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This electronic transmission and the attached document and the offer 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 electronic transmission and the attached document are being distributed only to, and are directed only at, Qualified Investors 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 who are high net worth entities falling within Article 49(2)(a) to (d) of the Order, and other persons to whom they may otherwise lawfully be communicated (all such persons together being referred to as "**relevant persons**"). This electronic transmission and the attached document 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 European Economic Area other than the United Kingdom, by persons who are not Qualified Investors. Any investment or investment activity to which this electronic transmission and the attached document relates is available only to relevant persons in the United Kingdom and Qualified Investors in any member state of the European Economic Area other than the United Kingdom, and will be engaged in only with such persons.

Confirmation of Your Representation: This electronic transmission and the attached document are delivered to you on the basis that you are deemed to have represented to Avangardco Investments Public Limited (the "**Issuer**") and each of TD Investments Limited and J.P. Morgan Securities Ltd. (the "**The Joint Lead Managers**") that (i) that you are acquiring such securities in offshore transactions as defined in, and in reliance on, Regulation S under the Securities Act; (ii) if you are in the United Kingdom, you are a relevant person, and/or a relevant person who is acting on behalf of, relevant persons in the United Kingdom and/or Qualified Investors to the extent you are acting on behalf of persons or entities in the United Kingdom or the European Economic Area; (iii) if you are in any member state of the European Economic Area other than the United Kingdom, you are a Qualified Investor and/or a Qualified Investor acting on behalf of, Qualified Investors or relevant persons, to the extent you are acting on behalf of persons or entities in the European Economic Area or the United Kingdom; and (iv) you are an institutional investor that is eligible to receive this electronic transmission and the attached document.

You are reminded that you have received this electronic transmission and the attached document on the basis that you are a person into whose possession this electronic transmission and the attached document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver this electronic transmission or the attached document, electronically or otherwise, to any other person.

None of the Joint Lead Managers nor any of their respective affiliates accepts any responsibility whatsoever for the contents of this transmission or the attached document or for any other statement made or purported to be made by it, or on its behalf, in connection with the Issuer or the securities or the offer referred to herein. The Joint Lead Managers and each of their respective affiliates, each accordingly disclaims all and any liability whether arising in tort, contract or otherwise which they might otherwise have in respect of such electronic transmission, document or any such statement. No representation or warranty express or implied, is made by any of the Joint Lead Managers or any of their respective affiliates as to the accuracy, completeness or sufficiency of the information set out in this electronic transmission or the attached document.

AVANGARDCO INVESTMENTS PUBLIC LIMITED

(incorporated with limited liability in Cyprus)

USD200,000,000 10.0% Notes due 29 October 2015

issued with the benefit of a surety agreement from

LLC "Areal-Snigurivka"
CJSC Agrofirma "Avis"
LLC "Torgivelniy Budynok "Bohodukhivska Ptakhofabryka"
CJSC Chernivetska Ptakhofabryka
OJSC "Ptakhohospodarstvo "Chervonyi Prapor"
APP CJSC "Chornobaivske"
CJSC "Avangard"
ALLC "Donetska Ptakhofabryka"
SC "Gorodenkivska Ptakhofabryka" of CJSC "Avangard"
LLC "Imperovo Foods"
PSPC "Interbusiness"
SC "Rohatynska Ptakhofabryka" of CJSC "Avangard"
SC Ptakhofabryka "Lozuvatska" of Private Joint Stock Company with Limited Liability "Avangardco Investments Public Limited"
LLC PF "Volnovaska"
PJSC "Cross-P/F "Zorya"

(each incorporated in the form as specified in the General Information section of this Prospectus)

Issue price: 98.093%

The USD200,000,000 10.0% Notes due 29 October 2015 (the "**Notes**") are issued by Avangardco Investments Public Limited (the "**Issuer**"). The Notes will benefit from a suretyship (the "**Suretyship**") provided by LLC "Areal-Snigurivka", CJSC Agrofirma "Avis", LLC "Torgivelniy Budynok "Bohodukhivska Ptakhofabryka", CJSC Chernivetska Ptakhofabryka, OJSC "Ptakhohospodarstvo "Chervonyi Prapor", APP CJSC "Chornobaivske", CJSC "Avangard", ALLC "Donetska Ptakhofabryka", SC "Gorodenkivska Ptakhofabryka" of CJSC "Avangard", LLC "Imperovo Foods", PSPC "Interbusiness", SC "Rohatynska Ptakhofabryka" of CJSC "Avangard", SC Ptakhofabryka "Lozuvatska" of Private Joint Stock Company with Limited Liability "Avangardco Investments Public Limited", LLC PF "Volnovaska" and PJSC "Cross-P/F "Zorya" (the "**Surety Providers**", and each, a "**Surety Provider**") pursuant to and in accordance with a surety agreement (the "**Surety Agreement**") dated on or about 29 October 2010 (the "**Closing Date**"). The Surety Agreement will constitute a suretyship (in Ukrainian: *"poruka"*) for the purposes of Ukrainian law and shall not constitute a guarantee obligation (in Ukrainian: *"garantiya"*) as that term is interpreted under Ukrainian law: see "The Notes" and "Description of the Transaction".

PROSPECTIVE INVESTORS SHOULD HAVE REGARD TO THE FACTORS DESCRIBED UNDER "RISK FACTORS" IN THIS PROSPECTUS.

