma Avis"	100%	Village Gumentsi, Kamyanets-Podilsky Region, Khmelnytsk Oblast, 32325, Ukraine
LLC "Kamyanets-Podilsky Kombikormovyi Zavod"	100%	1, Verbetske Shose, village Gumentsi, Kamyanets-Podilsky Region, Khmelnytsk Oblast, 32325, Ukraine
CJSC "Chernivetska Ptakhofabryka"	98%	10 Б, Trudova Str., village Valya-Kuzmina, Glybotskyi Region, Chernivetska Oblast, 60411, Ukraine
OJSC "Kirovskyi"	100%	Village Vilne, Kirovograd Region, Kirovograd Oblast, 27640, Ukraine
OJSC "Ptakhohospodarstvo Chervonyi Prapor"	98%	31, Fabrychna Str., village Chervonyi Prapor, Perevalskyi Region, Luhansk Oblast, 94320, Ukraine
SC "Ptakhofabryka"Chervonyi Prapor" of OJSC "Ptakhohospodarstvo Chervonyi Prapor'	98%	31, Fabrychna Str., village Chervonyi Prapor, Perevalskyi Region, Luhansk Oblast, 94320, Ukraine
APP CJSC "Chornobaivske"	97%	Village Chornobaivka, Bilozirskyi Region, Kherson Oblast, 75024, Ukraine
SC "Ptakhohospodarstvo Chornobaivske" of APP CJSC "Chornobaivske"	97%	Village Chornobaivka, Bilozirskyi Region, Kherson Oblast, 75024, Ukraine

Company	Effective Interest	Registered Office
ALLC "Donetska Ptakhofabryka".......................	100%	4, Donetska Str., village Rivnopil, Volnovaskiy Region, Donetsk Oblast, 85760, Ukraine
SC "Ptakhohospodarstvo Donetske" of ALLC "Donetska Ptakhofabryka"..................................	100%	Village Rivnopil, Volnovaskiy Region, Donetsk Oblast, 85760, Ukraine
PSPC "Interbusiness"...	100%	2, Sechenova Str., Donetsk, 83059, Ukraine
OJSC "Vuhlehirskyi Eskperementalnyi Kombikormovyi Zavod"	80%	23, Pobedy Str., village Novoluhanske, Aetemivskyi Region, Donetsk Oblast, 84573, Ukraine
LLC "Torgivelniy Budynok Bohodukhivska Ptakhofabryka"	100%	137, Sportyvna Str., village Sanzhary, Kharkivskiy Region, Kharkiv Oblast, 62447, Ukraine
OJSC "Ptakhofabryka Pershe Travnya"..............	93%	2 Б Tsentralna Str., village Khutory, Cherkasy Region, Cherkasy Oblast, 19534, Ukraine
LLC "Pershe Travnya Kombikormovyi Zavod"..	93%	Office 18, 2 Tsentralna Str., village Khutory, Cherkasy Region, Cherkasy Oblast, 19603, Ukraine
SC "Gorodenkivska Ptakhofabryka" of CJSC "Avangard"	99%	164, Vynnychenka Str., Gorodenka, Gorodenkivskyi Region, Ivano-Frankivsk Oblast, 78100, Ukraine
LLC "Cross-P/F Zorya"	89%	25, Chervonoarmiyska Str., village Ponomarenky, Kharkivskiy Region, Kharkiv Oblast, 62480, Ukraine
SC "Zorya" of LLC "Cross-P/F Zorya".............	89%	25, Chervonoarmiyska Str., village Ponomarenky, Kharkivskiy Region, Kharkiv Oblast, 62480, Ukraine
LLC "Rohatyn-Korm"	99%	18 A, Galytska Str., Rogatyn, Ivano-Frankivsk Oblast, 77000, Ukraine
PPB LLC "Ptytsecomplex"..................................	100%	1-A, Soviyetska Str., village Kotelnykove, Krasnohvardiyskiy Region, the Autonomous Republic of Crimea, 97034, Ukraine
ALLC "Yuzhnaya-Holding"................................	100%	2, Shkilna Str., village Perovo, Simferopol Region, the Autonomous Republic of Crimea, 97560, Ukraine
SC "Ptakhohospodarstvo Yuzhnaya-Holding"	100%	2, Shkilna Str., village Perovo, Simferopol Region, the Autonomous Republic of Crimea, 97560, Ukraine
OJSC "Volnovaskyi Kombinat Khliboproduktiv"	72%	2, 100 Rokiv Chervonogo Khresta Str., Volnovaha, Volnovaha Region, Donetsk Oblast, 85700, Ukraine
LLC PF "Volnovaska"	100%	Office of LLC PF "Volnovaska", village Rybynske, Volnovaskyi Region, Donetsk Oblast, 85735, Ukraine
SC "Ptakhogospodarstvo Volnovaske" of the LLC PF "Volnovaska"	100%	Village Blyzhne, Volnovaskyi Region, Donetsk Oblast, 85736, Ukraine
LLC "Slovyany"...	90%	34, Sadova Str., village Sadky-Stroyivka, Makarivskiy Region, Kyiv Oblast, 08023, Ukraine

Company	Effective Interest	Registered Office
LLC "Makarivska Ptakhofabryka"	100%	68, Pershotravneva Str., bld. F, village of rural type Makariv, Makarivskiy Region, Kyiv Oblast, 08000, Ukraine
SC Ptakhofabryka "Lozuvatska"..........................	100%	29, Chkalova Str., village Lozuvatka, Kryvorizakiy Region, Dnipropetrovsk Oblast, 53020, Ukraine
SC "Ptakhohospodarstvo Lozuvatske"................	100%	29, Chkalova Str., 8-th District, village Lozuvatka, Kryvorizakiy Region, Dnipropetrovsk Oblast, 53020, Ukraine
LLC "Imperovo Foods"	100%	29, Promyslova Str., Ivano-Frankivsk, Ivano-Frankivsk Oblast, 76018, Ukraine
LLC "Cross"	100%	4, Puhivska Str., Kyiv, 02222, Ukraine

4. The issue of the Shares, as well as the issue of this Prospectus and the transactions referred to herein were duly authorised by the Board of Directors of the Company on 30 April 2010. The issue of GDRs and their offer, sale and listing was approved in principle by the Board of Directors of Avangard pursuant to a resolution adopted on 15 April 2010.

5. Copies in English of the following documents may be inspected at the offices of Troika Dialog (UK) Limited, during usual business hours on any business day (Saturday, Sunday and public holidays excepted) for one month following the Closing Date:

   (a) the Articles in effect upon the completion of the Offering;

   (b) the Consolidated Financial Information for the years ended 31 December 2007, 2008 and 2009, together with the report of Baker Tilly thereon and the consent of Baker Tilly to the inclusion of the audit report herein;

   (c) the Relationship Agreement (or a draft pending execution); and

   (d) the Underwriting Agreement.

6. The address of the independent auditors of the Company is as follows: Baker Tilly Klitou, 11 Bouboulinas Street, 1060 Nicosia, Cyprus.

7. The addresses of the Managers are as follows:

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

   NCB Stockbrokers Limited
   3 George's Dock
   IFSC
   Dublin 1
   Ireland

8. Listing of the GDRs on the London Stock Exchange is conditional upon the issuance of the GDRs by the Depositary.

9. There are no temporary documents of title issued in respect of the GDRs. There are no premium and no expenses specifically charged to any purchases of Shares or GDRs in the Offering. The Offering is an institutional offering only in which payment for the GDRs by the investors will be arranged with the Managers.

10. The GDRs have no nominal par value. The Offer Price was determined based on the results of a book building exercise conducted by the Managers.

11. The Company's Ukrainian subsidiaries are in full compliance with the Ukrainian corporate governance regime.
12. The Company and other entities within the Group are not currently, and have not been involved in, any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatening of which the Company is aware) that may have or have had in the twelve months before the date of this Prospectus, a significant effect on the financial position or profitability of the Company and/or other entities within the Group. As of the date of this Prospectus, we are not aware that any such proceedings are pending or threatening.
13. Except as described in ''Management's Discussion and Analysis of Financial Conditions and Results of Operations—Liquidity and Capital Resources'' and ''Subscription and Sale'', there is no other material contract, other than contracts entered into in the ordinary course of business, to which Avangard is a party, for the two years immediately preceding publication of the Prospectus, or any other contracts, other than contracts entered into in the ordinary course of business, entered into by Avangard, which contain any provisions under which Avangard has any obligation or entitlement material to it at the date of this Prospectus.
14. Except as discussed in ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Events after the balance sheet date'' on page 56, there has been no significant change in the financial or trading position of the Company or the Group since 31 December 2009. See Note 42 to the Consolidated Financial Information.

INDEX TO FINANCIAL INFORMATION

PART A
ACCOUNTANT'S REPORT ON THE CONSOLIDATED FINANCIAL INFORMATION

The following is the full text of a report on the consolidated financial information of Avangard from Baker Tilly Corporate Finance LLP, the Reporting Accountants, to the Directors of Avangardco Investments Public Limited.

BAKER TILLY

2 Bloomsbury Street
London WC1B 3ST
www.bakertilly.co.uk

The Directors
Avangardco Investments Public Limited
16-18 Zinas Kanther Street
3035 Limassol
Cyprus

30 April 2010

Dear Sirs

AVANGARDCO INVESTMENTS PUBLIC LIMITED
(the "Company", together with its subsidiaries, the "Group")

We report on the consolidated financial information set out in Part B on pages F-4 to F-79. This financial information has been prepared for inclusion in the Prospectus dated 30 April 2010 (the "Prospectus") on the basis of the accounting policies set out in notes 2 and 3 to the consolidated financial information.

This report is required by paragraph 20.1 of Annex X of Appendix 3.1.1 of the Prospectus Rules and is given for the purpose of complying with that paragraph and for no other purpose.

Our audit work has been undertaken so that we might state those matters we are required to state in an accountants' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than a person as and to the extent provided by paragraph 20.1 of Annex X of the Prospectus Rules, for our audit work, for this report, or for the opinions we have formed or consenting to its inclusion in the Prospectus.

Responsibilities

The Directors of the Company are responsible for preparing the consolidated financial information on the basis of preparation set out in notes 2 and 3 to the consolidated financial information and in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

It is our responsibility to form an opinion as to whether the consolidated financial information gives a true and fair view, for the purposes of the Prospectus, and to report our opinion to you

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the consolidated financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Limitation of scope

Because auditors were not appointed until after 31 December 2006, we were unable to observe the counting of physical inventories and biological assets as at that date or to satisfy ourselves concerning the physical quantities by alternative means. Since opening inventories and biological assets enter into the determination of results for the year ended 31 December 2007, we were unable to determine whether adjustments to the results of operations and opening retained earnings might be necessary for the year ended 31 December 2007.

Qualified Opinion

In our opinion, except for the effect on the year ended 31 December 2007 of the adjustments, if any, to the results for that year which we might have determined to be necessary had we been able to observe the physical counts as at 31 December 2006, the consolidated financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Group as at the dates stated and of its profits, cash flows and recognised gains and losses and changes in equity for the periods then ended in accordance with the basis of preparation set out in the notes to the consolidated financial information and in accordance with and in accordance with IFRS.

Emphasis of matter

Without qualifying our opinion in respect of this matter, we draw attention to note 36 ‘‘Related party transactions’’ to the consolidated financial information which draws attention to the extent of related party transactions and the difficulty of determining whether such transactions would have been conducted on the same terms, conditions and amounts if the parties had not been related.

Declaration

For the purposes of Prospectus Rule 5.5.4(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex X of Appendix 3.1.1 of the Prospectus Rules.

Yours faithfully

Baker Tilly Corporate Finance LLP

Baker Tilly Corporate Finance LLP

Regulated by the Institute of Chartered Accountants in England and Wales

Baker Tilly Corporate Finance LLP is a limited liability partnership registered in England and Wales, registered no. OC325347. A list of the names of members is open to inspection at the registered office 2 Bloomsbury Street London WC1B 3ST.

PART B
CONSOLIDATED FINANCIAL INFORMATION FOR THE YEARS ENDED 31 DECEMBER 2007, 2008 AND 2009

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR PREPARATION OF THE CONSOLIDATED FINANCIAL INFORMATION FOR THE YEARS ENDED 31 DECEMBER 2007, 2008 AND 2009

1. Management of the Group is responsible for the preparation of the consolidated financial information which reflect in all material aspects the financial position of the Group as at 31 December 2009, 2008 and 2007 as well as the results of its activities, cash flows and changes in equity for the years then ended in accordance with International Financial Reporting Standards as adopted for use in the European Union ("IFRS").

2. In preparing the 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 the consolidated financial statements; and

– preparing the consolidated financial statements of the Group on a going concern basis, except for the cases when such assumption is not appropriate.

3. Management is also responsible for:

– development, implementation and maintaining an effective and reliable internal control system in the Group;

– maintaining a proper accounting system that allows preparation of information about the financial position of the Group with reasonable accuracy and ensures the compliance of the consolidated financial statements with IFRS;

– maintaining accounting records according to laws of the countries in which the Group's companies are registered;

– taking reasonable steps to safeguard the assets of the Group; and

– detecting and preventing fraud and other irregularities.

4. The information which has been prepared in compliance with IFRS has been approved on behalf of the Management.

5. This consolidated financial information does not comprise statutory financial statements under Cyprus Companies Law. Statutory accounts for each year have been prepared and will be filed.

Consolidated statement of financial position

AS AT 31 DECEMBER 2007, 2008 AND 2009

(in USD thousand, unless otherwise stated)

ASSETS	Note	31 December 2009	31 December 2008	31 December 2007
NON-CURRENT ASSETS:				
Property, plant and equipment	5	375 426	368 264	213 529
Available for sale investments	6	40	41	29 766
Non-current biological assets	7	21 546	9 185	21 343
Financial assets – long-term bank deposits	15	504	49 351	107 627
Deferred income tax assets	20	230	830	–
Other non-current assets	8	16 630	55 368	110 288
Total non-current assets		**414 376**	**483 039**	**482 553**
CURRENT ASSETS:				
Inventories	10	92 757	47 076	12 688
Prepaid income tax		35	5	–
Trade and other receivables	9	90 923	163 498	102 359
Current biological assets	7	44 910	47 935	18 075
Short-term bank deposits	15	155 917	233 271	37 363
Other short-term financial assets	11	43 731	39 264	25 564
Total short-term financial assets		199 648	272 535	62 927
Cash and cash equivalents	14	1 727	5 878	4 460
Total current assets		**430 000**	**536 927**	**200 509**
TOTAL ASSETS		**844 376**	**1 019 966**	**683 062**
EQUITY AND LIABILITIES				
EQUITY:				
Share capital	1	644	644	3
Capital contribution reserve	1	115 858	–	–
Retained earnings		300 107	168 151	74 109
Currency translation reserve		(64 137)	(56 698)	–
Total equity attributable to:				
Owners of the parent		**352 472**	**112 097**	**74 112**
Non-controlling interests		8 083	6 406	17 680
Total equity		**360 555**	**118 503**	**91 792**
NON-CURRENT LIABILITIES:				
Long-term loans	16	85 975	192 518	189 340
Finance leases	24	6 142	8 502	–
Total financial liabilities		92 117	201 020	189 340
Deferred income tax liabilities	20	1 173	650	1 201
Trade and other payables – deferred income (non-current portion)	34, c)	5 963	6 499	10 136
Total non-current liabilities		**99 253**	**208 169**	**200 677**

The notes on pages F-11 to F-79 form an integral part of this financial information.

Consolidated statement of financial position (continued)

FOR THE YEARS ENDED 31 DECEMBER 2007, 2008 AND 2009

(in USD thousand, unless otherwise stated)

	Note	31 December 2009	31 December 2008	31 December 2007
CURRENT LIABILITIES:				
Short-term bond liabilities	25	24 249	25 843	–
Current portion of financial liabilities	19	3 141	3 100	10 348
Short-term loans	17	145 531	280 176	213 867
Short term notes issued	17, e)	2 126	1 850	2 821
Other short-term financial liabilities	23, a)	10 386	2 330	38
Total financial liabilities		185 433	313 299	227 074
Current income tax liabilities		7	–	6
Trade payables	21	66 197	18 954	40 781
Accrued expenses	22	1 278	1 004	722
Other current liabilities and accrued expenses	23	131 653	359 997	122 010
Total trade and other payables		199 128	379 995	163 513
Total current liabilities		**384 568**	**693 294**	**390 593**
TOTAL LIABILITIES AND EQUITY		**844 376**	**1 019 966**	**683 062**

The notes on pages F-11 to F-79 form an integral part of this financial information.