Interest on the Notes is payable semi-annually in arrear commencing on 29 April 2011. Payments on the Notes and the Suretyship will be made without withholding or deduction for or on account of taxes of Cyprus and Ukraine to the extent described under Condition 9 (*Taxation*).

The Notes mature on 29 October 2015. The Issuer will, at the option of any holder of Notes (a "**Noteholder**"), redeem any Notes held by such Noteholder at any time following a Change of Control (as defined in Condition 8.2), at 101% of their principal amount, together with accrued interest.

The Notes will be constituted by the Trust Deed and constitute direct, unsecured, unsubordinated and unconditional obligations of the Issuer.

Application has been made to the UK Financial Services Authority (the "**FSA**") in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**UK Listing Authority**") for the Notes to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for the Notes to be admitted to trading on the London Stock Exchange's regulated market (the "**Market**"). References in this Prospectus to the Notes being "**listed**" (and all related references) shall mean that the Notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments (the "**Markets in Financial Instruments Directive**").

The Notes are expected to be rated B by Fitch Ratings Limited. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The Notes and the Suretyship have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and, subject to certain exceptions, may not be offered or sold within the United States or to or for the account or benefit of U.S. persons (as defined in Regulation S ("**Regulation S**") under the Securities Act). The Notes are being offered and sold outside the United States in reliance on Regulation S. For a description of certain further restrictions on offers, sales and transfers of the Notes and distribution of this Prospectus, see "Subscription and Sale". This document should not be forwarded or transmitted into the United States or to US persons as defined by Regulation S.

The Notes will be issued in registered form in denominations of USD100,000 and integral multiples of USD1,000 in excess thereof. Delivery of the Notes will be made on or about the Closing Date. The Regulation S Notes will upon issue be represented by a single global certificate (the "**Global Certificate**") in registered form, which will be deposited with a common depositary (the "**Common Depositary**") for, and registered in the name of a nominee of, Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") on or about the Closing Date for the accounts of their respective accountholders. Ownership interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their respective participants.

Joint Bookrunners and Joint Lead Managers

J.P. MORGAN **TROIKA DIALOG**

The date of this Prospectus is 27 October 2010

This Prospectus comprises a prospectus for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**") and for the purpose of giving information with regard to the Issuer, the Group (as defined below), the Surety Providers, and the Notes, which according to the particular nature of the Issuer, the Group, the Surety Providers, the Notes and the Suretyship is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer, the Group and the Surety Providers. The Issuer and the Surety Providers (the "**Responsible Persons**") accept responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of each of the Issuer and the Surety Providers (each of which has 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 Issuer and the Surety Providers, having made all reasonable enquiries, confirm that: this Prospectus contains all information with respect to the Issuer, the Surety Providers, the Group, the Notes and the Suretyship which is material in the context of the issue and offering of the Notes; the statements contained in this Prospectus relating to the Issuer, the Surety Providers and the Group are true and accurate in all material respects and not misleading; the opinions, intentions and expectations expressed in this Prospectus with regard to the Issuer, the Surety Providers and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; there are no other facts in relation to the Issuer, the Surety Providers, the Group, the Notes or the Suretyship, the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Prospectus misleading; this Prospectus does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements herein, in light of the circumstances under which they were made, not misleading; and all reasonable enquiries have been made by the Issuer and the Surety Providers to ascertain the facts, information and statements contained in this Prospectus. Each of the Issuer and the Surety Providers accordingly accepts responsibility.

The Prospectus may only be used for the purposes for which it has been published.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Issuer, the Surety Providers, the Trustee (as defined below) or the Joint Lead Managers (as defined in "The Notes" below) to subscribe or purchase, any of the Notes. The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Surety Providers, the Trustee and the Joint Lead Managers to inform themselves about and to observe any such restrictions.

For a description of further restrictions on offers and sales of Notes and distribution of this Prospectus, see "Subscription and Sale" below.

No person is authorised to give any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Surety Providers, the Trustee or the Joint Lead Managers. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Surety Providers since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the Surety Providers since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Notes is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

To the fullest extent permitted by law, the Joint Lead Managers and the Trustee accept no responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by a Joint Lead Manager or the Trustee or on its behalf in connection with the Issuer, the Surety Providers, or the issue and offering of the Notes. Each of the Joint Lead Managers and the Trustee accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

Prospective investors should not construe anything in this Prospectus as legal, business or tax advice. Each prospective investor should consult its own advisers as needed to make its investment decision and determine whether it is legally able to purchase the Notes under applicable laws or regulations.

*No representation or warranty, express or implied, is made by the Joint Lead Managers or BNY Corporate Trustee Services Limited (the "**Trustee**") as to the accuracy or completeness of the information set forth in this Prospectus, and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation, whether as to the past or the future. Neither the Joint Lead Managers nor the Trustee assumes any responsibility for the accuracy or completeness of the information set forth in this Prospectus. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Issuer, the Surety Providers and the Group and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investments.*

None of the Issuer, the Surety Providers, the Joint Lead Managers, the Trustee or any of their respective representatives is making any representation to any offeree or purchaser of the Notes regarding the legality of an investment by such offeree or purchaser under appropriate legal investment or similar laws. Each investor should consult with its own advisers as to the legal, tax, business, financial and related aspects of a purchase of the Notes.