Consolidated statement of comprehensive income

FOR THE YEARS ENDED 31 DECEMBER 2007, 2008 AND 2009

(in USD thousand, unless otherwise stated)

	Note	2009	2008	2007
Revenue	26	319 855	302 292	127 788
Net change in fair value of biological assets	7	7 695	12 690	6 467
Cost of sales	27	(220 407)	(232 975)	(114 689)
GROSS PROFIT		**107 143**	**82 007**	**19 566**
General administrative expenses	29	(4 933)	(7 932)	(4 986)
Distribution expenses	30	(3 086)	(4 429)	(4 005)
Income from Government grants and incentives	34	9 440	39 068	17 187
Income from special VAT treatment	34 a)	12 291	–	–
Other operating expenses	31	(4 970)	(6 940)	(2 655)
Other operating income		1 397	120	255
Waiver of amounts due to related parties	31	22 525	64	7 798
OPERATING PROFIT		**139 807**	**101 958**	**33 160**
Finance income	33	41 180	26 897	20 868
Finance costs	32	(46 150)	(52 986)	(22 540)
PROFIT BEFORE TAX		**134 837**	**75 869**	**31 488**
Income tax credit(expense)	20	(1 168)	1 414	(1 254)
PROFIT FOR THE YEAR AFTER TAX		**133 669**	**77 283**	**30 234**
OTHER COMPREHENSIVE INCOME FOR THE YEAR				
Effect of translation into presentation currency		**(7 441)**	**(59 998)**	**–**
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		**(7 441)**	**(59 998)**	**–**
TOTAL COMPREHENSIVE INCOME		**126 228**	**17 285**	**30 234**
PROFIT FOR THE YEAR ATTRIBUTABLE TO				
Owners of the parent		131 956	74 748	24 026
Non-controlling interests		1 713	2 535	6 208
		133 669	**77 283**	**30 234**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO				
Owners of the parent		124 517	18 050	24 026
Non-controlling interests		1 711	(765)	6 208
		126 228	17 285	**30 234**
Average weighted number of shares, items		5 000 000	435 000	20 000
Earnings for the year per share, USD (basic and diluted)	39	26.73	177.66	1 511.70

Income from Government grants and incentives includes USD6 261 thousand (2008: USD30 598 thousand; 2007 USD12 582 thousand) of partial compensation for interest as set out in note 34.

The notes on pages F-11 to F-79 form an integral part of this financial information.

Consolidated statement of changes in equity

FOR THE YEARS ENDED 31 DECEMBER 2007, 2008 AND 2009

(in USD thousand, unless otherwise stated)

	Share capital	Capital contribution reserve	Retained earnings	Foreign currency translation reserve	Non-controlling interests	Total
As at 1 January 2007	**3**	**—**	**26 173**	**—**	**7 284**	**33 460**
Business combinations						
Businesses under common control	—	—	23 910	—	4 188	**28 098**
Comprehensive income						
Profit for the year	—	-	24 026	—	6 208	**30 234**
As at 31 December 2007	**3**	**—**	**74 109**	**—**	**17 680**	**91 792**
Transactions with owners						
Increase in share capital	641	—	—	**—**	**—**	**641**
Business combinations						
Businesses under common control	—	—	19 294	—	(9 945)	**9 349**
Effect of acquisitions of non-controlling interest	—	—	—	—	(564)	**(564)**
	—	—	19 294	—	(10 509)	**8 875**
Comprehensive income						
Effect from translation into presentation currency	—	—	—	(56 698)	(3 300)	**(59 998)**
Profit for the year	—	—	74 748	—	2 535	**77 283**
Total comprehensive income			74 748	(56 698)	765	**17 285**
As at 31 December 2008	**644**	**—**	**168 151**	**(56 698)**	**6 406**	**118 503**
Transactions with owners						
Additional capital contribution	—	115 858	—	—	—	**115 858**
Business combinations						
Effect of acquisitions of non-controlling interest	—	—	—	—	(34)	**(34)**
Comprehensive income						
Effect from translation into presentation currency	—	—	—	(7 439)	(2)	**(7 441)**
Profit for the year	—	—	131 956	—	1 713	**133 669**
Total comprehensive income	—	—	131 956	(7 439)	1 711	**126 228**
As at 31 December 2009	**644**	**115 858**	**300 107**	**(64 137)**	**8 083**	**360 555**

The notes on pages F-11 to F-79 form an integral part of this financial information.

Consolidated statement of cash flows

FOR THE YEARS ENDED 31 DECEMBER 2007, 2008 AND 2009

(in USD thousand, unless otherwise stated)

	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax	134 837	75 869	31 488
Adjustments to reconcile profit before tax with net cash generated from (used in) operating activities:			
Depreciation of property, plant and equipment	12 285	11 780	5 592
Change in allowance for irrecoverable amounts	69	829	499
Other provisions	274	282	523
Loss on disposal of property, plant and equipment	90	376	242
Cost of current assets written-off	1 571	1 630	1 425
Effect of fair value adjustments	(7 695)	(12 690)	(6 467)
Gains realised from accounts payable written-off	(22 525)	(64)	(7 798)
Partial compensation of complex agricultural equipment cost	312	469	460
Effect of transactions under common control	–	9 349	28 098
Goodwill impairment	629	–	–
Interest income	(41 180)	(26 898)	(20 868)
Interest payable on loans	42 643	48 614	22 540
Operating profit before working capital changes	**121 310**	**109 546**	**55 734**
(Increase)/decrease in trade and other receivables	171 826	(73 860)	(85 547)
(Increase)/decrease in inventories	(2 130)	(36 016)	(9 312)
(Increase)/decrease in other non-current assets	13	(360)	(6)
Increase/(decrease) in trade and other payables	(71 889)	182 605	50 826
(Increase)/decrease in biological assets	(1 641)	(28 596)	(9 731)
Cash generated from operations	**217 489**	**153 319**	**1 964**
Interest paid	(51 781)	(54 653)	(25 909)
Income tax paid	(48)	(29)	(65)
Net cash generated from/(used in) operating activities	**165 660**	**98 637**	**(24 010)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(3 370)	(256 411)	(146 372)
Proceeds from disposals of property, plant and equipment	–	284	165
Effect from acquisition of subsidiaries net of cash acquired	28	–	–
(Increase)/decrease in bank deposits	126 200	(137 632)	(93 924)
Acquisition of available for sale investments	–	-	(29 766)
Disposal of available for sale investments	–	28 993	–
Interest received	1 769	26 848	20 868
Net cash generated from/(used in) investing activities	**124 627**	**(337 918)**	**(249 029)**

The notes on pages F-11 to F-79 form an integral part of this financial information.

Consolidated statement of cash flows (continued)

FOR THE YEARS ENDED 31 DECEMBER 2007, 2008 AND 2009

(in USD thousand, unless otherwise stated)

	2009	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES:			
New loans received	15 511	469 156	293 775
Repayment of loans	(308 016)	(256 800)	(16 676)
Interest paid for bonds issued	(2 166)	(89)	–
Proceeds from short-term bonds issued	–	25 973	–
Repayment of short-term bonds issued	(798)	(130)	–
Increase in share capital	–	641	–
Net cash (used in)/generated by financing activities	**(295 469)**	**238 751**	**277 099**
Effects of translation into presentation currency	1 097	1 856	–
Net (decrease) increase in cash	**(4 085)**	**1 326**	**4 060**
Cash at the beginning of the year	**5 786**	**4 460**	**400**
Cash at the end of the year	**1 701**	**5 786**	**4 460**

The notes on pages F-11 to F-79 form an integral part of this financial information.

1. General information

This consolidated financial information of Avangardco Investments Public Limited ("the Company" hereinafter) and subsidiaries ("the Group" or "Avangard" hereinafter jointly) for the years ended 31 December 2009, 31 December 2008 and 31 December 2007 was approved by the Board of Directors on 30 April 2010.

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

Avangardco Investments Public Limited was incorporated as a private limited company on 23 October 2007 in accordance with the provisions of the Cyprus Companies Law, Cap 113 under the name of Ultrainvest Limited. On 8 July 2009 the Company re-registered as a public company and changed its name to Avangardco Investments Public Limited.

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

The history of "Avangard" began with the acquisition by the principal shareholder of the first poultry farm "Avangard" located in the Ivano-Frankivsk region of Ukraine. Subsequently, to supply the poultry farm with growing birds, the subsidiary "Avangard-Agro" was established. In 2004 a strategy of increasing production was pursued and, as a result other major enterprises in the agrarian industry in Ukraine joined the Group in 2005-2009.

The Group's activities cover all the links of the value chain: from production of combined feed, maintenance and breeding of chickens to production and sale of eggs and egg products. As at 31 December 2009 the production facilities of the Group include 31 poultry facilities (consisting of 19 egg laying farms, 9 hen rearing farms and 3 breeding farms), 6 feed mills, and 1 plant for manufacture of egg products. This vertically-integrated structure of the Group allows it to provide approximately 70% of its own fodder. The Group's activities cover almost all the territory of Ukraine.

In order to build a vertically-integrated group, reduce business risk and enhance profitability, the Group acquired a hen breeding business. This ensures breeding of the required number of high quality daily chickens and their timely delivery to factories.

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

In 2009 the Ukrainian market of eggs and egg-production maintained positive growth trends. Using American and European experience of poultry keeping and anticipating changes in the market demand for intensification and enterprises to decrease cost of production, it was decided to build new poultry plants, using European technologies and equipment for industrial farming.

(in USD thousand unless otherwise stated)

1. General information (continued)

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

Company name	Principal Activity	Country of registration	Ownership Interest 2009	Ownership Interest 2008	Ownership Interest 2007
CJSC Avangard	Keeping of technical laying hen, production and selling of eggs	Ukraine	99%	99%	64%
APP CJSC Chornobaivske		Ukraine	97%	97%	60%
CJSC Agrofirma Avis		Ukraine	100%	100%	90%
OJSC Kirovskiy		Ukraine	100%	100%	87%
OJSC Ptakhohospodarstvo Chervonyi Prapor		Ukraine	98%	98%	86%
SC Ptakhofabryka Lozuvatska		Ukraine	100%	100%	100%
LLC Yuzhnaya-Holding		Ukraine	100%	100%	100%
LLC Makarivska Ptakhofabryka		Ukraine	100%	100%	100%
LLC PF Volnovaska		Ukraine	100%	100%	100%
LLC Cross-PF Zorya		Ukraine	89%	89%	89%
OJSC Ptakhofabryka Pershe Travnya		Ukraine	93%	93%	93%
CJSC Chernivetska Ptakhofabryka		Ukraine	98%	98%	60%
ALLC Donetska Ptakhofabryka		Ukraine	100%	100%	100%
LLC Areal-Snigurivka		Ukraine	100%	100%	–
LLC Torgivenlniy Budynok Bohodukhivska Ptakhofabryka		Ukraine	100%	100%	100%
PPB LLC Ptytsecompleks		Ukraine	100%	100%	100%
PSPC Interbusiness		Ukraine	100%	100%	–
SC Avangard-Agro of CJSC Avangard	Incubation (production and sale of day-old chick), farming of young poultry for sale, and poultry	Ukraine	99%	99%	64%
SC Gorodenkivska Ptakhofabryka of CJSC Avangard		Ukraine	99%	99%	64%
SC Rogatynska Ptakhofabryka of CJSC Avangard		Ukraine	99%	99%	64%
SC Ptakhohospodarstvo Donetske of ALLC Donetska Ptakhofabryka		Ukraine	100%	100%	100%
LLC Slovyany		Ukraine	90%	90%	90%
SC Ptakhohospodarstvo Lozuvatske		Ukraine	100%	100%	100%
SC Zorya of LLC Cross-PF Zoraya		Ukraine	89%	89%	89%
SC Ptakhofabryka Chervonyi Prapor Poultry of OJSC Ptakhohospodarstvo Chervoniy Prapor		Ukraine	98%	98%	86%
SC Ptakhohospodarstvo Yuzhnaya Holding of LLC Yuzhnaya Holding		Ukraine	100%	100%	100%
SC Ptakhogopodarstvo Volnovaske of LLC PF Volnovaska		Ukraine	100%	100%	100%
SC Ptakhohospodarstvo Chornobaivske of APP CJSC Chornobaivske		Ukraine	97%	97%	60%
LLC Rohatyn-Korm	Production and selling of animal feed	Ukraine	99%	99%	64%
OJSC Vuhlehirskyi Eksperementalnyi Kombikormovyi Zavod		Ukraine	80%	80%	80%
OJSC Volnovaskyi Kombinat Khliboproduktiv		Ukraine	72%	72%	72%
LLC Kamyanets-Podilsky Kombikormoviy Zavod		Ukraine	100%	100%	90%
LLC Pershe Travnya Kombikormoviy Zavod		Ukraine	93%	–	–
LLC Imperovo Foods	Processing of eggs and selling of egg products	Ukraine	100%	–	–
LLC Kross	Rendering services under guarantee agreements	Ukraine	100%	100%	100%

(in USD thousand unless otherwise stated)

1. General information (continued)

The parent company of the Group is Avangardco Investments Public Limited, registered in Cyprus, with an issued share capital of 5 000 000 ordinary shares as at 31 December 2009 with nominal value of Euro 0.10 (USD 0.14) per share.

As at 31 December 2007 and until 19 December 2008, the issued share capital of the Parent company was EUR 2 000, which comprised 2 000 ordinary shares with nominal value of EUR 1 per share. On 19 December 2008 this was increased to EUR 500 000 by contemporaneous split of each EUR 1 share into 10 Euro 0.10 shares and the issue of 4 980 000 new shares of EUR 0.10 each at par value.

The shares were distributed as follows:

	31 December 2009		31 December 2008		31 December 2007	
Shareholder	**Number of shares**	**Ownership interest, %**	**Number of shares**	**Ownership interest, %**	**Number of shares**	**Ownership interest, %**
Oleg Bakhmatyuk	20 000	0,4%	20 000	0.4%	2 000	100.0%
Quickcom Limited	1 074 684	21.5%	1 074 684	21.5%	–	–
Omtron Limited	1 848 575	37.0%	1 848 575	37.0%	–	–
Tanchem Limited	926 280	18.5%	926 280	18.5%	–	–
Mobco Limited	1 130 458	22.6%	1 130 458	22.6%	–	–
Other	3	–	3	–	–	–
	5 000 000	100.0%	5 000 000	100.0%	2 000	100.0%

As at 31 December 2009 and 2008 the interests in Quickcom Limited, Omtron Limited, Tanchem Limited, Mobco Limited beneficially owned by Oleg Bakhmatyuk (''beneficial owner'') were as follows:

	Ownership interest as at 31 December 2009, %	**Ownership interest as at 31 December 2008, %**
Quickcom Limited	100%	100%
Omtron Limited	100%	100%
Tanchem Limited	100%	100%
Mobco Limited	100%	100%

In the year ended 31 December 2009 the beneficial owner made an ''Additional Capital Contribution'' in the amount of USD115 858 thousand, in his capacity as an owner. This transaction was carried out under a debt-for-equity swap agreement resulting in a contribution but no issue of shares.

2. Basis of presentation of consolidated financial information

2.1 Basis of preparation and accounting

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

This financial information was prepared in accordance with IFRS which became effective for years commencing on or after 1 January 2009.

2 Basis of presentation of consolidated financial information (continued)

2.1 Basis of preparation and accounting (continued)

Before January 2006 the Group had not prepared any financial statements in accordance with IFRS. Before 1 January 2006 each of Group's entities prepared individual financial statements in accordance with Ukrainian GAAP. The Group has now adopted IFRS as a basis for preparation of its consolidated financial statements. For this purpose the Group prepared its initial statement of financial position as at 1 January 2007 (the date of transition to IFRS) in accordance with requirements of IFRS 1 ("First-time adoption of International Financial Reporting Standards"). This standard requires the initial statement of financial position as at the date of transition to be prepared in accordance with accounting policies that satisfy the requirements of IFRS effective as at the date of first preparation of full financial statements package, subject to certain transitional arrangements within IFRS1. The Group's first full financial statements package in accordance with IFRS that includes statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity with comparative information for the previous year, was prepared for the year ended 31 December 2008, with the transition date being 1 January 2007.

The basis of consolidation is included in Note 3 below.

2.2 Functional and presentation currency

The functional currency of all companies of the Group is the Ukrainian Hryvnia ("UAH"). The currency of Cyprus is the Euro, but the principal exposure of the parent undertaking is through its Ukrainian subsidiaries, and therefore the functional currency of the Company is also considered to be UAH. Transactions in currencies other than the functional currency of the Group are treated as transactions in foreign currencies. The Group's management used the US dollar as the presentation currency in the consolidated financial information in compliance with IAS 21 ("The effects of changes in foreign exchange rates").

2.3 Going concern basis

These consolidated financial statements have been prepared under the going concern basis, which assumes the realisation of assets and settlement of liabilities in the course of ordinary economic activity.

2.4 Standards and interpretations

a) Standards and interpretations applied for the first time

The following amended or revised standards and interpretations were first applied by the Group in 2009, which resulted in some changes to accounting policies and other disclosures in the notes to the consolidated financial statements.

IFRS 2 Share-based Payment – vesting conditions and cancellations

The amendments to IFRS 2 were issued in January 2008 and are applied for all annual reporting periods beginning on or after 1 January 2009. The amendments clarify the term "vesting conditions" and determine the interpretation of an award which is cancelled if vesting conditions are not met.

IFRS 3 Business Combinations (Revised)

The IASB issued the revised Business Combinations standard in January 2008 which is effective for acquisitions made in financial years beginning on or after 1 July 2009. The standard introduces changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results. The revised standard has been early-adopted by the Group for acquisitions made in the year ended 31 December 2009 together with the revised IAS 27 Consolidated and Separate Financial Statements, including consequential amendments to IFRS 7, IAS 21, IAS 28, IAS 31 and IAS 39.