The Notes and the Suretyship have not been recommended by or approved by the U.S. Securities and Exchange Commission (the "**SEC**") or any other federal or state securities commission or regulatory authority in the United States, nor has any such commission or regulatory authority passed upon the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

THE STATEMENTS HEREIN ABOUT U.S. FEDERAL TAX ISSUES ARE MADE TO SUPPORT MARKETING OF THE NOTES. NO TAXPAYER CAN RELY ON THEM TO AVOID TAX PENALTIES. EACH PROSPECTIVE PURCHASER SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISOR ABOUT THE TAX CONSEQUENCES UNDER ITS OWN PARTICULAR CIRCUMSTANCES OF INVESTING IN NOTES UNDER THE LAWS OF THE UNITED KINGDOM, CYPRUS, UKRAINE, THE UNITED STATES AND ITS CONSTITUENT JURISDICTIONS AND ANY OTHER JURISDICTION WHERE THE PURCHASER MAY BE SUBJECT TO TAXATION.

This Prospectus has been prepared solely for use in connection with the proposed offering of the Notes described in this Prospectus. This Prospectus is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire Notes.

In connection with the issue of the Notes, J.P. Morgan Securities Ltd. (the "**Stabilising Manager**") (or any person acting on behalf of any Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of any Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager (or any person acting on behalf of any Stabilising Manager) in accordance with all applicable laws and rules.

FORWARD-LOOKING STATEMENTS

This Prospectus contains "forward-looking statements". Such statements, which are indicated by words or phrases such as "intend", "anticipate", "plan", "estimate", "project", "expects", "believes" or "currently envisions" and similar phrases are based on current expectations only, and are subject to certain risks, uncertainties, unforeseen events and assumptions. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. Included among the factors that could cause actual results to materially differ are those risks listed under the heading "Risk Factors" below. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place undue reliance on these forward-looking statements. The Issuer undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than to the extent that it is required to do so under the Prospectus Rules, the Listing Rules and the Disclosure and Transparency Rules of the FSA (the "**Prospectus Rules**", the "**Listing Rules**" and the "**Disclosure and Transparency Rules**").

ENFORCEABILITY OF JUDGMENTS

The Issuer is incorporated under the laws of Cyprus. The Surety Providers are incorporated under the laws of Ukraine and certain of the officers and members of the Surety Providers' boards of directors and certain other persons referred to herein are residents of Ukraine. A substantial portion of the assets of the Surety Providers and the Group are located outside the United Kingdom and the United States. As a result, it may not be possible for investors to effect service of process upon such persons in the United Kingdom or the United States or to enforce against them or the Surety Providers or the Group any judgments obtained in the courts of the United Kingdom and the United States including judgments predicated upon the civil liability provisions of the securities laws of the United States or any State or territory within the United States.

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.

The courts of Ukraine will not recognise or enforce any judgment obtained in a court established in a country other than Ukraine unless such enforcement is envisaged by an international treaty to which Ukraine is a party providing for enforcement of such judgments and then only in accordance with the terms of such treaty. There is no such treaty between Ukraine and the United Kingdom or between the United States and Ukraine providing for enforcement of judgments.

In the absence of an international treaty providing for enforcement of judgments, the courts of Ukraine may only recognise or enforce a foreign court judgment on the basis of the principle of reciprocity. Unless proven otherwise, reciprocity is deemed to exist in relations between Ukraine and the country where the judgment was rendered. Ukrainian law does not provide any clear rules on the application of the principle of reciprocity and there is no official interpretation or court practice in this respect. Accordingly, there can be no assurance that the courts of Ukraine will recognise or enforce a judgment rendered by the courts of the United Kingdom or the United States on the basis of the principle of reciprocity. Furthermore, the courts of Ukraine might refuse to recognise or enforce a foreign court judgment on the basis of the principle of reciprocity on the grounds provided in the applicable Ukrainian legislation.

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.

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) the decision is final and 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. A final and conclusive judgment of a U.S. court may be enforced by the party in whose favour the judgment has been issued by filing, 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.

CONTENTS

PRESENTATION OF CERTAIN INFORMATION

Certain Defined Terms

In this Prospectus:

"**Avangard**" or the "**Group**" means (i) the Issuer, 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 Statements**") and in its interim consolidated financial statements as at and for the period ended 30 June 2010 (the "**Interim Consolidated Financial Statements**" and, together with the Consolidated Financial Statements, the **"Financial Statements"**) (which include all of the Surety Providers) at the relevant time or (ii) for dates or periods prior to the formation of the Issuer, the subsidiaries consolidated in its Consolidated Financial Statements at the relevant time. See "General Information—Information Relating to the Issuer's Subsidiaries";

The "**Issuer**" means Avangardco Investments Public Limited;

"**Management**" means the Board of Directors of the Issuer; and

"**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" of Private Joint Stock Company with Limited Liability "Avangardco Investments Public Limited"; "**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 Eksperementalnyi Kombikormovyi Zavod"; and "**Zorya**" means PJSC "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.

Financial Information

The Consolidated Financial Statements of the Issuer and its subsidiaries included in this Prospectus have been prepared as if the Issuer 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 (see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Basis of Consolidation (Transactions under Common Control)"). The Consolidated Financial Statements have been audited by Baker Tilly Klitou and Partners Limited (the "**Independent Reporting Auditors**") in accordance with International Standards of Auditing.

The Interim Consolidated Financial Statements with respect to the six months ended 30 June 2010 are unaudited but reviewed by Baker Tilly Klitou and Partners Limited in accordance with International Standard on Review Engagements 2410, "Review of Interim and Financial Information Performed by the Independent Auditor of the Entity".

This document includes certain non-IFRS 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.

A significant portion of the Group's assets and revenues is derived from related parties transactions. Related parties may enter into transactions into which unrelated parties might not. Transactions with related parties may not be effected on the same terms and conditions as transactions with unrelated parties. Baker Tilly Klitou and Partners Limited, in their auditors' reports on the Consolidated Financial Statements for the years ended 31 December 2007, 31 December 2008 and 31 December 2009, drew attention to a concentration of the Group's transactions with related parties by way of an emphasis of matter statement.

The Consolidated Financial Statements contain a qualification in respect of the Group's financial information for the year ended 31 December 2007. The Independent Reporting Auditors did not observe the counting of physical inventories as of 31 December 2006 (since that date was prior to their engagement) and were unable to satisfy themselves with the inventory quantities based on other audit procedures.

Market, Economic and Industry Data

Avangard operates in an industry in which it is difficult to obtain precise industry and market information. The Issuer has obtained certain market data used in this Prospectus, including, without limitation, information under the captions "Overview of the Issuer", "Industry Overview" and "Description of the Issuer" from a market research report issued in March 2010 (the "**Pro-Consulting Report**"), prepared by the Financial and Analytical Group "Pro-consulting", Ltd. ("**Pro-Consulting**"), an independent market research company, and commissioned by Avangard. For the purpose of compliance with the Prospectus Rules, Pro-Consulting has given and not withdrawn its written consent to the inclusion of information from the Pro-Consulting Report in this Prospectus, for the purpose of Annex IX item 13.1 in Appendix 3 to the Prospectus Rules.

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 Issuer 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".

Certain information in this Prospectus in relation to Ukraine has been extracted from documents and other publications released by, and is presented on the authority of, various official and other public and private sources, including participants in the capital markets and financial sector in Ukraine. There is not necessarily any uniformity of views among such sources as to the information provided therein.

Where the information has been sourced from a third party, this information has been accurately reproduced and, so far as the Issuer and each of the Surety Providers 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.

Currency

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, all references to "**U.S.$**", "**U.S. dollar**", "**United States dollar**", "**USD**" and "**dollar**" are to the currency of the United States of America, and all references to "£" are to the currency of the United Kingdom. All references to "**CHF**" are to the currency of Switzerland. Solely for the convenience of the reader and except as otherwise stated, the Issuer has presented in this Prospectus translations of some hryvnia amounts into U.S. dollars at a conversion rate of UAH 7.91 to U.S.$1.00, which was the rate published by the National Bank of Ukraine (the "**NBU**") on 30 September 2010. 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".

Rounding

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.

RISK FACTORS

An investment in the Notes involves a high degree of risk. Any of the following risks could adversely affect the Issuer's or any of the Surety Providers' business, results of operations, financial condition and prospects, in which case the trading price of the Notes could decline, resulting in the loss of all or part of an investment in the Notes, and the Issuer's ability to pay all or part of the interest or principal on the Notes could be negatively affected.

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the Notes are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with the Notes for other reasons, and the Issuer does not represent that the statements below regarding the risks of holding the Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

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 and internationally

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. In the first half of 2010 sales of shell eggs and egg products accounted for approximately 83.2% 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, the population's standard of living 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 (as well as levels of demand on export markets, such as those in the Near and Far East, which Avangard is increasingly targeting).

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. As Avangard is placing an increasing focus on the sale of shell eggs and egg products in its export markets, it is also increasingly subject to competition from non-Ukrainian competitors in those export markets. The effect of such competition may be increased by the relatively short-term nature (typically no more than one year) of most of the export sales contracts into which Avangard enters. 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. An initial inspection was made by the EU authorities in May 2010 and a further inspection is anticipated by the end of the year. 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 (see "Description of the Issuer—Sales"). 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.

Furthermore, due to the nature of demand for shell eggs, there is a risk that demand may fall in response to rises in living standards, as consumers switch to buying other, more expensive protein products.

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 egg yolk products, 2% for dry albumen and 5% for other albumen. 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. In 2009 Avangard was able to produce approximately 75% of its animal feed needs, purchasing the remaining amount from third party suppliers while simultaneously selling excess animal feed it produced in some geographical areas to outside buyers in those geographical areas. 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 breeder and laying flock 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. During 2008, feed grain prices in Ukraine decreased significantly in U.S. dollar terms, due to lower world market prices for commodities and the devaluation of the hryvnia against the U.S. dollar at the end of the year. Market prices of feed grain increased somewhat in 2009 following a partial economic recovery and convergence of Ukrainian prices with the foreign currency denominated world prices. However, they have not to date returned to the peak levels reached in 2007. Since the end of 2009, feed grain prices increased due to developments on world commodity markets.

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 small-scale industrial and household chicken farms in the Kharkiv, Chernigiv and Rivne regions of Ukraine and in the Zhytomyr region in 2007. 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.

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. Moreover, shell eggs are perishable products and have a very short shelf life. 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.

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

Qualifying agricultural producers in Ukraine, including certain companies in the Group, 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 goods or services purchased for their agricultural operations, rather than remitting such amounts to the state budget as other taxpayers are required to do. The amounts retained can be used for any business purposes. Agricultural producers qualify for this special VAT regime provided that sales of their own-produced agricultural products represent more than 75% of their total gross revenue during the preceding twelve months. This VAT benefit was received by Avangard in 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 9.1% of Avangard's net profit before tax for 2009. Prior to 1 January 2009, taxpayers were not entitled to retain the difference between the VAT that they charged on sales of their agricultural products and the VAT that they paid on purchases of goods or services for their agricultural operations. However, they were entitled to another special VAT benefit (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—Government VAT refunds for the agricultural industry"). Such benefits received by companies in the Group amounted to approximately U.S.$7,795 thousand and U.S.$3,957 thousand in 2008 and 2007, respectively, or approximately 10.3% and 12.6%, respectively, of the Group's total income for the relevant years before tax. In 2009, Avangard additionally received a delayed payment of U.S.$2,855 thousand of this benefit due to it for the year ended 31 December 2008.