2 Basis of presentation of consolidated financial information (continued)

2.4 Standards and interpretations (continued)

IFRS 7 Financial Instruments: Disclosures

These amendments were issued in March 2009 and are applicable to annual periods beginning on or after 1 January 2009. The amendments outline additional disclosure requirements for fair value measurement and liquidity risk.

IFRS 8 Operating Segments

IFRS 8 was issued in November 2006, which replaced IAS 14 Segment Reporting, and is effective for annual periods beginning on or after 1 January 2009.

The Group has adopted this standard for the presentation of all years in this consolidated financial information. Disclosure of information required by this standard is presented in Note 37 Business segments.

IAS 1 Presentation of Financial Statements (Revised)

The IASB issued revised IAS 1 (Revised) in September 2007 which is effective for financial years beginning on or after 1 January 2009. The standard separates owner and non-owner changes in equity. Therefore, the statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces a statement of comprehensive income, presenting all items of income and expense recognised in the income statement, together with all other items of recognised income and expense, either in one single statement, or in two linked statements.

IAS 23 Borrowing Costs (Revised)

The revised IAS 23 was issued in April 2007 and is effective for annual periods beginning on or after 1 January 2009. The revised standard requires that all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset must be capitalised.

IAS 27 Consolidated and Separate Financial statements (Revised)

In January 2008, the IASB issued IAS 27 (Revised), affecting consolidated and separate financial statements. IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The amended standard has been early-adopted by the Group together with IFRS 3 (Revised) Business Combinations, including consequential amendments to IAS 21, IAS 28, IAS 31 and IAS 39.

IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation

These amendments to IAS 32 and IAS 1 were issued in February 2008 and are effective for annual periods beginning on or after 1 January 2009. These amendments allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified features.

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

This amendment was issued in July 2008 and is effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The Group has adopted this amendment with effect from 1 January 2009.

IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement

The amendments to IFRIC 9 and IAS 39 were issued in March 2009 and are effective for annual periods ending on or after 30 June 2009. The amendments require an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss.

2 Basis of presentation of consolidated financial information (continued)

2.4 Standards and interpretations (continued)

IFRIC 13 Customer Loyalty Programmes

The IFRIC issued IFRIC 13 in June 2007. This interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. It is effective for annual periods beginning on or after 1 July 2008.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

This was issued in July 2008. This interpretation provides guidance on the accounting for a hedge of a net investment. This interpretation is effective for financial years beginning on or after 1 October 2008.

b) Improvements and other changes to IFRS not yet applied

In April 2009 the IASB issued the second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. In addition, other standards and interpretation statements have been issued that are effective for future periods, or have not yet been adopted for use in the EU.

IFRIC Interpretation 17 Distributions of Non-Cash Assets to Owners

The interpretation is a part of project implemented by IASB on an annual basis relating to the improvements in standards issued in April 2009. IFRIC 17 provides guidance on how to account for distributions of non-cash assets to its owners and distributions that give owners a choice of receiving either non-cash assets or a cash alternative. The Group shall apply this IFRIC Interpretation 17 from 1 January 2010. No significant effect on the financial statements is expected.

IFRS 5 Non-current assets held for sale and discontinued operations

The amendments are part of a project implemented by the IASB on an annual basis relating to the improvements in standards issued in April 2009. The changes clarify IFRS 5 which stipulates disclosures required for non-current assets (or disposal groups) held for sale and discontinued operations. Such changes also specify that general requirements of IAS 1 are still applied. The Group will apply IFRS 5 (amended) starting from 1 January 2010.

In addition to those referred to above, other standards and improvements have been issued. The following have not been adopted in this financial information which will be generally effective (assuming endorsement by the EU where not currently endorsed) for periods commencing on or after 1 January 2010 or later:

IFRS 1: First time adoption of IFRS – Amendment; Additional exemptions for first time adopters

IFRS 1: First time adoption of IFRS – Amendment: Limited exemptions from comparative IFRS7 disclosures for first time adopters

IFRS 2: Share-based payments – Amendment; Cash-settled Share-based payment transactions

IFRS 5: Non-current assets held for sale and discontinued operations: Improvement to Standard

IFRS 9: Financial Instruments

IAS 7: Statement of Cash Flows: Improvement to Standard (endorsed)

IAS 17: Leases: Improvement to Standard (endorsed)

IAS 24: Revised IAS 24 – Related party disclosures

IAS 32: Financial Instruments: Presentation – Amendment; Classification of Rights Issues (endorsed)

IAS 36: Impairment of assets: Improvement to Standard (endorsed)

IAS 38: Intangible assets: Improvement to Standard (endorsed)

IAS 39: Financial Instruments: Recognition and Measurement – Amendment; Eligible hedged items (endorsed)

IFRIC 9: Reassessment of Embedded Derivatives: Improvement to Standard (endorsed)

IFRIC 14: Amendment – Prepayments of a minimum funding requirement

2 Basis of presentation of consolidated financial information (continued)

2.4 Standards and interpretations (continued)

IFRIC 16: Hedges of net investment in a foreign operation: Improvement to Standard (endorsed)

IFRIC 17: Distributions of Non-cash Assets to Owners (endorsed)

IFRIC 18: Transfers of Assets from Customers (endorsed)

IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial information of the Group

3. Significant accounting policies

3.1 Basis of consolidation

The consolidated financial statements comprise the consolidated financial statements of the companies controlled by the Group as at 31 December 2009, 31 December 2008 and 31 December 2007.

Transactions under common control

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

Subsidiaries

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

Combinations of businesses under common control

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

- The Group does not restate assets and liabilities to their fair values. Instead the Group incorporates the assets and liabilities at the amounts recorded in the books of the acquired company (the predecessor carrying values) adjusted only to achieve harmonisation of accounting policies.
- No goodwill arises in predecessor accounting. Predecessor accounting may lead to differences in consolidation, for example the consideration given may differ from the aggregate book value of the assets and liabilities (as at the date of the transaction) of the acquired entity. Such differences are included in equity in retained earnings.
- The consolidated financial statements incorporate the acquired entity's results as if both entities (acquirer and acquiree) had always been combined from the date that common control was achieved. Consequently, the consolidated financial statements reflect both entities' full year's results, even though the business combination may have occurred part of the way through the year. In addition, the corresponding amounts for previous years also reflect the combined results of both entities, even though the transaction did not occur until the current year.

Combinations of businesses not under common control

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

3. Significant accounting policies (continued)

3.1 Basis of consolidation (continued)

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

Transactions eliminated by consolidation

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

Non-controlling interests

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

Business combinations and goodwill

Business combinations from 1 January 2009

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

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

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

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

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

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

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

(in USD thousand unless otherwise stated)

3. Significant accounting policies (continued)

3.1 Basis of consolidation (continued)

Business combinations prior to 31 December 2008

In comparison to the above mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

Contingent consideration was recognised if, and only if, the Group had a present obligation at the time of the acquisition, the economic outflow was more likely than not and a reliable estimate was determinable; subsequent adjustments to the contingent consideration affected goodwill.

3.2 Foreign currency translation

(a) Transactions and balances

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

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

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

Currency	31 December 2009	Weighted average for 2009	31 December 2008	Weighted average for 2008	31 December 2007
US dollar	7.99	7.79	7.70	5.17	5.05

The dollar rate was constant during 2007 at the rate disclosed for 31 December 2007 above. The foreign currencies may be freely convertible in the territory of Ukraine at the exchange rate which is close to the exchange rate established by the National Bank of Ukraine. At the moment, the UAH is not a freely convertible currency outside of Ukraine.

(b) Presentation currency

The financial results and position of each subsidiary are translated into the presentation currency as follows:

(1) At each date of the financial statements all the assets and liabilities are translated at the exchange rate of the National Bank of Ukraine at the date;

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

(3) All exchange differences are recognised in other comprehensive income.

3.3 Property, plant and equipment

Initial recognition of property, plant and equipment ("PPE")

PPE is recognised by the Group as an asset only in a case, when:

- it is probable that the Group will receive certain future economic benefits;
- the historical cost can be assessed in a reliable way;

3. Significant accounting policies (continued)

3.3 Property, plant and equipment (continued)

- it is intended for use during more than one operating cycle (usually more than 12 months); and
- after actual commissioning, PPE previously under construction is transferred to the relevant category of PPE.

Expenses after the initial recognition of PPE

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

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

Subsequent measurement of PPE

After initial recognition as an asset, the Group applies the model of accounting for PPE at historical cost, net of accumulated depreciation and any accumulated losses from impairment, taking into account estimated residual values of such assets at the end of their useful lives. Such cost includes the cost of replacing significant parts of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of PPE are required to be replaced from time to time, the Group recognises such parts as individual assets with specific estimated useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying value of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statement as incurred.

Depreciation of PPE is calculated using the straight-line method over the estimated useful lives as the follows:

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

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

De-recognition

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

At each reporting date the Group evaluates whether any indicators of possible impairment of an asset exist. If the recoverable value of an asset or a group of assets within PPE is lower than their carrying (residual) value, the Group recognises such asset or group of assets as impaired, and accrues a provision for impairment of the amount of excess of the carrying value over the recoverable value of the asset. Impairment losses are recognised immediately in profit or loss.

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

3. Significant accounting policies (continued)

3.4 Financial assets

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

(a) Loans and accounts receivable

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

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

(b) Available for sale financial assets

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

Initial recognition

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

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

Principles of fair value measurement

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

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

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

3. Significant accounting policies (continued)

3.4 Financial assets (continued)

Subsequent measurement

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

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

Impairment of financial assets

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

De-recognition

The financial assets are de-recognised if the term of contractual rights for cash flows from financial assets expires, or the Group transfers all the significant risks and benefits from asset ownership. The financial liability is derecognised if the term of contractual obligations expires and contractual obligations fulfilled or agreement cancelled.

3.5 Financial liabilities

Loans and borrowings

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

Initial recognition

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

Subsequent measurement

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

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

De-recognition

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

3. Significant accounting policies (continued)

3.6 Inventories

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

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

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

Impairment of inventories

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

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

3.7 Biological assets

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

- replacement poultry (immature hens);
- commercial poultry; and
- other biological assets.

The Group performs a biological asset measurement at initial recognition and as at each reporting date, at fair value less any estimated expenses for sale, except for the cases, when it is not possible to quantify fair value with sufficient reliability.

Determination of the fair value of biological assets

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

Determination of the fair value of agricultural produce

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

3.8 Cash and cash equivalents

Cash and cash equivalents include cash at banks and on hand, cash in transit, and issued letters of credit.

3.9 Impairment of non-current assets

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

3. Significant accounting policies (continued)

3.9 Impairment of non-current assets (continued)

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

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

3.10 Value added tax (VAT)

There are two rates of VAT: 20% – on import and sales of goods and services in the territory of Ukraine and 0% – on export of goods and rendering of services and works outside Ukraine.

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

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

The Group's entities apply the special VAT taxation treatment prescribed by the Law of Ukraine "About value-added tax" dated 3 April 1997 No.168-BP regarding the agricultural activities, which provides preferential VAT treatment to support agricultural producers.

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

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

3.10 Value added tax (VAT) (continued)

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

3.11 Income tax and deferred income tax

Current income tax

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

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

3. Significant accounting policies (continued)

3.11 Income tax and deferred income tax (continued)

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 recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

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

3.12 Revenue recognition

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

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

3. Significant accounting policies (continued)

3.12 Revenue recognition (continued)

Revenue is recorded at fair value of assets receivable.

Interest income

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

3.13 Leases

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

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

Group as a lessee

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

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

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

Group as a lessor

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

3.14 Distribution of dividends

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

3.15 Borrowing costs

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

3. Significant accounting policies (continued)

3.16 Government grants

Recognition of government grants

The Group recognises government grants when received.

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

- all grants, compensating the expenses of the preceding periods, shall be recognised by the Group in full in the period of their receipt as income from government grants and incentives. Management believe that all such compensation is in substance a government grant rather than direct compensation of interest payable in the year in view of its discretionary nature;
- all grants, related to assets not depreciated, such as a land site, shall be correlated by the Group with the expenses to fulfill the obligations. Where a grant in the form of provision of a land site is conditional on construction of a building on the site, the Group divides the recognition of the grant as other operating income over the whole useful life of the building; and
- all grants, related to the amortisable assets, are recognised by the Group as deferred income and amortised over the estimated useful life of the relevant asset.

Accounting for government grants for agricultural activities

The Group recognises unconditional state grants related to biological activities as income only in cases when such government grant is receivable.

A contingent government grant, recognised by the Group in income only after the fulfilment of conditions for the government grant.

Return of the government grants

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

3.17 Contingent assets and liabilities

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

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

3.18 Accrued expenses and provisions

Accrued expenses

The Group accrues the following expenses:

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

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

- there exists a present obligation as a result of a past event;
- there exists a probability that an outflow of resources, embodying economic benefits, will be necessary to satisfy the obligations;
- it is possible to reliably estimate the obligations' amounts.

3. Significant accounting policies (continued)

3.18 Accrued expenses and provisions (continued)

The estimate of expenses required to settle the obligations for the reporting date, is represented by an amount calculated after taking into consideration the following factors:

- risks and uncertainty; and
- accrued expenses at reduced value, using a discounting rate, which reflects market evaluations of the time value of money and risks, peculiar to the obligation, and recognition of an increase in the provision in the course of time as the interest expense arises, where material.

In its accounting the Group reflects accrued expenses as an increase in the obligations of the provision on separate balance account with the simultaneous recognition of the related expenses.

Provisions

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

3.19 Share capital

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

4. Significant accounting judgements and estimates

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

In the process of applying the Group's accounting policies, Management has made the following judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements:

4.1 Basis of consolidation (transactions under common control)

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

4.2 Useful lives of PPE

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

4. Significant accounting judgements and estimates (continued)

4.3 Impairment of non-financial assets

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

4.4 Impairments of receivables

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

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

(1) *Individual approach* – receivables from customers (consumers) exceeding UAH 50 thousand are analysed separately and, if necessary, provision is made individually for each debt. The amount of provision is calculated as a difference between the carrying value of accounts receivable and estimated future cash flows (including the amounts which may be received from guarantees and enforcement of pledge), discounted using the interest rate applicable at the inception of the transaction.

(2) *Group approach* – receivables not exceeding UAH 50 thousand, are grouped, and turnover is analysed for the group as a whole, rather than on each individual debt separately. Based on the analysis of accounts receivable according to the previous reporting period data for the share of uncollectible receivables, interest is calculated for calculation of reserve for doubtful debt of current reporting period. Subsequently, to calculate the provision of doubtful debt of current reporting period, interest is applied to outstanding balance in the current period, less the amount of accounts receivable, provision for which is calculated on an individual basis.

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

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

4.5 Legal proceedings

The Group's Management applies significant assumptions in the measurement and recognition of provisions for and risks of exposure to contingent liabilities related to existing legal proceedings and other unsettled claims, and also other contingent liabilities. Management's judgment is required in estimating the probability of a successful claim against the Group or the crystallising of a material obligation, and in determining the probable amount of the final settlement or obligation. Due to uncertainty inherent in the process of estimation, actual expenses may differ from the initial estimates. Such preliminary estimates may alter as new information is received, from internal specialists within the Group, if any, or from third parties, such as lawyers. Revision of such estimates may have a significant effect on the future results of operating activity.

(in USD thousand unless otherwise stated)

4. Significant accounting judgements and estimates (continued)

4.6 Impairment of obsolete and surplus inventory

The Group assesses the necessity to impair obsolete and surplus inventory and supplies.

The Group distinguishes all inventories into 4 types depending on storage period or turnover index:

Type	Storage period, months	Turnover index	% of reserve
1	under 3	above 1	0
2	from 3 to 6	from 0.5 to 1	30
3	from 6 to 9	from 0.33 to 0.5	50
4	above 12	under 0.33	100

4.7 Deferred tax assets

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective regions in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group companies' domicile.

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

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

4.8 Contingent liabilities

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

4. Significant accounting judgements and estimates (continued)

4.9 Impact of the global financial and economic crisis

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

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

4.10 Taxation

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

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

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

The Group met its tax filing obligations in Cyprus and in Ukraine. To the best of management's knowledge, no breaches of tax law have occurred. Thus, the Group has not recorded any provision for potential impact of any such breaches as at 31 December 2009, 2008 and 2007.