As long as Avangard is entitled to retain VAT from sales of its agricultural products any reduction in 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 amounts of VAT charged on Avangard's agricultural products and the amount of VAT paid by Avangard on goods and services purchased for its agricultural 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".

In addition, under Ukrainian law, qualifying 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", dated 17 December 1998, as amended (the "**Law on Fixed Agricultural Tax**"), Ukrainian 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 their own-produced agricultural goods account for more than 75% of their gross revenue. FAT is paid in lieu of corporate income tax ("**CIT**"), land tax, duties for special use of water resources, 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 that are used for agricultural production. In accordance with the Law on Fixed Agricultural Tax, the Group has elected when possible to pay FAT in lieu of other taxes in all years since 2003, and currently all the Group's subsidiaries (other than Rohatyn-Korm, Vuhlehirskyi, Volnovaskyi KHP, Kamyanets-Podilsky, LLC Pershe Travnya and Imperovo) pay FAT. FAT paid by Avangard in lieu of CIT and certain other taxes and duties amounted to U.S.$33,607 thousand in 2009. 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.

Any cancellation or limitations of the tax benefits discussed above which are currently available to Avangard or, generally, to agricultural producers in Ukraine could have a material adverse effect on Avangard's business, results of operations and financial condition.

State subsidies from which Avangard currently benefits could be discontinued

The Ukrainian Government (the "**Ukrainian Government**" or the "**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. Each year the Government adopts annual plans 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". 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 a 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.

Avangard has been and will continue to be controlled by a majority shareholder

The Issuer has four controlling shareholders, each of which is fully owned by Oleg Bakhmatyuk, the Chairman of the Issuer's Board of Directors, who is also a direct shareholder of the Issuer. The Issuer's controlling shareholders and Oleg Bakhmatyuk control approximately 77.5% of the Issuer. As such, the controlling shareholders and Mr. Bakhmatyuk continue to exercise control over the Issuer, 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 Issuer's shareholders, increasing or decreasing the Issuer'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.

Although Mr. Bakhmatyuk, acting on his own behalf and on behalf of the four controlling shareholders, and the Issuer have entered into a relationship agreement aimed at, among other things, protecting the Issuer'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 Noteholders. 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".

The Group has engaged itself and continues to engage itself in transactions with related parties that may present conflicts of interest, potentially resulting in the conclusion of transactions on less favourable terms than those that could be obtained in arm's-length transactions

In the course of its business, the Group has engaged, and continues to engage, in transactions with related parties and entities under common control. For more information on these related parties, including the transactions with these parties, see "Shareholders and Related Party Transactions—Related Party Transactions" and Note 36 of the Group's Consolidated Financial Statements and Note 33 of the Interim Consolidated Financial Statements, respectively. Baker Tilly Klitou and Partners Limited, in their auditors' reports on the Consolidated Financial Statements for the years ended 31 December 2007, 31 December 2008 and 31 December 2009, drew attention to a concentration of the Group's transactions with related parties by way of an emphasis of matter statement.

Avangard, Ovoline and Public Joint-Stock Company "Commercial Bank "Finansova Initsiatyva" (a bank which has extended loans to, and taken deposits from, Avangard) are the Group's most significant related parties. As of 30 June 2010, the Group's companies had entered into facility agreements with PJSC "Commercial Bank "Finansova Initiatyva" in the total amount of U.S.$186,380 thousand and deposit agreements in the total amount of U.S.$197,222 thousand. 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. 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. Avangard also makes some of its centralised purchases of grains for its fodder mills via Stanislavska Torgova Kompaniya LLC. All such purchases are generally conducted via Avangard tender committees. All of Avangard's export sales of shell eggs are made through a related party intermediary, Myaso Prykarpattya LLC. Most of Avangard's export sales of egg products are also made through the same related party intermediary, but beginning in 2010, Avangard began to make some export sales of egg products directly. Avangard intends to make all export sales of shell eggs and egg products directly by the end of 2011. 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".

Although the Issuer has adopted policies and procedures for dealing with related party transactions, including the appointment of independent directors, there can be no assurance that the policies and procedures will be implemented or independent directors will successfully be identified and appointed following the issue of the Notes or at all or that conflicts of interest between related parties and the Group or other factors may not result in the conclusion of transactions which would not otherwise be concluded and/or on terms not determined by market forces and less favourable than those that could be obtained in arm's-length transactions, which could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group's Financial Statements for the year ended 31 December 2007 include a qualification relating to the counting of physical inventory

The Group's Financial Statements for the year ended 31 December 2007 include a qualification relating to the counting of physical inventory as at 31 December 2006—that is the opening balance of inventory in those financial statements. Prior to 29 October 2009, the Group was under the ownership of the current ultimate shareholder of the Group, and the audits of the subsidiaries were performed, commencing with the audits of year ended 31 December 2007, by Baker Tilly Ukraine, an independent audit firm which thereafter acted as a performing firm under Baker Tilly Klitou and Partners Limited, an independent audit firm of the same network, which was appointed in year 2010 to perform an audit of the Group's financial statements for the year ended 31 December 2007. As Baker Tilly Ukraine was appointed as auditors of the Group after the Group's annual stock take of physical inventory as at 31 December 2006, which was performed by the Issuer's former auditors, Baker Tilly Ukraine and consequently Baker Tilly Klitou and Partners Limited were unable to satisfy themselves as to the quantities of inventory at that date even after performing other audit procedures. Consequently, Baker Tilly Klitou and Partners Limited have qualified their audit opinion for the effects of any adjustments that might have been determined to be necessary, if Baker Tilly Klitou and Partners Limited had been able to satisfy themselves as to the quantities of inventory at the above dates. Had Baker Tilly Klitou and Partners Limited been able to satisfy themselves as to the quantities of inventory and if these quantities were materially less or more than the amounts recorded as a result of the counting which took place as at 31 December 2006, then the Issuer would be required to restate the relevant amounts in its Group financial statements. Such hypothetical restatement would impact the opening inventories within costs of sales in the consolidated income statement of year 2007 with a respective impact on the opening retained earnings of year 2007. If such hypothetical restatement were to result, it would impact positively or negatively the financial results of the Group for the year 2007 depending on whether the value of inventories as at 31 December 2006 was more or less respectively than actually recorded. Such hypothetical restatement would not have any impact on the financial position of the Group as at 31 December 2007, but it would have a positive or negative impact on the Group's financial position as at 31 December 2006 depending on whether the value of inventories as at 31 December 2006 was more or less respectively than actually recorded.

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 of its global depositary receipts, proceeds of the issuance of the Notes 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, since loans obtained by Ukrainian borrowers from foreign lenders 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 for the years ended 31 December 2007, 2008 and 2009" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources for the first half year ended 30 June 2009 and the first half year ended 30 June 2010".

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 30 June 2010, Avangard had total short- and long-term borrowings of U.S.$265,816 thousand.

In July 2008, CJSC Avangard issued bonds due 19 May 2013 (the "**CJSC Avangard Bonds**"). See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources for the years ended 31 December 2007, 2008 and 2009—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 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.

Certain Group companies have also entered into loan facilities with external credit providers. As a consequence, such companies are obliged to notify the credit providers about certain events or to obtain their written consent to take certain actions in certain circumstances in accordance with the terms of their respective credit facilities. Any breach of the obligations created by the terms may constitute an event of default causing some or all of Avangard's indebtedness to become due and payable which could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group's business may be adversely affected as a result of its substantial indebtedness

The Issuer and its subsidiaries have and will continue to have a substantial amount of outstanding indebtedness and obligations with respect to the servicing of such indebtedness. As at 30 June 2010, Avangard had total short- and long-term borrowings of U.S.$265,816 thousand.

This substantial indebtedness could have adverse consequences for the Group's business, including:

- requiring the Group to dedicate a substantial portion of cash flow to make payments on indebtedness, thereby reducing the availability of cash flow to fund working capital, capital expenditures, new acquisitions and other general corporate purposes;
- increasing the vulnerability of the Group to general adverse economic and industry conditions;
- limiting the flexibility of the Group in planning for, or reacting to, changes in its business and industries in which it operates;
- limiting the ability of the Group to make acquisitions or take other corporate actions;
- placing the Group at a competitive disadvantage compared to competitors who have less indebtedness in relation to cash flow; and
- limiting the ability of the Group to borrow additional funds and increasing the cost of any such borrowings, particularly because of the financial and other restrictive covenants contained in the terms and conditions governing the Notes.

In addition, to the extent that the Group's debt obligations are based on fixed interest rates, its ability to service these debt obligations could be adversely affected by deflationary periods in which prices for its products may decline, resulting in reduced cash inflows.

The Group has indebtedness that is secured and therefore effectively senior to the Notes and the Surety Providers

As at 30 June 2010, Avangard had pledged assets with a carrying value of U.S.$526,346 thousand as security for long- and short-term loans of the Group's companies (comprising non-current assets of U.S.$322,663 thousand and current assets of U.S.$203,683 thousand). Although the Issuer plans to repay some of its indebtedness with the proceeds from the issuance of the Notes, there will remain some portion of secured senior indebtedness still outstanding. All of such secured indebtedness will be effectively senior to the Issuer's obligations under the Notes and the Surety Providers' obligations under the Surety Agreement, which are unsecured. As a result, if the Issuer defaults under the Notes, and this default triggers an event of default under any of such secured indebtedness, holders of such secured indebtedness will have priority over the Noteholders to the extent of the assets securing such indebtedness.

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, which 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.

See also "Certain Regulatory Matters—Ukrainian Law Related to Land and Other Real Estate" for the rules and regulations governing real estate and land in Ukraine.

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.

Certain of the Surety Providers, as well as certain of the Issuer's other Ukrainian subsidiaries, may be subject to additional shareholder approval requirements

On 17 September 2008, the Parliament of Ukraine adopted the Law of Ukraine "On Joint Stock Companies" (the "**New Joint Stock Company Law**"), which requires companies currently organised as open joint stock companies ("**OJSCs**") or closed joint stock companies ("**CJSCs**") to reorganise into public or private joint stock companies by 30 April 2011 (the "**required date**"). The New Joint Stock Company Law also requires approval of transactions with interested parties and material transactions by general meetings of shareholders in advance of such transactions taking place. The

New Joint Stock Company Law does not specify whether this requirement applies to the companies organised as OJSCs or CJSCs in addition to companies organised as public or private joint stock companies.