(in USD thousand unless otherwise stated)

5. Property, plant and equipment

As at 31 December 2007 movements in property, plant and equipment were as follows:

Initial value	**Land**	**Buildings and structures**	**Machinery and equipment**	**Equipment for biological assets**	**Vehicles**	**Other equipment**	**Assets under construction and uninstalled equipment**	**Total**
As at 1 January 2007	**1**	**61 552**	**10 303**	**29 045**	**2 040**	**432**	**182**	**103 555**
Acquisitions	28	21 689	1 916	22 061	624	679	5 022	52 019
Replacement of components	1	904	85	919	26	29	209	2 173
Merger of entities under common control	5 451	42 950	2 770	2 864	1 313	7 393	544	63 285
Disposals	–	(248)	(57)	(71)	(34)	(17)	–	(427)
As at 31 December 2007	**5 481**	**126 847**	**15 017**	**54 818**	**3 969**	**8 516**	**5 957**	**220 605**
Accumulated depreciation								
As at 1 January 2007	**–**	**503**	**216**	**711**	**61**	**13**	**–**	**1 504**
Depreciation charge for year	–	1,184	462	2 768	202	976	–	5 592
Depreciation eliminated on disposal	–	(3)	–	(3)	(3)	(11)	–	(20)
As at 31 December 2007	**–**	**1 684**	**678**	**3 476**	**260**	**978**	**–**	**7 076**
Net carrying value as at: 31 December 2007	**5 481**	**125 163**	**14 339**	**51 342**	**3 709**	**7 538**	**5 957**	**213 529**

(in USD thousand unless otherwise stated)

5. Property, plant and equipment (continued)

As at 31 December 2008 movements in property, plant and equipment were as follows:

Initial value	**Land**	**Buildings and structures**	**Machinery and equipment**	**Equipment for biological assets**	**Vehicles**	**Other equipment**	**Assets under construction and uninstalled equipment**	**Total**
As at 1 January 2008	**5 481**	**126 847**	**15 017**	**54 818**	**3 969**	**8 516**	**5 957**	**220 605**
Acquisitions	–	24 320	17 315	23 662	1477	346	247 766	**314 886**
Repairs	–	6 024	208	6 941	33	27	45	**13 278**
Merger of entities under common control	–	10 331	433	5 884	397	836	6 852	**24 733**
Disposals	–	(147)	(339)	(139)	(54)	(35)	–	**(714)**
Effect from translation into presentation currency	(1 886)	(57 129)	(11 051)	(33 473)	(1982)	(3 246)	(83 239)	**(192 006)**
Internal transfers	–	(140)	285	7 786	–	(263)	(7 668)	–
As at 31 December 2008	**3 595**	**110 106**	**21 868**	**65 479**	**3840**	**6 181**	**169 713**	**380 782**
Accumulated depreciation								
As at 1 January 2008	–	**1 684**	**678**	**3 476**	**260**	**978**	–	**7 076**
Depreciation charge for year	–	3 111	873	5 973	518	1 305	–	**11 780**
Depreciation eliminated on disposal	–	(2)	(22)	(12)	(3)	(10)	–	**(54)**
Effect form translation into presentation currency	–	(1 604)	(515)	(3 152)	(257)	(756)	–	**(6 284)**
As at 31 December 2008	–	**3 189**	**1 014**	**6 285**	**513**	**1 517**	–	**12 518**
Net carrying value as at:								
31 December 2008	**3 595**	**106 917**	**20 854**	**59 194**	**3 327**	**4 664**	**169 713**	**368 264**

(in USD thousand unless otherwise stated)

5. Property, plant and equipment (continued)

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

Initial value	**Land**	**Buildings and structures**	**Machinery and equipment**	**Equipment for biological assets**	**Vehicles**	**Other equipment**	**Assets under construction and uninstalled equipment**	**Total**
As at 1 January 2009	**3 595**	**110 106**	**21 868**	**65 479**	**3 840**	**6 181**	**169 713**	**380 782**
Acquisitions	–	5 037	2 186	132	**60**	**62**	22 063	29 540
Repairs	–	1 766	257	102	**16**	**24**	–	2 165
Merger of entities under common control	–	–	1 501	–	–	**IS**	–	1 519
Disposals	–	(64)	(3)	–	**(27)**	**(6)**	–	(100)
Effect from translation into presentation currency	(129)	(4 274)	(904)	(2 417)	(138)	(229)	(6 339)	(14 430)
Internal transfers	–	5 507	9	3 107	–	79	(12 002)	–
As at 31 December 2009	**3 466**	**121 378**	**24 914**	**66 403**	**3 751**	**6 129**	**173 435**	**399 476**
Accumulated depreciation								
As at 31 December 2008	**–**	**3 189**	**1 014**	**6 285**	**513**	**1 517**	**–**	**12 518**
Depreciation charge for year	–	3 441	1 546	5 898	499	901	–	12 285
Merger of entities under common control	–	6	–	–	1	–	7	
Depreciation eliminated on disposal	–	(3)	–	–	(?)	(3)	–	(13)
Effect from translation into presentation currency	–	(199)	(74)	(365)	(30)	(76)	–	**(747)**
As at 31 December 2009	**–**	**6 428**	**2 492**	**11 815**	**975**	**2 340**	**–**	**24 050**
Net carrying value as at:								
31 December 2009	**3 466**	**114 950**	**22 422**	**54 588**	**2 776**	**3 789**	**173 435**	**375 426**

(in USD thousand unless otherwise stated)

5. Property, plant and equipment (continued)

As at 31 December 2009, 31 December 2008 and 31 December 2007 property, plant and equipment were used as security for long-term and short-term loans were as follows:

	Carrying value of security as at 31 December 2009	Carrying value of security as at 31 December 2008	Carrying value of security as at 31 December 2007
Buildings and structures	114 950	106 917	125 163
Machinery and equipment	22 422	20 854	14 339
Equipment for biological assets	54 588	59 194	51 342
Vehicles	2 776	3 327	3 709
Assets under construction and uninstalled equipment	173 435	169 713	–
	368 171	**360 005**	**194 553**

As at 31 December 2009, 2008 and 2007 net book value of property, plant and equipment which were acquired under finance leases amounted to USD11 521 thousand, USD 12 241 thousand and USD204 thousand respectively. The residual amount of contractual commitments is presented in Note 24.

At each balance sheet date, the Group reviews the book values of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

As at 31 December 2009, 31 December 2008 and 31 December 2007 the recoverable amount was the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using discount rates of 22.00% and 16.53% as at 31 December 2009 and 2008 respectively.

As a result, no impairment indicators were identified as at 31 December 2009, 31 December 2008 and 31 December 2007.

(in USD thousand unless otherwise stated)

6. Available for sale financial assets

Available for sale financial assets as at 31 December 2009, 31 December 2008 and 31 December 2007 comprised the following:

	As at 31 December 2009		As at 31 December 2008		As at 31 December 2007	
Company name	**Investment carrying value**	**Ownership ratio in percentage**	**Investment carrying value**	**Ownership ratio in percentage**	**Investment carrying value**	**Ownership ratio in percentage**
Nominal investment certificates	–	–	–	–	29 703	17.00%
Gasresursvydobuvannya, OJSC	40	0.25%	38	0.25%	60	0.25%
Sentyanovskoe hlebopriemnoe predpriyatie, OJSC	–	–	1	0.92%	1	0.92%
Perevalskoe remontno-transportnoe predpriatie, OJSC	–	–	2	7.93%	2	7.93%
	40		**41**		**29 766**	

As at 31 December 2007 the Group owned nominal investment certificates of closed non-diversified venture investment fund "Avangard-Agro-Invest" in the amount of 150 000 (one hundred fifty thousand) units with a carrying value of USD29 703 thousand. These certificates were used as collateral for long-term and short-term borrowings of the Group.

In 2008, these investment certificates were sold to a related party LLC "Stanislavskaya Trade Company" at par value.

As at 31 December 2009, 31 December 2008 and 31 December 2007 the Group owned equity instruments that do not have a quoted market price in an active market and they cannot be reliably measured. These equity instruments are recognised at cost as at each year end.

7. Biological assets

Biological assets as at 31 December 2009, 31 December 2008 and 31 December 2007 were as follows:

Non-current biological assets

	Note	31 December 2009	31 December 2008	31 December 2007
Replacement poultry	a)	21 546	9 185	21 343
		21 546	**9 185**	**21 343**
Current biological assets				
Commercial poultry	b)	44 850	47 386	17 592
Other biological assets	c)	60	549	483
		44 910	**47 935**	**18 075**

(in USD thousand unless otherwise stated)

7. Biological assets (continued)

a) Commercial poultry and replacement poultry as at 31 December 2009, 31 December 2008 and 31 December 2007 were as follows:

	31 December 2009		31 December 2008		31 December 2007	
	Number, thousand head	Carrying value	Number, thousand head	Carrying value	Number, thousand head	Carrying value
Decalb	–	–	1 427	2 615	1 592	7 714
Isa Brown	–	–	917	3 079	709	1 937
Loman	331	1 947	823	2 335	1 391	5 560
Hy-Line	14 795	61 572	7 114	36 183	746	3 013
Hisex	350	2 115	876	1 536	2 436	8 926
Other	645	762	2 828	10 823	2 682	11 785
	16 121	**66 396**	**13 985**	**56 571**	**9 556**	**38 935**

b) Reconciliation of commercial and replacement poultry carrying value for the years ended 31 December 2009, 31 December 2008 and 31 December 2007:

As at 1 January 2007		**12 345**
Merger of entities under common control		10 747
Acquisitions	7 894	
Increase in value as a result of changes in weight/number		1 482
Income from revaluation of biological assets at fair value	12 604	
Changes in value of biological assets as a result of agricultural produce harvesting	(6 137)	
Net change in fair value		6 467
As at 31 December 2007		**38 935**
Merger of entities under common control		5 128
Acquisitions		49 509
Increase in value as a result of increase in weight/number		42 202
Income from revaluation of biological assets at fair value	14 279	
Changes in value of biological assets as a result of agricultural produce harvesting	(2 039)	
Net change in fair value		12 690
Decrease in value resulting from assets disposal		(56 927)
Effect from translation into presentation currency		(28 712)
Other changes		(6 254)
As at 31 December 2008		**56 571**
Acquisitions		38 065
Increase in value as a result of increase in weight/number		30 082
Income from revaluation of biological assets at fair value	12 386	
Changes in value of biological assets as a result of agricultural produce harvesting	(4 691)	
Net change in fair value		7 695
Decrease in value resulting from assets disposal		(44 590)
Effect from translation into presentation currency		(4 822)
Other changes		(16 605)
As at 31 December 2009		**66 396**

(in USD thousand unless otherwise stated)

7. Biological assets (continued)

Due to the absence of an active market for laying hens in Ukraine, to determine the fair value of biological assets, the Group used the discounted value of net cash flows expected from assets. As a discount rate, the rate of 28.5% prevailing as at 31 December 2009 was applied (as at 31 December 2008 – 18%-19%, as at 31 December 2007 – 24%).

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

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

As at 31 December 2009, 31 December 2008 and 31 December 2007, the biological assets with a carrying value of USD3 227 thousand, USD 5 169 thousand and USD2 592 thousand respectively were a security for long-term and short-term loans.

8. Other non-current assets

Other non-current assets as at 31 December 2009, 31 December 2008 and 31 December 2007 were presented as follows:

	Note	31 December 2009	31 December 2008	31 December 2007
Prepayments for property, plant and equipment	a)	16 273	54 998	110 278
Other non-current assets		357	370	10
		16 630	**55 368**	**110 288**

9. Trade and other receivables

Taxes recoverable and prepaid as at 31 December 2009, 31 December 2008 and 31 December 2007 were presented as follows:

	Note	31 December 2009	31 December 2008	31 December 2007
Trade receivables	12	47 320	15 593	47 953
Prepayments and other current assets	11	14 895	93 847	13 180
VAT settlements	a)	28 625	54 010	41 106
Other taxes prepaid		83	48	120
		90 923	**163 498**	**102 359**

a) As at 31 December 2009, 31 December 2008 and 31 December 2007 the item ''VAT settlements'' includes the amount of VAT, which is subject to:

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

(in USD thousand unless otherwise stated)

10. Inventories

Inventories as at 31 December 2009, 31 December 2008 and 31 December 2007 were presented as follows:

	31 December 2009	31 December 2008	31 December 2007
Raw and basic materials	72 877	39 468	8 141
Work-in-progress	1 935	206	201
Agricultural produce	884	4 639	1 857
Finished goods	9 958	67	428
Package and packing materials	3 262	1 450	829
Goods for resale	2 640	167	39
Other inventories	1 201	1 079	1 193
	92 757	**47 076**	**12 688**

For the year ended 31 December 2009 the amount of inventories written-off as expenses and included in the item "Other operating income/(expenses)" amounted to USD1 571 thousand (2008 – USD1 630 thousand; 2007 – USD1 425 thousand).

For the years ended 31 December 2009, 2008 and 2007 the Group produced shell eggs in the quantity of 3 634 124 230, 2 421 604 110, 1 769 126 292 pieces respectively. The fair value of produced shell eggs for the years ended 31 December 2009, 2008 and 2007 amounted to USD125 148 thousand, USD144 208 thousand and USD67 595 thousand respectively.

As at 31 December 2009, finished goods – inventory with a carrying value of USD135 thousand, and also raw and basic materials with a carrying value of USD196 thousand were pledged as security for the Group's loans.

As at 31 December 2008, finished goods – shell inventory with a carrying value of USD 140 thousand, and also raw and basic materials with a carrying value of USD203 thousand were pledged as security for the Group's loans.

As at 31 December 2007, finished goods – inventory with a carrying value of USD214 thousand, and also raw and basic materials with a carrying value of USD310 thousand were pledged as security for the Group's loans.

11. Prepayments and other current assets

Prepayments and other current assets, net as at 31 December 2009, 31 December 2008 and 31 December 2007 were as follows:

	31 December 2009	31 December 2008	31 December 2007
Prepayments	11 584	90 703	10 125
Other non-trade accounts receivable	3 311	3 144	3 055
	14 895	**93 847**	**13 180**

(in USD thousand unless otherwise stated)

11. Prepayments and other current assets (continued)

Other short-term financial assets were as follows:

	Note	31 December 2009	31 December 2008	31 December 2007
Loans to related parties	a)	4 320	702	5 733
Commission earned for acquisition of corporate rights prior to 2007	b)	–	12 987	19 802
Interest receivable on deposits		39 411	79	29
Accounts receivable for bonds	c)	–	25 496	–
		43 731	**39 264**	**25 564**

a) "Loans to related parties" include interest-free loans to related parties. In accordance with the loan agreements, the settlement term is set by reference to "complete performance of all liabilities by parties".

b) As at 31 December 2008 and 31 December 2007 accounts receivable under a commission agreement amounting to USD12 987 thousand and USD19 802 thousand (equivalent to UAH100 mln) respectively represented accounts receivable for the acquisition of corporate rights of LLC "Slovyany" (90% of share capital) by "Invest Ptahoprodukt", LLC) in accordance with the agreement.

c) As at 31 December 2008 accounts receivable for bonds in the amount of USD25 496 thousand (equivalent to UAH 196 319 thousand) represents accounts receivable from LLC "Stanislavskaya Torgovaya kompaniya".

12. Trade accounts receivable

Trade accounts receivable, net as at 31 December 2009, 31 December 2008 and 31 December 2007 were as follows:

	31 December 2009	31 December 2008	31 December 2007
Trade accounts receivable	47 320	15 593	47 331
Accounts receivable under commission agreement	–	–	622
	47 320	**15 593**	**47 953**

As at 31 December 2009, USD33 293 thousand or 69.9% of the total carrying value of trade accounts receivable is due from the single most significant debtor (as at 31 December 2008 and 2007 – see note 41, a)).

(in USD thousand unless otherwise stated)

13. Changes in impairment provisions

Changes in impairment provisions for the years ended 31 December 2009, 2008 and 2007 were as follows:

	Impariment for doubtful debts
As at 31 December 2006	**(384)**
Expense accruals	(499)
Provision usage	252
As at 31 December 2007	**(631)**
Expense accruals	(829)
Provision usage	134
Effect of translation of presentation currency	445
As at 31 December 2008	**(881)**
Expense accruals	(69)
Provision usage	62
Effect of translation of presentation currency	186
As at 31 December 2009	**(702)**

14. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2009, 31 December 2008 and 31 December 2007 were as follows:

	31 December 2009	**31 December 2008**	**31 December 2007**
Cash in banks	1 493	5 701	3 957
Cash on hand	103	44	211
Cash in transit	105	42	292
Letter of credit in national currency	26	91	–
	1 727	**5 878**	**4 460**
Less restricted cash:			
Letter of credit in national currency	(26)	(91)	–
Cash to be represented in statement of cash flows	**1 701**	**5 786**	**4 460**

(in USD thousand unless otherwise stated)

15. Deposits

Deposits as at 31 December 2009, 31 December 2008 and 31 December 2007 were as follows:

	31 December 2009	31 December 2008	31 December 2007
Bank deposits (with maturity under 3 months)	–	510	2 588
Bank deposits (with maturity from 3 to 12 months)	155 917	232 761	34 775
Bank deposits (with maturity above 12 months)	504	49 351	107 627
	156 421	**282 622**	**144 990**

As at 31 December 2009, 31 December 2008 and 31 December 2007, all the bank deposits were made in UAH.

Deposit interest rates as at 31 December 2009, 31 December 2008 and 31 December 2007 were presented as follows:

	31 December 2009	31 December 2008	31 December 2007
Bank deposits (with maturity under 3 months)	–	12.5%	10.5%-16.0%
Bank deposits (with maturity from 3 to 12 months)	16.0%	8.0%-16.0%	12.9%-17.0%
Bank deposits (with maturity above 12 months)	12.0%	12.0%-16.0%	8.0%-16.0%

As at 31 December 2009, 31 December 2008 and 31 December 2007, bank deposits with carrying value of USD156 421 thousand, USD282 622 thousand and USD95 116 thousand respectively were a security for long- and short-term loans of the Group's companies.

16. Long-term loans

Long-term loans as at 31 December 2009, 31 December 2008 and 31 December 2007 were as follows:

	Note	31 December 2009	31 December 2008	31 December 2007
Long-term bank loans in national currency	a),b),c)	84 104	190 142	195 535
Long-term bank loans in foreign currency	a),b),c)	1 845	2 146	2 310
Total loans		**85 949**	**192 288**	**197 845**
Commodity credit	d)	1 110	1 151	1 755
		87 059	**193 439**	**199 600**
Current portion of bank loans in national currency		(122)	(116)	(8 917)
Current portion of bank loans in foreign currency		(962)	(805)	(1 343)
		85 975	**192 518**	**189 340**

(in USD thousand unless otherwise stated)

16. Long-term loans (continued)

a) As at 31 December 2009, 31 December 2008 and 31 December 2007 long-term bank loans by maturities were as follows:

	31 December 2009	31 December 2008	31 December 2007
Under a year (current portion)	1 085	921	10 260
From 1 to 2 years	51 278	85 775	63 801
From 2 to 3 years	–	70 762	123 763
From 3 to 4 years	33 586		
From 4 to 5 years	–	34 830	–
Above 5 years	–	–	21
	85 949	**192 288**	**197 845**

b) As at 31 December 2009, 31 December 2008 31 December 2007 long-term bank loans by currencies were presented as follows:

	31 December 2009	31 December 2008	31 December 2007
Long-term bank loans in UAH	84 104	190 142	195 535
Long-term bank loans in CHF	1 845	2 146	–
Long-term bank loans in USD	–	–	2 144
Long-term bank loans in EURO	–	–	166
	85 949	**192 288**	**197 845**

c) As at 31 December 2009, 31 December 2008 and 31 December 2007 interest rates for long-term bank loans were presented as follows:

	31 December 2009	31 December 2008	31 December 2007
Long-term bank loans denominated in UAH	16.0%-23.0%	14.0%-23.0%	14.0%-18.0%
Long-term bank loans denominated in CHF	9.0%	9.0%	–
Long-term bank loans denominated in USD	–	–	13.0%
Long-term bank loans denominated in EURO	–	–	10.5%

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

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

(in USD thousand unless otherwise stated)

17. Short-term loans

Short-term loans as at 31 December 2009, 31 December 2008 and 31 December 2007 were as follows:

	Note	31 December 2009	31 December 2008	31 December 2007
Short-term loans in national currency	a),b),c)	136 271	175 181	117 709
Short-term loans in foreign currency	a),b),c)	725	771	–
Interest free loans	d)	8 535	104 151	96 101
Overdrafts	c)	–	73	57
		145 531	**280 176**	**213 867**

a) As at 31 December 2009, 31 December 2008 and 31 December 2007 short-term bank loans by maturity were as follows:

	31 December 2009	31 December 2008	31 December 2007
under 3 months	975	20 995	30 231
from 3 to 6 months	11 151	5 743	32 498
from 6 to 12 months	124 870	149 214	54 980
	136 996	**175 952**	**117 709**

b) As at 31 December 2009, 31 December 2008 and 31 December 2007 short-term bank loans by currencies were as follows:

	31 December 2009	31 December 2008	31 December 2007
Short-term bank loans in UAH	136 271	175 181	117 709
Short-term bank loans in USD	725	725	–
Short-term bank loans in EURO	–	46	–
	136 996	**175 952**	**117 709**

c) Short-term bank loans and overdrafts by currencies as at 31 December 2009, 31 December 2008 and 31 December 2007 were as follows:

	31 December 2009	31 December 2008	31 December 2007
Short-term bank loans denominated in UAH	10.25%-28.0%	14,5%-30,0%	14.0%-20.0%
Short-term bank loans denominated in USD	17.0%	13.0%	–
Short-term bank loans denominated in EURO	–	10.5%	–
Overdrafts denominated in UAH	–	22.0%	16.0%

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

d) As at 31 December 2009, 31 December 2008 and 31 December 2007 interest-free loans received under financial assistance contracts amounted to USD 8 535 thousand, USD 104 151 thousand and USD 96 101 thousand respectively, with contracts not exceeding a year from the reporting date.

e) As at 31 December 2009, 31 December 2008 and 31 December 2007, short-term notes issued were represented by promissory, non-interest-bearing, notes.

(in USD thousand unless otherwise stated)

18. Security

Long-term and short-term loans as at 31 December 2009, 31 December 2008 and 31 December 2007 were secured on assets as follows:

	31 December 2009	31 December 2008	31 December 2007
Buildings and structures	114 950	106 917	125 163
Machinery and equipment	22 422	20 854	14 339
Equipment for biological assets	54 588	59 194	51 342
Vehicles	2 776	3 327	3 709
Assets under construction and uninstalled equipment	173 435	169 713	–
Property, plant and equipment, total	368 171	360 005	194 553
Inventories	331	343	524
Biological assets	3 227	5 169	2 592
Personal investment certificates	–	–	29 703
Bank deposits	156 421	282 622	95 116
	528 150	**648 139**	**322 488**

As at 31 December 2007, the shares of OJSC ""Vuhlelhirskyi Eksperementalnyi Kombikrmovyi Zavod" in the amount of 79.17% of share capital with collateral value of USD2 176 thousand and shares of OJSC "Volnovahskiy Kombinat Khliboproduktiv", in the amount of 72.44% of share capital with collateral value of USD3 300 thousand were pledged as security for loans to the Group.

As at 31 December 2008, shares of OJSC "Kirovskyi" in the amount of 1.10% of share capital with collateral value of USD20 677 thousand, shares of OJSC "Ptakhohospodarstvo Chervonyi Prapor" in the amount of 13.98 % of share capital with collateral value of USD19 562 thousand, shares of CJSC "Chernivetska Ptakhofabryka" in the amount of 2.70% of share capital with collateral value of USD4 952 thousand, shares of CJSC "Avangard", in the amount of 1.13% of share capital with collateral value of USD32 264 thousand, APP CJSC "Chornobaivske", in the amount of 93.21% of share capital, corporate rights of ALLC "Donetska Ptakhofabryka in the amount of 99.9% of share capital with collateral value of USD20 694 thousand, shares of LLC "Cross-P/F Zorya" in the amount of 89.43% of share capital with collateral value of USD13 582 thousand, and also corporate rights of SC "Ptakhofabryka Losuvatska" in the amount of 100% of share capital with collateral value of USD10 260 thousand were pledged as security for loans to the Group.

(in USD thousand unless otherwise stated)

19. Current portion of financial liabilities

The current portion of non-current liabilities as at 31 December 2009, 31 December 2008 and 31 December 2007 was presented as follows:

	31 December 2009	31 December 2008	31 December 2007
Financial liabilities			
Current portion of finance lease liabilities	1 714	1 816	73
VAT included in current portion of finance lease liabilities	343	363	15
Current portion of bank loans in national currency	122	116	8 917
Current portion of bank loans in foreign currency	962	805	1 343
	3 141	**3 100**	**10 348**

20. Deferred tax assets and liabilities

The principal components of deferred tax assets and liabilities as at 31 December 2009, 31 December 2008 and 31 December 2007 were as follows:

Influence of temporary differences on deferred tax assets

	31 December 2009	31 December 2008	31 December 2007
Advances received	321	2 132	–
Intangible assets	1	1	1
Provisions	37	22	10
Total deferred tax assets	**359**	**2 155**	**11**
Influence of temporary differences on deferred tax liabilities			
Advances issued to suppliers and deferred expenses	(527)	(1 296)	(54)
Property, plant and equipment, non-current assets	(775)	(679)	(1 148)
Inventories	–	–	(9)
Low-value items	–	–	(1)
Total deferred tax liabilities	**(1 302)**	**(1 975)**	**(1 212)**
Net deferred tax liabilities	**(943)**	**180**	**(1 201)**

Principal components of income tax expense

As at 31 December 2009, 31 December 2008 and 31 December 2007 the rate of income tax in Ukraine was equal to 25%.

	2009	2008	2007
Current income tax	(19)	(26)	(71)
Deferred tax	(1 149)	1 440	(1 183)
	(1 168)	**1 414**	**(1 254)**

(in USD thousand unless otherwise stated)

20. Deferred tax assets and liabilities (continued)

Reconciliation of deferred tax liabilities

	2009	2008	2007
Balance as at 1 January	**180**	**(1 201)**	**53**
Deferred income/ (expenses) for income tax for the reporting period	(1 168)	1 414	(1 254)
Effect from translation into presentation currency	45	(33)	–
Balance as at 31 December	**(943)**	**180**	**(1 201)**

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

	2009	2008	2007
Profit (loss) before tax	134 837	75 869	31 488
Less profit (loss) of the companies being fixed agricultural tax payers	(126 247)	(79 476)	(35 832)
Profit (loss) of the companies being income tax payers at the rate 10%	93	(57)	–
Profit (loss) of the companies being income tax payers at the rate 25%	8 497	(3 549)	(4 343)
	8 590	(3 606)	(4 343)
Income (loss) tax, taxable at the rate of 10%	(9)	6	–
Income (loss) tax, taxable at the rate of 25%	(2 124)	887	1 086
Expenses not included in gross expenses for income tax	965	520	(2 340)
Income tax	**(1 168)**	**1 413**	**(1 254)**

As at 1 January 2007	**–**
Income tax accrued for the period	(77)
Income tax paid for the period	71
As at 31 December 2007	**(6)**
Income tax accrued for the period	(26)
Income tax paid for the period	29
Effect from translation into presentation currency	8
As at 31 December 2008	**5**
Income tax accrued for the period	(19)
Income tax paid for the period	49
Effect from translation into presentation currency	(1)
As at 31 December 2009	**34**

The income tax payers in 2009 were the following companies: LLC "Rohatyn-Korm", OJSC "Vuhlelhirskyi Eksper ementalnyi Kombikrmovyi Zavod", OJSC "Volhovatskiy Kombinat Khliboproduktiv", LLC "Kamyanets-Podilsky Kombikormovyi Zavod", LLC "Pershe Travnya Kombikormovyi Zavod", and LLC, "Imperovo Foods". All other companies of the Group were payers of the fixed agricultural tax.

(in USD thousand unless otherwise stated)

20. Deferred tax assets and liabilities (continued)

The income tax payers in 2007 and 2008 were the following companies: LLC "Rohatyn-Korm", OJSC "Vuhlelhirskyi Eksperementalnyi Kombikrmovyi Zavod", OJSC "Volnovatskiy Kombinat Khliboproduktiv", LLC "Kamyanets-Podilsky Kombikormoviy Zavod", LLC. All other companies of the Group were payers of a fixed agricultural tax.

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

21. Trade payables

Trade accounts payable as at 31 December 2009, 31 December 2008 and 31 December 2007 were as follows:

	Note	31 December 2009	31 December 2008	31 December 2007
Trade accounts payable		65 893	18 679	40 313
Deferred income	34 c)	304	315	468
		66 197	**18 994**	**40 781**

22. Accrued expenses

Accrued expenses as at 31 December 2009, 31 December 2008 and 31 December 2007 were as follows:

	31 December 2009	31 December 2008	31 December 2007
Accrued expenses for future employee benefits	1 139	909	679
Other accrued expenses	139	95	43
	1 278	**1 004**	**722**

23. Other current liabilities and accrued expenses

Other current liabilities and accrued expenses as at 31 December 2009, 31 December 2008 and 31 December 2007 were as follows:

	31 December 2009	31 December 2008	31 December 2007
Wages and salaries and related tax liabilities	2 858	1 483	1 066
Other taxes and compulsory payments liabilities	132	75	1 126
Accounts payable for property, plant and equipment	12 847	9 112	1 468
Advances received from customers	108 395	225 380	28 987
Other accounts payable	7 421	123 947	89 363
	131 653	**359 997**	**122 010**

As at 31 December 2008 and 31 December 2007 the item "Other accounts payable" in the amount of USD120 642 thousand and USD87 759 thousand respectively, comprised liabilities for settlement of consideration payable for subsidiaries.

(in USD thousand unless otherwise stated)

23. Other current liabilities and accrued expenses (continued)

a) Other short-term financial liabilities as at 31 December 2009, 31 December 2008 and 31 December 2007 were as follows:

	31 December 2009	31 December 2008	31 December 2007
Interest payable	8 331	291	38
Accrued coupon on bonds	2 055	2 039	—
	10 386	**2 330**	**38**

24. Finance lease liabilities

Finance lease liabilities for the years ended 31 December 2009, 31 December 2008 and 31 December 2007 were as follows:

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

(in USD thousand unless otherwise stated)

24. Finance lease liabilities (continued)

	Minimum lease payments	VAT included in minimum lease payments	Current value of minimum lease payments	VAT included in current value of minimum lease payments
Amounts payable under finance lease as at 31 December 2008:				
Within a year	3 047	363	1 816	363
From one to five years	9 447	1 417	7 085	1 417
Above 5 years	–	–	–	–
	12 494	**1 780**	**8 901**	**1 780**
Less: finance expenses of future periods	(3 593)	–	–	–
Current value of lease liabilities	8 901	1 780	8 901	1 780
Less: amount to be paid within a year	–	–	(1 816)	(363)
Amount to be paid after a year	**–**	**–**	**7 085**	**1 417**

Net carrying values of property, plant and equipment acquired under finance leases as at 31 December 2009, 31 December 2008 and 31 December 2007 were as follows:

	31 December 2009	31 December 2008	31 December 2007
Equipment for biological assets	9 677	10 307	–
Vehicles	71	68	–
Assets under construction and uninstalled equipment	1 696	1 759	–
Other equipment	78	107	204
	11 522	**12 241**	**204**

Non-current assets under a finance lease include equipment for biological assets, construction-in-progress and uninstalled equipment, and vehicles with finance lease term of 3-4 years. Interest rate under finance lease agreements is LIBOR+8% per annum for the years ended 31 December 2008, 31 December 2009. Finance lease agreements do not provide the possibility of changing the initial terms of agreements.

(in USD thousand unless otherwise stated)

25. Current liabilities for bonds

Current liabilities for bonds as at 31 December 2009, 31 December 2008 and 31 December 2007 were as follows:

	31 December 2009	31 December 2008	31 December 2007
Nominal value	24,249	25 844	–
Discount on bonds issued	–	(1)	–
	24 249	**25 843**	**–**

	31 December 2009	31 December 2008	31 December 2007
Bonds coupon payable	2 055	2 039	–

As at 31 December 2008 current liabilities for bonds were presented as liabilities for A-type bonds with nominal value of USD25 974 thousand, which was equivalent to UAH 200 000 thousand, issued by CJSC Avangard on 2 July 2008. The bonds issue was secured by SC Zorya, LLC Cross-P/F Zorya, OJSC Ptakhofabryka Chervoniy Prapor, SC Ptakhohopodarstvo Losuvatska, SC Ptakhofabryka Chervoniy Prapor, OJSC Ptakhohopodarstvo Chervonyi Prapor, OJSC Volnovahskiy Kombinat Khliboproduktiv, OJSC Vuhlelhirskyi Eksperementalnyi Kombikrmovyi Zavod, OJSC Donetska Ptakhofabryka, LLC PF Volnovaska , SC Ptakhofabryka Losuvatska, SC Gorodenkivska Ptakhofabryka , SC Rohatynska Ptakhofabryka , SC Avangard-Agro, CJSC Chernivtska Ptakhofabryka, CJSC Agrofirma Avis, CJSC LLC Kamyanets-Podolskiy Kombikormoviy Zavod, OJSC Kirovskyi, OJSC Slovyany, OJSC Ptakhofabryka Pershe Travnya, SC Ptakhohopodarstvo Yushnaya Holding, ALLC Youshnaya Holding, APP CJSC Chornobaivske, and LLC Areal-Snigurivka. The Guarantors are fully responsible for the issuer's liabilities to bond holders.

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

(in USD thousand unless otherwise stated)

26. Sales revenue

Sales revenue for the years ended 31 December 2009, 31 December 2008 and 31 December 2007 was as follows:

	2009	2008	2007
Revenue from finished goods	319 219	299 501	126 175
Revenue from goods and services sold/rendered	1 329	3 266	2 223
Deduction from income	(693)	(475)	(610)
	319 855	**302 292**	**127 788**

For the year ended 31 December 2009 USD77 788 thousand or 24.4% from the Group's revenue is referred to the sales transactions carried out with one of the Group's clients (for 2008 and 2007 – note 40, a)).