Currently, nine of the Group's subsidiaries (including five Surety Providers) are OJSCs or CJSCs, all of which intend to reorganise into public or private joint stock companies after the issuance of the Notes but by the required date for reorganisation: CJSC Avangard, Avis, Chernivetska, Chervonyi Prapor, Chornobaivske, Kirovskyi, Pershe Travnya, Volnovaskyi KHP and Vuhlehirskyi.

Management is relying on the advice of its Ukrainian legal counsel and the official position of the State Commission on Securities and the Stock Market of Ukraine dated 14 July 2009 and a recommendation issued by the Higher Economic Court of Ukraine dated 28 December 2009 (the "**Clarifications**"), according to which the requirements of the New Joint Stock Company Law do not apply to an OJSC or CJSC before it has reorganised into a public or private joint stock company. Therefore management of the relevant Surety Providers has not obtained shareholders' prior approval for the Surety Agreement, the Trust Deed, the Agency Agreement, the Subscription Agreement and any other documents in connection with the Notes (the "**Transaction Documents"**). However, the provision of the sureties under the Surety Agreement and entry into the Transaction Documents has been duly authorised by the Supervisory Councils of each of the Surety Providers according to the procedures set out in their respective charters. Nevertheless, there can be no assurance that the Clarifications will not be changed or revoked or that the Ukrainian courts will not interpret the New Joint Stock Company Law differently. In the event of such a change in, or revocation of, the Clarifications or such a Ukrainian court decision, certain actions, including provision of the suretyships, by the Group's subsidiaries that are OJSCs or CJSCs may be subject to challenge for failure to obtain prior corporate approvals. If a challenge is successful, the Transaction Documents may not be binding on the relevant Surety Providers. In order to minimise such a risk, the Issuer has obtained representations from the shareholders of the relevant Surety Providers that they, in principle, approve the Transaction Documents. Furthermore, as soon as possible after the Closing Date and in any event no later than 31 December 2010, management of the relevant Surety Providers will obtain shareholders' approvals for the Transaction Documents. In the event of a challenge in court to the entry into of the Surety Agreement or the Transaction Documents by the shareholders of such Surety Providers (assuming the requirements of the New Joint Stock Company Law are relevant), a post-closing approval will minimise the above risk, however due to the lack of relevant court practice no assurances can be given as to the position that the Ukrainian courts might take in this regard.

The tax lien over Bohodukhivska may adversely affect the ability of Bohodukhivska to perform under the Surety Agreement

Based on a conservative reading of applicable Ukrainian legislation, the legislation can arguably be interpreted as (i) requiring that a tax lien is imposed over all assets of a delinquent taxpayer and (ii) prohibiting such a delinquent taxpayer whose assets are encumbered by such tax lien from entering into a suretyship agreement without obtaining a prior written approval of the competent tax authorities (the "**Tax Approval**"). If such adverse interpretation were to be supported by the Ukrainian tax authorities or courts, (i) the validity of a suretyship agreement entered into by a delinquent taxpayer without the Tax Approval could be challenged by the appropriate tax authorities and (ii) the relevant delinquent taxpayer could be restricted from discharging its obligations under a suretyship agreement.

There is an effective tax lien (the "**Tax Lien**") over all the assets of Bohodukhivska which was imposed following the claim of the tax authorities related to the overdue tax indebtedness of Bohodukhivska for the total amount of UAH699,374.37 (approximately U.S.$88,416.48) (the "**Tax Debt**"). According to the applicable law, assets of a taxpayer are released from the tax lien on the day on which the relevant tax authorities receive a payment document evidencing a full payment of a tax debt. The Tax Debt has been repaid in full, and management of Bohodukhivska anticipates that following such repayment the tax authorities will take the necessary procedural steps to release the assets of Bohodukhivska from the Tax Lien. As the Tax Debt has been repaid in full, management of Bohodukhivska believes that the above risks should not affect the enforceability of the Surety Agreement against Bohodukhivska.

However, since the removal of the Tax Lien will occur after the date of the Prospectus, no assurances may be given as to whether and when the tax authorities will properly document such removal. In the event that the tax authorities delay or withhold the removal of the Tax Lien, it may adversely affect the ability of Bohodukhivska to perform under the Surety Agreement, though management of Bohodukhivska believes it will be able to compel the tax authorities to remove the Tax Lien through court proceedings.

Public pledges over the assets of certain Avangard companies may adversely affect the Issuer's business

There are effective public pledges over the assets of Yuzhnaya-Holding, SC Yuzhnaya-Holding, Pershe Travnya, Ptytsecomplex, Rohatyn-Korm, Volnovaskyi KHP, Vuhlehirskyi and Kamyanets-Podilsky (the "**Affected Group Companies**") which were imposed based on the respective orders of enforcement service and/or court decisions related to certain commercial disputes with counterparties. The aggregate amount of the underlying obligations of the above companies which are subject to such public pledges is UAH5,190,968.26 (approximately U.S.$656,253.89), however, the public pledges are expressed to apply to all assets of the Affected Group Companies. Although the aggregate amount of the underlying obligations is insignificant, if the enforcement proceedings and/or court proceedings are delayed, the Affected Group Companies may not be able to dispose of their assets until the public pledges over their assets are lifted. This may potentially have an adverse effect on Avangard's business, results of operations and financial condition and will affect the ability of the Affected Group Companies to become surety providers under the Surety Agreement.