27. Cost of sales

Cost of sales for the years ended 31 December 2009, 31 December 2008 and 31 December 2007 was as follows:

	Note	2009	2008	2007
Cost of finished goods sold	28	(215 883)	(229 609)	(109 147)
Cost of goods and services sold/rendered		(4 524)	(3 366)	(5 542)
		(220 407)	**(232 975)**	**(114 689)**

28. Cost of sales by elements

Cost of sales by elements for the years ended 31 December 2009, 31 December 2008 and 31 December 2007 was as follows:

	Note	2009	2008	2007
Raw materials and other inventory consumed		(174 827)	(182 548)	(86 471)
Payroll of production personnel and related taxes	35	(14 953)	(21 447)	(11 985)
Depreciation		(11 641)	(11 095)	(5 386)
Services provided by third parties		(14 365)	(14 331)	(5 102)
Other expenses		(4 621)	(3 554)	(5 745)
		(220 407)	**(232 975)**	**(114 689)**

(in USD thousand unless otherwise stated)

29. General administrative expenses

General administrative expenses for the years ended 31 December 2009, 31 December 2008 and 31 December 2007, were as follows:

	Note	2009	2008	2007
Salaries and wages of administrative personnel	35	(2 889)	(4 520)	(2 753)
Services provided by third parties		(1 216)	(1 534)	(1 035)
Depreciation		(144)	(167)	(14)
Repairs and maintenance costs		(44)	(145)	(77)
Tax expenses, except for income tax		(252)	(270)	(76)
Material usage		(271)	(498)	(392)
Other expenses		(117)	(798)	(639)
		(4 933)	**(7 932)**	**(4 986)**

The aggregate auditors' remuneration for the years 2009, 2008 and 2007 was USD914 thousand. An amount of USD824 thousand was paid by LLC "Agroholding Avangard", which is a related party by virtue common ownership, on behalf of the Company. The related party has not demanded payment from the Company to reimburse this amount and as a result this amount has not been included into the Group's expenses.

30. Distribution expenses

Distribution expenses for the years ended 31 December 2009, 31 December 2008 and 31 December 2007 were as follows:

	Note	2009	2008	2007
Salaries and wages of distribution personnel	35	(1 015)	(1 766)	(1 423)
Transport expenses		(864)	(1 032)	(489)
Depreciation		(499)	(518)	(192)
Services provided by third parties		(319)	(215)	(200)
Packing materials		(128)	(465)	(744)
Repairs and maintenance costs		(27)	(19)	(52)
Other expenses		(234)	(414)	(905)
		(3 086)	**(4 429)**	**(4 005)**

31. Other operating expenses

Other operating expenses for the years ended 31 December 2009, 31 December 2008 and 31 December 2007 were as follows:

	Note	2009	2008	2007
Loss from disposal of current assets		(890)	—	(407)
Loss from disposal of non-current assets		(90)	(376)	(242)
Impairment of current assets		(1 571)	(1 630)	(1 425)
Losses on exchange		(672)	(1 744)	(28)
Other		(1 747)	(3 190)	(553)
		(4 970)	**(6 940)**	**(2,655)**

For the year ended 31 December 2009 the item "Income received from waiver of accounts payable" in the amount of USD 22 525 thousand resulted from the waiver of debt due to related parties. Of this amount, USD18 307 thousand was as a result of trading of certain subsidiaries through related party trading companies which are not part of the Group, to mitigate the risks associated with that trading. The waiver for these amounts is effectively the Group's participation in the profit in those

(in USD thousand unless otherwise stated)

31. Other operating expenses (continued)

transactions. The remainder related to an arrangement with former corporate shareholders of subsidiaries as part of a financial restructuring. The amount in 2007 of USD7 798 thousand related to old credit balances with companies that no longer existed where the company was satisfied that there was no recourse to the Group.

32. Finance costs

Financial expenses for the years ended 31 December 2009, 31 December 2008 and 31 December 2007 were as follows:

	2009	2008	2007
Interest payable on loans	(60 025)	(56 063)	(25 907)
Capitalised interest	17 382	7 449	3 367
Total financial expenses on loans	**(42 643)**	**(48 614)**	**(22 540)**
Financial expenses on finance lease	(1 216)	(1 153)	–
Financial expenses on bonds (interest)	(2 259)	(3 194)	–
Other financial expenses	(32)	(25)	–
	(46 150)	**(52 986)**	**(22 540)**

33. Finance income

Finance income for the year ended 31 December 2009 represents the amount of interest income from placement of deposits, referred to in Note 15, in the amount of USD41 180 thousand (2008 – USD26 897 thousand; 2007 – USD20 868 thousand).

34. Income from government grants and incentives

Income from government grants and incentives received for the years ended 31 December 2009, 31 December 2008 and 31 December 2007 were as follows:

	Note	2009	2008	2007
Partial compensation of interest for loans received by agro-industrial enterprises from financial institutions	a)	6 261	30 598	12 582
VAT for development of poultry keeping	b)	2 855	7 795	3 957
Partial compensation of complex agricultural equipment cost	c)	312	469	460
Other grants	d)	12	206	188
		9 440	**39 068**	**17 187**

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

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

For the years ended 31 December 2009, 31 December 2008 and 31 December 2007 the Group received partial compensation of interest for loans received by agro-industrial enterprises from financial institutions in the amount of USD6 261 thousand, USD30 598 thousand and USD12 582 thousand respectively which is presented on a cash received basis.

b) *VAT for development of poultry keeping*

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

According to the Law of Ukraine " On Value Added Tax" agricultural enterprises (those with not less than 50% of income from agricultural production sales or those selling milk-meat production)

(in USD thousand unless otherwise stated)

34. Income from government grants and incentives (continued)

have a tax benefit for VAT on agriculture transactions. The amount of VAT is not paid to the budget but enterprises transfer it to a special account in order to use it for agricultural development. Enterprises of the Group recognise income from government grants on receipt and use of funds from the special account. VAT credited but not used for the specified purpose is disclosed in the line item "Target financing".

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

All members of the Group that met the criteria for the use of these VAT benefits except, LLC Rohayin-Korm, LLC Kamyanets-Podolsky Kombikormovyi Zavod, OJSC Vuhlelhirskyi Eksperementalnyi Kombikrmovyi Zavod, OJSC Volnovahskyi Kombinat Khliboproduktiv, OJSC Ptakhofabryka Pershe Travnya, and LLC Imperovo Foods.

c) *Partial compensation of complex agricultural equipment cost*

Enterprises of the Group received partial compensation of complex agricultural equipment cost during the years 2004-2009 according to Ukrainian laws. The total amount of compensations received for above mentioned period is UAH60 608 thousand. Those grants were recognised as deferred income and reflected within the "Deferred income" item in the statement of financial position. The deferred income is amortised over the estimate useful life of the relevant asset (generally 25 years) and the amortisation is reflected in "Other operating expenses".

d) *Other grants*

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

35. Payroll and related taxes

Payroll and related taxes for the years ended 31 December 2009, 31 December 2008 and 31 December 2007 were as follows:

	2009	2008	2007
Salary	(14 461)	(22 404)	(13 631)
Contributions to pension fund	(3 912)	(4 645)	(2 110)
Other contributions	(484)	(684)	(420)
	(18 857)	**(27 733)**	**(16 161)**

	Note	2009	2008	2007
Production personnel	28	(14 953)	(21 447)	(11 985)
Administrative personnel	29	(2 889)	(4 520)	(2 753)
Distribution personnel	30	(1 015)	(1 766)	(1 423)
		(18 857)	**(27 733)**	**(16 161)**

Average number of employees for the years ended 31 December 2009, 31 December 2008 and 31 December 2007 was presented as follows:

	2009	2008	2007
Average number of employees, persons	**4 978**	**5 366**	**4 721**

(in USD thousand unless otherwise stated)

36. Related party balances and transactions

The Company is controlled by Mr Oleg Bakhmatyuk, who directly or indirectly owns 100% of the Company's share capital as at each balance sheet date.

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

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

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

A. Key management;

B. Companies having the same top management;

C. Companies in which the Group's owners have an equity interest;

D. Companies whose activities are significantly influenced by the Group's owners.

Salary costs of key management for the years ended 31 December 2009, 31 December 2008 and 31 December 2007 were as follows:

	31 December 2009	31 December 2008	31 December 2007
Salary	932	1 346	730
Contributions to pension funds	244	278	106
Other contributions	31	43	20
	1 207	**1 667**	**856**

Number of key management personnel for the years ended 31 December 2009, 31 December 2008 and 31 December 2007 was presented as follows:

	2009	2008	2007
Number of key management personnel, persons	**122**	**129**	**102**

Outstanding amounts of the Group for transactions with related parties as at 31 December 2009, 31 December 2008 and 31 December 2007 were presented as follows:

	Outstanding balances with related parties		
	As at 31 December 2009	As at 31 December 2008	As at 31 December 2007
Other non-current assets:			
B. Companies having the same top management;	–	–	3
D. Companies whose activities are significantly influenced by the Group's owners.	1 286	30 834	6 054
	1 286	**30 834**	**6 057**

(in USD thousand unless otherwise stated)

36. Related party balances and transactions (continued)

	Outstanding balances with related parties		
	As at 31 December 2009	**As at 31 December 2008**	**As at 31 December 2007**
Other current asset:			
B. Companies having the same top management;	2	12 990	19 820
C. Companies in which the Group's owners have an equity interest;	1 957	370	1
D. Companies whose activities are significantly influenced by the Group's owners.	46 475	110 184	10 875
	48 434	**123 544**	**30 696**
Trade accounts receivable:			
C. Companies in which the Group's owners have an equity interest;	8 181	7 581	1 439
D. Companies which activities are significantly influenced by the Group's owners.	33 319	6 362	16 748
	41 500	**13 943**	**18 187**
Cash and cash equivalents:			
D. Companies whose activities are significantly influenced by the Group's owners.	1 413	5 472	3 359
	1 413	**5 472**	**3 359**
Deposits:			
D. Companies whose activities are significantly influenced by the Group's owners.	155 917	272 991	110 340
	155 917	**272 991**	**110 340**
D. Companies whose activities are significantly influenced by the Group's owners.	50 354	155 042	191 263
	50 354	**155 042**	**191 263**
Short-term loans:			
B. Companies having the same top management;	–	–	5
C. Companies in which the Group's owners have an equity interest;	346	43 851	–
D. Companies whose activities are significantly influenced by the Group's owners.	138 967	205 432	74 388
	139 313	**249 283**	**74 393**

(in USD thousand unless otherwise stated)

36. Related party balances and transactions (continued)

	Outstanding balances with related parties		
	As at 31 December 2009	As at 31 December 2008	As at 31 December 2007
Trade accounts payable:			
B. Companies having the same top management;	7	–	179
C. Companies in which the Group's owners have an equity interest;	3 725	1 161	–
D. Companies whose activities are significantly influenced by the Group's owners.	16 548	4 446	13 323
	20 280	**5 607**	**13 502**
Other current liabilities:			
B. Companies having the same top management;	23	29	70
C. Companies in which the Group's owners have an equity interest;	10 404	1 424	12
D. Companies whose activities are significantly influenced by the Group's owners.	98 785	226 643	23 811
	109 212	**228 096**	**23 893**

Operating lease

As at 31 December 2009 the LLC Imperovo Foods leased property, plant and equipment for production purposes from a related party accordingly to a lease agreement dated 1.12.2007. The original term of the lease was until 1 December 2008, and is to be continued on an annual basis and under the same conditions subject to one month's notice from either party before the end of the next period. For the year ended 31 December 2009 lease payments were equal to USD740 thousand (UAH5 905 thousand).

The Group's transactions with related parties as at 31 December 2009, 31 December 2008 and 31 December 2007 were as follows:

	Transactions with related parties for the year ended		
	31 December 2009	31 December 2008	31 December 2007
Sales revenue:			
B. Companies having the same top management;	–	2	–
C. Companies in which the Group's owners have an equity interest;	14 413	84 454	1 925
D. Companies whose activities are significantly influenced by the Group's owners.	83 507	81 974	1 639
	97 920	**166 430**	**3 564**

In addition, as set out in note 31, certain of these companies waived debts representing a rebate of profit participation amounting to USD18 307 thousand in 2009.

(in USD thousand unless otherwise stated)

36. Related party balances and transactions (continued)

	Transactions with related parties for the year ended		
	31 December 2009	**31 December 2008**	**31 December 2007**
General administrative expenses:			
B. Companies having the same top management;	(66)	(217)	(1)
C. Companies in which the Group's owners have an equity interest;	–	(54)	(2)
	(66)	**(271)**	**(3)**
Other operating income/(expenses), net:			
B. Companies having the same top management;	(18)	–	–
C. Companies in which the Group's owners have an equity interest;	80	1 239	–
D. Companies which activities are significantly influenced by the Group's owners.	(30)	(594)	4
	32	**645**	**4**
Finance income:			
D. Companies whose activities are significantly influenced by the Group's owners.	40 472	24 625	507
	40 472	**24 625**	**507**
Finance expenses:			
D. Companies whose activities are significantly influenced by the Group's owners.	41 510	(41 036)	(1 524)
	41 510	**(41 036)**	**(1 524)**

37. Business segments

A business segment is a separable component of a business entity that produces goods or provides services to individuals (or groups of related products or services) in a particular economic environment that is subject to risks and generate revenues different from 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 five operating segments:

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

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

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

(in USD thousand unless otherwise stated)

37. Business segments (continued)

Business segment information for the year ended 31 December 2007 was as follows:

	Shell egg	Poultry	Animal feed	Egg products	Other activities	Un-allocated group balances	Adjust-ments and elimi-nation	Total
NON-CURRENT ASSETS								
Property, plant and equipment	182 228	18 883	12 272	–	146	–	–	213 529
Investments held-to-maturity	–	–	–	–	–	29 766	–	29 766
Non-current biological assets	17 342	4 001	–	–	–	–	–	21 343
Long-term deposits	107 567	60	–	–	–	–	–	107 627
Other non-current assets	110 288	–	–	–	–	–	–	110 288
Total non-current assets	**417 425**	**22 944**	**12 272**	**–**	**146**	**29 766**	**–**	**482 553**
CURRENT ASSETS								
Inventories	8 673	1 084	2 931	–	–	–	–	12 688
Taxes recoverable and prepaid, net	39 266	1 576	237	–	147	–	–	41 226
Current biological assets	17 899	176	–	–	–	–	–	18 075
Prepayments and other current assets, net	15 558	20 054	214	–	2 918	–	–	38 744
Trade accounts receivable, net	40 621	8 087	1 668	–	–	–	(2 423)	47 953
Short-term deposits	36 949	414	–	–	–	–	–	37 363
Cash and cash equivalents	4 219	198	33	–	10	–	–	4 460
Total current assets	**163 185**	**31 589**	**5 083**	**–**	**3 075**	**–**	**(2 423)**	**200 509**
TOTAL ASSETS	**580 610**	**54 533**	**17 355**	**–**	**3 221**	**29 766**	**(2 423)**	**683 062**

(in USD thousand unless otherwise stated)

37. Business segments (continued)

	Shell egg	Poultry	Animal feed	Egg products	Other activities	Un-allocated group balances	Adjust-ments and elimi-nation	Total
NON-CURRENT LIABILITIES								
Long-term loans	188 135	1 205	–	–	–	–	–	189 340
Deferred tax liabilities	–	–	1 201	–	–	–	–	1 201
Deferred income (non-current portion)	9 713	423	–	–	–	–	–	10 136
Total non-current liabilities	**197 848**	**1 628**	**1 201**	**–**	**–**	**–**	**–**	**200 677**
CURRENT LIABILITIES								
Current portion of non-current liabilities	9 572	1 244	–	–	–	–	–	10 816
Short-term loans	176 922	5 468	31 477	–	–	–	–	213 867
Trade accounts payable	31 017	3 346	11 073	–	8	–	(2 310)	43 134
Accounts payable for income tax	–	–	6	–	–	–	–	6
Accrued expenses	569	110	43	–	–	–	–	722
Other current liabilities and accrued expenses	7 664	23 583	3 097	–	1 498	87 759	(1 553)	122 048
Total current liabilities	**225 744**	**33 751**	**45 696**	–	**1 506**	**87 759**	**(3 863)**	**390 593**
TOTAL LIABILITIES	**423 592**	**35 379**	**46 897**	–	**1 506**	**87 759**	**(3 863)**	**591 270**

	Shell egg	Poultry	Animal feed	Egg products	Other activities	Un-allocated group trans-actions	Adjust-ments and elimi-nation	Total
Depreciation	5 319	257	16	–	–	–	–	**5 592**
Acquisition of property, plant and equipment	49 574	2 353	90	–	–	–	–	**52 017**

Long-term financial investments (USD29 766 thousand) have not been allocated, as the management of such assets is carried out at the Group level.

Liabilities for advances from customers and other current liabilities (USD87 759 thousand), have not been allocated as the management of such liabilities is carried out at the Group level.

(in USD thousand unless otherwise stated)

37. Business segments (continued)

	Shell egg	Poultry	Animal feed	Egg products	Other activities	Un-allocated group trans-actions	Adjust-ments and elimi-nation	Total
Sales revenue	88 043	27 544	17 001	1 321	4 610	–	–	138 519
Intra-group elimination	(597)	(648)	(9 486)	–	–	–	–	(10 731)
Revenue from external buyers	**87 446**	**26 896**	**7 515**	**1 321**	**4 610**	**–**	**–**	**127 788**
Income from revaluation of biological assets at fair value	5 565	902	–	–	–	–	–	6 467
Cost of sales	(79 615)	(15 929)	(7 083)	(1 993)	(10 069)	–	–	(114 689)
GROSS PROFIT	**13 396**	**11 869**	**432**	**(672)**	**(5 459)**	**–**	**–**	**19 566**
General administrative expenses	(3 495)	(873)	(509)	–	(109)	–	–	(4 986)
Distribution expenses	(3 182)	(735)	(88)	–	–	–	–	(4 005)
Other operating income/ expenses, net	19 133	3 503	(6)	–	(45)	–	–	22 585
OPERATING PROFIT/ (LOSS)	**25 852**	**13 763**	**(171)**	**(672)**	**(5 613)**	**–**	**–**	**33 160**
Finance income	20 585	111	172	–	–	–	–	20 868
Finance expenses	(18 540)	(1 015)	(2 985)	–	–	–	–	(22 540)
including:								
Finance expenses on loans	(18 540)	(1 015)	(2 985)	–	–	–	–	(22 540)
PROFIT BEFORE TAX	**27 897**	**12 859**	**(2 984)**	**(672)**	**(5 613)**	**–**	**–**	**31 488**
Income tax expenses	–	–	(1 254)	–	–	–	–	(1 254)
PROFIT/ (LOSS) FOR THE PERIOD	**27 897**	**12 859**	**(4 238)**	**(672)**	**(5 613)**	**–**	**–**	**30 234**

(in USD thousand unless otherwise stated)

37. Business segments (continued)

Business segment information for the year ended 31 December 2008 was as follows:

	Shell egg	Poultry	Animal feed	Egg products	Other activities	Un-allocated group balances	Adjust-ments and elimi-nation	Total
NON-CURRENT ASSETS								
Property, plant and equipment	336 100	23 879	8 285	–	–	–	–	368 264
Investments held-to-maturity	–	–	–	–	–	41	–	41
Non-current biological assets	6 725	2 460	–	–	–	–	–	9 185
Long-term deposits	7 792	–	41 559	–	–	–	–	49 351
Deferred tax assets	–	–	830	–	–	–	–	830
Other non-current assets	55 318	43	7	–	–	–	–	55 368
Total non-current assets	**405 935**	**26 382**	**50 681**	**–**	**–**	**41**	**–**	**483 039**
CURRENT ASSETS								
Inventories	21 664	3 831	21 581	–	–	–	–	47 076
Income tax prepaid	–	–	5	–	–	–	–	5
Taxes recoverable and prepaid, net	46 519	3 336	4 125	–	78	–	–	54 058
Current biological assets	40 235	7 700	–	–	–	–	–	47 935
Prepayments and other current assets, net	93 234	18 155	30 385	–	3 241	–	(11 904)	133 111
Trade accounts receivable, net	12 041	6 038	3 916	–	–	–	(6 402)	15 593
Short-term deposits	233 231	40	–	–	–	–	–	233 271
Cash and cash equivalents	3 105	2 247	526	–	–	–	–	5 878
Total current assets	**450 029**	**41 347**	**60 538**	**–**	**3 319**	**–**	**(18 306)**	**536 927**
TOTAL ASSETS	**855 964**	**67 729**	**111 219**	**–**	**3 319**	**41**	**(18 306)**	**1 019 966**

(in USD thousand unless otherwise stated)

37. Business segments (continued)

	Shell egg	Poultry	Animal feed	Egg products	Other activities	Un-allocated group balances	Adjust-ments and elimi-nation	Total
NON-CURRENT LIABILITIES								
Long-term loans	191 048	672	798	–	–	–	–	192 518
Deferred tax liabilities	–	–	650	–	–	–	–	650
Deferred income (non-current portion)	6 079	420	–	–	–	–	–	6 499
Non-current finance lease liabilities	8 499	3	–	–	–	–	–	8 502
Total non-current liabilities	**205 626**	**1 095**	**1 448**	**–**	**–**	**–**	**–**	**208 169**
CURRENT LIABILITIES								
Current liabilities for bonds	25 843	-	-	–	–	–	–	25 843
Current portion of non-current liabilities	3 305	21	89	–	–	–	–	3 415
Short-term loans	202 187	28 269	50 253	–	–	–	(533)	280 176
Trade accounts payable	15 030	3 078	6 566	–	44	–	(4 189)	20 529
Accrued expenses	774	160	70	–	–	–	–	1 004
Other current liabilities and accrued expenses	192 176	12 092	49 916	–	879	120 642	(13 378)	362 327
Total current liabilities	**439 315**	**43 620**	**106 894**	–	923	**120 642**	**(18 100)**	**693 294**
TOTAL LIABILITIES	**644 941**	**44 715**	**108 342**	–	**923**	**120 642**	**(18 100)**	**901 463**

	Shell egg	Poultry	Animal feed	Egg products	Other activities	Un-allocated group trans-actions	Adjust-ments and elimi-nation	Total
Depreciation	11 216	370	194	–	-	–	–	**11 780**
Acquisition of property, plant and equipment	300 367	13 971	548	–	–	–	–	**314 886**

Liabilities for advances from customers and other current liabilities (USD120 642 thousand), have not been allocated as the management of such liabilities is carried out at the Group level.

(in USD thousand unless otherwise stated)

37. Business segments (continued)

	Shell egg	Poultry	Animal feed	Egg products	Other activities	Un-allocated group trans-actions	Adjust-ments and elimi-nation	Total
Sales revenue	236 964	60 664	75 351	2 200	11 881	–	–	387 060
Intra-group elimination	(11 266)	(300)	(73 202)	–	–	–	–	(84 768)
Revenue from external buyers	**225 698**	**60 364**	**2 149**	**2 200**	**11 881**	**–**	**–**	**302 292**
Income from revaluation of biological assets at fair value	8 730	3 960	–	–	–	–	–	12 690
Cost of sales	(163 023)	(56 927)	(1 997)	(4 884)	(6 144)		–	(232 975)
GROSS PROFIT	**71 405**	**7 397**	**152**	**(2 684)**	**5 737**	**–**	**–**	**82 007**
General administrative expenses	(5 931)	(1 211)	(697)	–	(93)	–	–	(7 932)
Distribution expenses	(3 852)	(527)	(50)	–	–	–	–	(4 429)
Other operating income/expenses, net	33 837	(2 311)	959	–	(167)	–	(6)	32 312
OPERATING PROFIT/(LOSS)	**95 459**	**3 348**	**364**	**(2 684)**	**5 477**	**–**	**(6)**	**101 958**
Financial income	26 831	43	23	–	–	–	–	26 897
Financial expenses	(45 971)	(1 868)	(5 147)	–	–	–	–	(52 986)
including:								
Finance expenses on loans	(41 618)	(1 854)	(5 142)	–	–	–	–	(48 614)
Finance expenses for bonds (interest)	(3 194)	–	–	–	–	–	–	(3 194)
PROFIT BEFORE TAX	**76 139**	**1 523**	**(4 760)**	**(2 684)**	**5 477**	**–**	**(6)**	**75 869**
Income tax expenses	–	–	1 414	–	–	–	–	1 414
PROFIT/(LOSS) FOR THE PERIOD	**76 319**	**1 523**	**(3 346)**	**(2 684)**	**5 477**	**–**	**(6)**	**77 283**

(in USD thousand unless otherwise stated)

37. Business segments (continued)

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

	Shell egg	Poultry	Animal feed	Egg products	Other activities	Un-allocated group trans-actions	Adjust-ments and elimi-nation	Total
NON-CURRENT ASSETS								
Property, plant and equipment	355 672	14 217	4 095	1 442	–	–	–	375 426
Investments held-to-maturity	–	–	–	–	–	40	–	40
Non-current biological assets	11 141	10 405	–	–	–	–	–	21 546
Long-term deposits	504	–	–	–	–	–	–	504
Deferred tax assets	–	–	174	56	–	–	–	230
Other non-current assets	16 630	–	–	–	–	–	–	16 630
Total non-current assets	**383 947**	**24 622**	**4 269**	**1 498**	**–**	**40**	**–**	**414 376**
CURRENT ASSETS								
Inventories	74 504	2 972	6 948	8 375	–	–	(43)	92 757
Income tax prepaid	–	–	9	26	–	–	–	35
Taxes recoverable and prepaid, net	22 074	2 117	1 012	3 430	75	–	–	28 708
Current biological assets	41 402	3 508	–	–	–	–	–	44 910
Prepayments and other current assets, net	52 894	4 197	7 554	703	2 605	–	(9 327)	58 626
Trade accounts receivable, net	38 074	13 321	10 761	4 425	–	–	(19 261)	47 320
Short-term deposits	125 783	8 845	21 290	–	–	–	–	155 917
Cash and cash equivalents	1 093	388	209	36	1	–	–	1 727
Total current assets	**355 824**	**35 348**	**47 783**	**16 995**	**2 681**	**–**	**(28 631)**	**430 000**
TOTAL ASSETS	**739 771**	**59 970**	**52 052**	**18 493**	**2 681**	**40**	**(28 631)**	**844 376**

(in USD thousand unless otherwise stated)

37. Business segments (continued)

	Shell egg	Poultry	Animal feed	Egg products	Other activities	Un-allocated group balances	Adjust-ments and elimi-nation	Total
NON-CURRENT LIABILITIES								
Long-term loans	84 640	648	687	–	–	–	–	85 975
Deferred tax liabilities	–	–	1 173	–	–	–	–	1 173
Deferred income (non-current portion)	5 577	386	–	–	–	–	–	5 963
Non-current finance lease liabilities	6 141	1	–	–	–	–	–	6 142
Total non-current liabilities	**96 358**	**1 035**	**1 860**	**–**	**–**	**–**	**–**	**99 253**
CURRENT LIABILITIES								
Current liabilities for bonds	24 249	–	–	–	–	–	–	24 249
Current portion of non-current liabilities	3 320	21	104	–	–	–	–	3 445
Short-term loans	143 246	1 620	1 038	–	–	–	(373)	145 531
Trade accounts payable	60 560	12 893	12 536	4 160	–	–	(22 130)	68 019
Accounts payable for income tax	–	–	1	–	6	–	–	7
Accrued expenses	1 016	192	52	18	–	–	–	1 278
Other current liabilities and accrued expenses	88 597	14 145	42 746	1 432	933	–	(5 814)	142 039
Total current liabilities	**320 988**	**28 871**	**56 477**	**5 610**	**939**	**–**	**(28 317)**	**384 568**
TOTAL LIABILITIES	**417 346**	**29 906**	**58 337**	**5 610**	**939**	**–**	**(28 317)**	**483 821**

	Shell egg	Poultry	Animal feed	Egg products	Other activities	Un-allocated group trans-actions	Adjust-ments and elimi-nation	Total
Depreciation	11 011	1 095	175	3	–	–	–	**12 284**
Acquisition of property, plant and equipment	29 498	25	17	–	–	–	–	**29 540**

(in USD thousand unless otherwise stated)

37. Business segments (continued)

	Shell egg	Poultry	Animal feed	Egg products	Other activities	Un-allocated group trans-actions	Adjust-ments and elimi-nation	Total
Sales revenue	255 819	42 891	68 658	26 758	4 044	–	–	398 171
Intra-group elimination	(15 233)	(5 145)	(53 143)	(4 794)	–	–	–	(78 315)
Revenue from external buyers	**240 586**	**37 746**	**15 515**	**21 964**	**4 044**	**–**	**–**	**319 855**
Income from revaluation of biological assets at fair value	678	7 017	–	–	–	–	–	7 695
Cost of sales	(158 029)	(30 904)	(13 855)	(16 732)	(887)	–	–	(220 407)
GROSS PROFIT	**83 235**	**13 859**	**1 660**	**5 232**	**3 157**	**–**	**–**	**107 143**
General administrative expenses	(3 513)	(837)	(475)	(61)	(47)	–	–	(4 933)
Distribution expenses	(2 726)	(226)	(182)	(138)	–	–	186	(3 086)
Other operating income/expenses, net	21 904	4 719	2 375	12 318	140	–	(773)	40 683
OPERATING PROFIT/(LOSS)	**98 900**	**17 515**	**3 378**	**17 351**	**3 250**	**–**	**(587)**	**139 807**
Financial income	35 661	2 010	3 503	6	–	–	–	41 180
Financial expenses	(32 368)	(3 050)	(10 732)	–	–	–	–	(46 150)
including:								
Finance expenses on loans	(28 863)	(3 048)	(10 731)	–	–	–	–	(42 643)
Finance expenses for bonds (interest)	(2 259)	–	–	–	–	–	–	(2 259)
PROFIT BEFORE TAX	**102 193**	**16 475**	**(3 851)**	**17 357**	**3 250**	**–**	**(587)**	**134 837**
Income tax expenses	–	–	(1 225)	57	–	–	–	(1 168)
PROFIT/ (LOSS) FOR THE PERIOD	**102 193**	**16 475**	**(5 076)**	**17 414**	**3 250**	**–**	**(587)**	**133 669**

(in USD thousand unless otherwise stated)

38. Acquisitions of subsidiaries

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

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

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

The goodwill arising of USD 634 thousand was immediately impaired and expensed within other operating expenses.

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

The amount of revenue and profit of LLC Imperovo included in the results of the Group since acquisition are USD 26307 thousand and USD195 thousand respectively. If the Group had acquired LLC Imperovo Foods on 1 January 2009 the revenue of the Group would have amounted to USD 377,669 thousand, and Group's profit would have been USD 134 234 thousand and earnings for the year per share would have been equal to USD 27.

Control over the following entities was achieved in 2008:

Name	Ownership interest, %
LLC Areal-Snigurivka	100%
LLC Torgivleniy Budynok Bohodukhivska Ptakhofabryka	100%
PPB LLC Ptytsecompleks	100%
PSPC Interbusiness	100%

The above mentioned companies were included in the consolidated financial statements of the Group for the year ended 31 December 2008 from the date common control was achieved. The effect of acquiring control over these entities was equal to USD9 349 thousand and was recognised in the

(in USD thousand unless otherwise stated)

38. Acquisitions of subsidiaries (continued)

consolidated statement of changes in equity for the year ended 31 December 2008. Two of the above were ''start-ups'' and two were acquired on 1 January 2008, and so a full years' results were incorporated in the results for the year ended 31 December 2008.

The control over the following entities was achieved in 2007:

Name	Ownership interest, %
OJSC Ptakhohospodarstvo Chervonyi Prapor,	98%
LLC PF Volnovaska	100%
LLC Cross-P/Fa Zorya	89%
OJSC Ptakhofabryka Pershe Travnya	93%
SC Ptakhohospodarstvo Donetska of ALLC Donetsk Ptakhofabryka	100%
SC Ptakhohospodarstvo Lozuvatska	100%
SC Zorya of LLC Cross-P/F Zorya	89%
SC Ptakhofabryka Chervonyi Prapor of OJSC Ptakhohospodarstvo Chervonyi Prapor	98%
SC PtakhohospodarstvoYuzhnaya Holding	100%
SC Ptakhohospodarstvo Volnovaske, of LLC PF Volnovaska	100%
SC Ptakhohospodarstvo Chornobaivske of APP CJSC Chornobaivske	97%
OJSC Vuhlelhirskyi Eksperementalnyi Kombikrmovyi Zavod	80%
OJSC Volnovaskyi Kombinat Khliboproduktiv	72%
LLC Kamyanets-Podolsky Kombikormovyi Zavod	100%

The above mentioned companies were included in the consolidated financial statements of the Group for the year ended 31 December 2007 from the date common control was achieved. The effect of acquired control over these entities was equal to USD 28 098 thousand and was recognised in the consolidated statement of changes in equity for the year ended 31 December 2007.

39. Earnings per share

Earnings per share is the profit for the year after taxation divided by the weighted average number of shares in issue for each year. The number of shares for the year ended 31 December 2007 has been re-stated to reflect the 10 for 1 share split on 19 December 2008. There are no options or instruments convertible into new shares and therefore basic and diluted earnings per share are the same.

40. Contingent and contractual liabilities

Economic environment

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

Taxation

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

40. Contingent and contractual liabilities (continued)

It should be noted that the Group took part in transactions which may be interpreted by tax authorities in a different way to how they are interpreted by the Group, as a result of which additional significant tax liabilities and fines may be incurred. As a result of future tax reviews additional liabilities may be discovered which may not comply with tax reporting of the Group. Such liabilities may be represented by taxes, as well as fines and penalties, and their amounts may be significant. The Group considers that it operates in compliance with tax laws of Ukraine, although, many new laws regarding taxes and transactions in foreign currency have been adopted recently, and their interpretation is rather ambiguous.

Pension and other liabilities

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

As at 31 December 2009, 31 December 2008 and 31 December 2007 the Group had no liabilities for any supplementary pension payments, health care, insurance or other benefits after retirement to their current or former employees.

Legal matters

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

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

Operating lease

As of 31 December 2009 the company LLC Imperovo Foods leased property, plant and equipment for production purposes from a related party accordingly to a lease agreement dated 1 December 2007. The term of the lease until 1 December 2008, and the agreement is to be continued on an annual basis and under the same conditions subject to one month's notice from either party before the end of the next period.

For the year ended 31 December 2009 lease payments were equal to USD 740 thousand (UAH 5 905 thousand).

Commitments under exclusive distribution agreement (poultry)

On 11 June 2007 the Group signed the exclusive distribution agreement in accordance with which the Group has an exclusive rights to purchase Hy-Line W-36 and Hy-Line Brown Parent Stock for the purposes of production and sale of commercial, day-old egg-laying chicks in Ukraine with a term expiring onl 11 November 2009. The Group had a commitment to purchase minimum 200 000 Parent Female in the period from 11 June 2007 to 11 June 2009. Commitments under this agreement were carried out in full measure.

On 28 November 2009 the Group signed a new exclusive distribution agreement accordingly to which the Group has an exclusive rights to purchase Hy-Line W-36 and Hy-Line Brown Parent Stock at a fixed price. The minimum quantity of purchases is not stated in the agreement. The term is three years to November 2012.

(in USD thousand unless otherwise stated)

41. Financial risk management

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

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

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

- information on finance income and expenses is disclosed in Notes 32, 33 (all finance income and expenses are recognised as a part of profit or loss for the period, other than interest capitalised which is allocated to the cost of the relevant asset);
- information on cash is disclosed in Note 14;
- information on trade and other accounts receivable is disclosed in Notes 11, 12;
- information on available for sale investments is disclosed in Note 6;
- information on trade and other accounts payable is disclosed in Notes 21, 23;
- information on significant terms of borrowings and loans granting is disclosed in Notes 16, 17;
- information on timing and terms of effective contracts for finance lease is disclosed in Note 24; and
- information on significant conditions attaching to issued bonds is disclosed in Note 25.

a) Credit risk

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

Exposure to credit risk

The carrying value of financial assets is the maximum value exposed to credit risk. Maximum level of credit risk as at 31 December 2009, 31 December 2008 and 2007 was presented as follows:

Financial assets	**31 December 2009**	**31 December 2008**	**31 December 2007**
Cash and cash equivalents	1 727	5 878	4 460
Long-term deposits	504	49 351	107 627
Short-term deposits	155 917	233 271	37 363
Trade accounts receivable, net	47 320	15 593	47 953
Loans to related parties	4 320	702	5 733
Accounts receivable under commission contract	—	12 987	19 802
Interest receivable for deposits	39 411	79	29
Accounts receivable for bonds	—	25 496	—
Nominal investment certificates	—	—	29 703
	249 199	**343 357**	**252 670**

(in USD thousand unless otherwise stated)

41. Financial risk management (continued)

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

The Group's exposure to credit risk regarding trade accounts receivable is primarily dependent on specific characteristics of each client. The Group's policy for credit risk management provides systematic work with debtors, which includes: analysis of solvency, determination of maximum amount of risk related to one customer or a group of customers and control over timeliness of debt repayment. The majority of Group's clients are longstanding clients, and there were no significant losses during 2009, 2008 and 2007 resulting from non-fulfilment of obligations by clients. The Concentration of credit risk on trade accounts receivable is characterised by the following indicators:

For the year ended 31 December 2009 USD77 788 thousand or 24.4% of Group's sales revenue is related to sales transactions, realised with one client of the Group. As at 31 December 2009 USD33 293 thousand or 69.9% of trade accounts receivable relates to one customer.

For the year ended 31 December 2008 USD54 272 thousand or 18% of Group's sales revenue is related to sales transactions, realised with one client of the Group. As at 31 December 2008 USD 6 354 thousand or 39% of trade accounts receivable relates to one customer.

For the year ended 31 December 2007 USD14 427 thousand or 12% of Group's sales revenue is related to sales transactions, realised with one client of the Group. As at 31 December 2007 USD16 015 thousand or 34% of trade accounts receivable relates to one customer.

Trade accounts receivable as at 31 December 2009, 31 December 2008 and 31 December 2007 by dates of origin were presented as follows:

31 December 2009:	**0-30 days**	**31-60 days**	**61-90 days**	**91-120 days**	**121-180 days**	**181-365 days**	**over one year**	**TOTAL**
Carrying value of trade accounts receivable	10 080	11 471	1 268	1 289	5 678	16 620	914	**47 320**

31 December 2008:	**0-30 days**	**31-60 days**	**61-90 days**	**91-120 days**	**121-180 days**	**181-365 days**	**over one year**	**TOTAL**
Carrying value of trade accounts receivable	7 118	1 099	946	1 667	692	3 834	237	**15 593**

31 December 2007:	**0-30 days**	**31-60 days**	**61-90 days**	**91-120 days**	**121-180 days**	**181-365 days**	**over one year**	**TOTAL**
Carrying value of trade accounts receivable	21 707	3 405	2 929	5 163	2 143	11 874	733	**47 954**

Amounts due from related parties are not generally provided where there is no reason to doubt the solvency of the debtor. Related parties tend to be given longer credit terms and the older amounts generally relate to these related parties.

b) Liquidity risk

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

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

(in USD thousand unless otherwise stated)

41. Financial risk management (continued)

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

31 December 2009:	Carrying value	Less than 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
Bank deposits	156 421	—	155 917	504	—
Trade accounts receivable, net	47 320	22 819	23 587	914	—
Loans to related parties	4 320	4 320	—	—	—
Cash and cash equivalents	1 727	1 727	—	—	—
Other nontrading accounts receivable	3 311	3 311	—	—	—
Interest receivable for deposits	39 411	39 411	—	—	—
Accounts receivable under commission contract	—	—	—	—	—
Bank loans (including overdrafts)	(222 945)	(974)	(137 106)	(84 864)	—
Trade accounts payable	(68 019)	(68 019)	—	—	—
Loans from related parties	(8 535)	—	(8 535)	—	—
Finance lease (including VAT)	(8 199)	—	(2 057)	(6 142)	—
Current liabilities for bonds	(24 249)	—	(24 249)	—	—
Accounts payable for property, plant and equipment	(12 847)	—	(12 847)	—	—
Interest payable	(8 331)	(8 331)	—	—	—
Bonds coupon profit payable	(2 055)	(2 055)	—	—	—
Other accounts payable	(7 421)	(7 421)	—	—	—
	(110 091)	**(15 212)**	**(5 290)**	**(89 588)**	—

31 December 2008:	Carrying value	Less than 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
Bank deposits	282 622	510	232 761	49 351	—
Trade accounts receivable, net	15 593	9 163	6 193	237	—
Loans to related parties	702	176	526	—	—
Accounts receivable for bonds	25 496	25 496	—	—	—
Cash and cash equivalents	5 877	5 877	—	—	—
Other nontrading accounts receivable	3 144	3 144	—	—	—
Interest receivable for deposits	79	79	—	—	—
Accounts receivable under commission contract	12 987	—	12 987	—	—
Bank loans (including overdrafts)	(368 313)	(21 068)	(155 878)	(191 367)	—
Trade accounts payable	(20 529)	(20 529)	—	—	—
Loans from related parties	(302 520)	(75 630)	(226 890)	—	—
Finance lease (including VAT)	(10 681)	(545)	(1 634)	(8 502)	—
Current liabilities for bonds	(25 843)	—	(25 843)	—	—
Accounts payable for property, plant and equipment	(9 112)	(9 112)	—	—	—
Interest payable	(291)	(291)	—	—	—
Bonds coupon profit payable	(2 039)	(2 039)	—	—	—
Other accounts payable	(123 947)	(123 947)	—	—	—
	(516 775)	**(208 717)**	**(157 778)**	**(150 281)**	—

41. Financial risk management (continued)

31 December 2007:	Carrying value	Less than 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
Bank deposits	144 990	2 588	34 775	107 627	—
Trade accounts receivable, net	47 954	28 041	19 180	733	—
Loans to related parties	5 733	5 733	—	—	—
Cash and cash equivalents	4 460	4 460	—	—	—
Other nontrading accounts receivable	3 055	3 055	—	—	—
Interest receivable for deposits	29	29	—	—	—
Accounts receivable under commission contract	19 802	—	19 802	—	—
Bank loans (including overdrafts)	(315 611)	(30 288)	(97 738)	(187 564)	(21)
Trade accounts payable	(43 134)	(43 134)	—	—	—
Loans to related parties	(96 101)	(24 025)	(72 076)	—	—
Accounts payable for property, plant and equipment	(1 468)	(1 468)	—	—	—
Interest payable	(38)	(38)	—	—	—
Other accounts payable	(89 364)	(89 364)	—	—	—
	(319 693)	**(144 411)**	**(96 057)**	**(79 204)**	**(21)**

c) Market risk

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

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

i) Foreign currency risk

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

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

Exposure to foreign currency risk

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

	USD	EUR	CHF	UAH	TOTAL
	(in conversion to USD thousand)				
Long-term bank loans	—	—	1 845	84 104	**85 949**
Short-term bank loans (including overdrafts)	725	—	—	136 271	**136 996**
Trade accounts payable	1 346	268	—	64 279	**65 893**
Accounts payable for property, plant and equipment	—	1 365	—	11 482	**12 847**
Net exposure to foreign currency risk	**2 071**	**1 633**	**1 845**	**296 136**	**301 685**

41. Financial risk management (continued)

The Group's exposure to foreign currency risk and the amount in local currency (UAH) as at 31 December 2008 based on carrying amounts was as follows:

	USD	EUR	CHF	UAH	TOTAL
		(in conversion to USD thousand)			
Long-term bank loans	—	—	2 146	190 142	**192 288**
Short-term bank loans (including overdrafts)	725	46	—	175 181	**175 952**
Trade accounts payable	721	237	—	17 721	**18 679**
Accounts payable for property, plant and equipment	866	221	—	8 025	**9 112**
Net exposure to foreign currency risk	**2 312**	**504**	**2 146**	**391 069**	**396 031**

The Group's exposure to foreign currency risk and the amount in local currency (UAH) as at 31 December 2007 based on carrying amounts was as follows:

	USD	EUR	CHF	UAH	TOTAL
		(in conversion to USD thousand)			
Long-term bank loans	2 144	166	—	195 535	**197 845**
Short-term bank loans (including overdrafts)	—	—	—	117 709	**117 709**
Trade accounts payable	—	—	—	40 313	**40 313**
Accounts payable for property, plant and equipment	9	40	1 419	—	**1 468**
Net exposure to foreign currency risk	**2 153**	**206**	**1 419**	**353 557**	**357 335**

ii) Sensitivity analysis (foreign currency risk)

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

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

Effect in USD thousand: **31 December 2008**	**Increase in currency rate against UAH**	**Effect on profit before tax**
USD	15%	(347)
EUR	10%	(50)
CHF	10%	(215)

Effect in USD thousand: **31 December 2007**	**Increase in currency rate against UAH**	**Effect on profit before tax**
USD	15%	(323)
EUR	10%	(21)

(in USD thousand unless otherwise stated)

41. Financial risk management (continued)

d) Interest rate risk

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

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

Structure of interest rate risk

As at 31 December 2009, 31 December 2008 and 31 December 2007 the structure of interest financial instruments of the Group, grouped according to the types of interest rates, was presented as follows:

	31 December 2009	31 December 2008	31 December 2007
Instruments with fixed interest rate			
Financial assets	—	—	—
Financial liabilities	(354 402)	(852 594)	(545 716)
Instruments with variable interest rate			
Financial assets	158 148	288 500	149 450
Financial liabilities	(8 188)	(10 681)	—

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

Assumptions in assessing fair value of financial instruments and assessment of their subsequent recognition

Fair value of financial instruments is defined at the amount at which instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instruments. The estimates presented herein are not necessarily indicative of the amounts the Group could realise in a market exchange from the sale of its full holding of a particular instrument.

As at 31 December 2009, 31 December 2008 and 31 December 2007, the following methods and assumptions were used by the Group to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

- Cash and cash equivalents – the fair value is estimated to be the same as the carrying value for these short-term financial instruments.
- Trade and other accounts receivable, financial assistance issued – the fair value is reasonably estimated to be the same as the carrying value, as provision for doubtful debts is reasonable estimation of discount needed to reflect credit risk influence.
- Trade and other accounts payable – the fair value is estimated to be the same as the carrying value for trade and other accounts payable.
- Short-term and long-term deposits the fair value is estimated to be the same as the carrying value for short-term and long-term deposits, as its nominal interest rate is estimated to approximate the market rate tied to deposits with similar terms and conditions as at the balance sheet date.

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

41. Financial risk management (continued)

e) Financial markets volatility

The global financial crisis started in 2007 in the market for mortgage loans in the USA and affected not only the USA, as a great number of global investors had to review their risk exposure, which led to increased volatility on financial markets. Reduced liquidity, as a result of, among other factors, increased volatility in financial markets may have a negative impact on the Group's debtors, which, in turn, will influence their solvency. Deteriorating market conditions may affect the forecasts of cash flows made by Management, as well as possible impairment of financial and other assets of the Group. In terms of all currently available information, Management has used the most reliable assumptions to assess the financial risks. It is quite difficult to estimate with sufficient reliability the influence on the financial position of the Group resulting from further possible deterioration in liquidity and stability of financial markets.

Capital management

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

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

To manage capital, the Group's management, above all, uses calculations of financial leverage coefficient (ratio of leverage ratio) and ratio between net debt and EBITDA.

Financial leverage is calculated as a ratio between net debt and total amount of capital. Net debt is calculated as cumulative borrowing costs net of cash and cash equivalents. Total amount of capital is calculated as own capital reflected in the balance sheet plus the amount of net debt.

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

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

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

(in USD thousand unless otherwise stated)

41. Financial risk management (continued)

As at 31 December 2009, 31 December 2008 and 31 December 2007 the Group's financial leverage coefficient was 29.5%, 65.1% and 73.8% respectively.

		Carrying value		
	Note	**31 December 2009**	**31 December 2008**	**31 December 2007**
Short-term loans		145 531	280 176	213 867
Long-term loans		85 975	192 518	189 340
Current portion of long-term loans		1 085	921	10 260
Long-term finance lease (including VAT)		6 142	8 502	—
Current portion of non-current liabilities for finance lease (including VAT)		2 057	2 179	87
Current liabilities for bonds		24 249	25 843	—
Total amount of borrowings		**265 039**	**510 139**	**413 554**
Cash and cash equivalents		1 727	5 878	4 460
Deposits		156 421	282 622	144 990
Financial assistance issued		4 320	702	5 733
Net debt		**102 571**	**220 937**	**258 371**
Share capital		644	644	3
Capital contribution reserve		115,858	—	—
Retained earnings		300 107	168 151	74 109
Effect from translation into presentation currency		(64 137)	(56 698)	—
Minority interest		8 083	6 406	17 680
Total equity		**360 555**	**118 503**	**91 792**
Total amount of equity and net debt		**463 126**	**339 440**	**350 163**
Financial leverage coefficient		**22.1%**	**65.1%**	**73.8%**

For the years ended 31 December 2009, 31 December 2008 and 31 December 2007 the ratio of net debt to EBITDA amounted to:

	2009	**2008**	**2007**
PROFIT/(LOSS) FOR THE PERIOD	133 669	77 283	30 234
Income tax income/expenses	1 168	(1 414)	1 254
Financial income	(41 180)	(26 897)	(20 868)
Financial expenses	46 150	52 986	22 540
EBIT (earnings before interest and income tax)	**139 807**	**101 959**	**33 160**
Depreciation	12 285	11 780	5 592
EBITDA (earnings before interest, income tax, depreciation and amortisation)	**152 092**	**113 738**	**38 752**
Net debt at the year end	102 571	220 937	258 371
Net debt at the year end / EBITDA	**0.7**	**1.9**	**6.7**

EBITDA includes USD6 261 thousand (2008: USD30 598 thousand; 2007 USD12 582 thousand) of partial compensation for interest as described more fully in note 34.

41. Financial risk management (continued)

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

f) Livestock diseases risk

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

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

Since obtaining independence in 1991, Ukraine has undergone substantial political transformation from a constituent republic of the former Soviet Union to an independent sovereign state and has been progressively developing into a market economy. Although substantial progress has been made since independence in reforming Ukraine's economy, along with the country's political and judicial systems to some extent, Ukraine still lacks the necessary legal infrastructure and regulatory framework essential to support market institutions, effective transition to a market economy and broad-based social and economic reforms.

Conditions for the Ukrainian economy have been extremely unstable during the course of 2009 and this instability has continued into the first quarter of 2010. Despite signs of stabilisation, major concerns remain over the performance of the Ukrainian economy at a macro level. The economy has remained very energy intensive and is still insufficiently diversified, with exports remaining centred on metallurgical products. Consequently, the economy remains vulnerable to fluctuations in steel prices and to shocks resulting from Russia's control over the supply of gas. In terms of business environment, high taxes, legal uncertainties and bureaucratic impediments have conspired to create a difficult business environment in which to operate. In addition, the lack of an enduring political consensus on reforms has created uncertainty over the modernisation of the economy.

43. Events after the balance sheet date

On 30 March 2010 the Group concluded 2 supply contracts for the sale of females and males of parent stock of "Hy-Line W-36" and "Hy-Line Brown" for the amounts of EUR3 130 000 and EUR570 000. The term of these contracts is 3 years.

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