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

Avangard has grown rapidly in a short period of time and it is currently undertaking a substantial expansion programme. 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. As of 30 June 2010, Avangard's total assets were U.S.$1,122,689 thousand as compared to assets of U.S.$1,088,955 thousand as of 30 June 2009. 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.

Avangard's accounting and reporting systems, accounting personnel and its internal controls and procedures relating to the preparation of IFRS financial statements are less developed than those in more developed jurisdictions

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 Issuer 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 key management personnel. Although Avangard has established programmes for attracting and retaining qualified personnel, it 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 New Joint Stock Company Law requires joint stock companies to enter into formal employment contracts with members of their executive bodies. This requirement must be complied with as soon as the relevant joint stock company re-registers itself as a public or private joint stock company, which must occur not later than 30 April 2011. See "—Risks Relating to Avangard—Certain of the Surety Providers, as well as certain of the Issuer's other Ukrainian subsidiaries, may be subject to additional shareholder approval requirements". 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 Ukrainian 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. See "Description of the Issuer—Employees".

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

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

Keeping informed of, and remaining in compliance with changing laws, regulations and standards relating to corporate governance and public disclosure, requires an increased amount of Management's attention and external resources following the Issuer's offering of global depositary receipts and the issuance of the Notes 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.

The Issuer is not subject to and does not comply with the requirements of any national corporate governance requirements of Cyprus or Ukraine

The corporate governance principles under the laws of Ukraine or for Cyprus listed companies do not apply to the Issuer, as it is neither incorporated in Ukraine nor listed on the Cyprus Stock Exchange, and the Issuer does not currently implement, nor does it intend to implement in the near future, such national corporate governance recommendations or principles. Furthermore, as a company incorporated in Cyprus, the Issuer is not subject to the UK Corporate Governance Code issued by the Financial Reporting Council. As a matter of best practice, however, the Issuer adopted certain corporate governance structures, policies and procedures, including the appointment of independent directors on the Board of Directors and the establishment of an audit committee, a nomination committee and a remuneration committee, all of which are expected to comprise independent directors, and the adoption of policies relating to the approval of related party transactions by independent directors. However, there can be no assurance that the Issuer will implement such structures, policies and procedures for dealing with related party transactions or that the Issuer will identify and appoint any independent non-executive directors following the issuance of the Notes or at all. In addition, as the Issuer has adopted these measures voluntarily and is not subject to specific legal or regulatory requirements with respect to corporate governance, there can be no assurance that it may not in the future amend its current corporate governance structures and procedures in a way that may be deemed as providing a lower level of assurance to investors than its current corporate governance structures and procedures.

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 CIT 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’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 domestic market share of the dry egg products market of 52% in 2009, according to the Pro-Consulting Report. According to Pro-Consulting, in the first half of 2010, Avangard had an estimated domestic market share of the industrially produced shell eggs market of approximately 40% and an estimated domestic market share of the dry egg products market of approximately 78%. Although Avangard believes that its operations are in compliance with applicable antitrust laws, 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 require the AMC’s approval and be subject to closer scrutiny by the AMC, which may conclude that, given Avangard’s existing market share, 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, an undertaking (including all entities connected to it by relations of control) 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 and it is subject to such competition. 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. The AMC does not consider the industrial egg production market to be a separate egg production market from the household production market, since eggs produced industrially and domestically are interchangeable products. In 2009, Avangard’s share of household and industrial shell egg production constituted 23%. With regards to egg products, the Ukrainian state classification of goods and services (formally acknowledged by the AMC for the purposes of products markets determination) does not distinguish between dry and liquid egg products and regards all egg products (except for albumen) as a single product market. Albumen is considered to be a separate product market.

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. Please see "Certain Regulatory Matters—Antimonopoly Laws".

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 "Description of the Issuer—Regulatory Compliance—Competition Regulation".

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 "Description of the Issuer—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 technological processes used for food production 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. Furthermore, any extraction of ground waters from a source which belongs to the Ukrainian State Fund of Deposits of Minerals requires a licence for minerals extraction. In case a company exceeds the limits established in the permit for special water use, such company is required to compensate for the amount of water so used at five times the normal charge. Moreover, if a company operates an artesian well without any of the aforementioned authorisations, the company's management might be held criminally liable and be subject to penalties, including, but not limited to, fines in the amount from UAH6,800 to UAH11,900. 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 in the near future, 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**") (formerly, the State Department of Veterinary Medicine) 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 in the process of obtaining them. Without such permits, certain of the companies in the Group are not 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 they are 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. Currently SC PF Lozuvatska's fodder mill does not have the required permit. While the law is unclear on this matter, it is possible that a fodder mill operating without an operational permit may be ordered by SCVM to suspend its operations until it obtains the relevant operational permit. If SC PF Lozuvatska was ordered to suspend the operations of its fodder mill facility, Avangard's business, results of operations and financial condition could be materially adversely affected.

Avangard's animal feed has not been registered with the veterinary authorities. Avangard intends to comply with such requirement in the future. See "Description of the Issuer—Licences and Permits".

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 "Description of the Issuer—Licences and Permits".

Avangard has some limited activities and transactions with countries, governments, entities, or persons targeted by U.S. and international economic embargoes and sanctions

The U.S. Department of the Treasury Office of Foreign Assets Control ("**OFAC**") administers certain regulations ("**U.S. Economic Sanctions**") that impose restrictions upon U.S. persons and, in some instances, foreign entities owned or controlled by U.S. persons, with respect to activities or transactions with certain countries, governments, entities and individuals that are subject to U.S. Economic Sanctions ("**Sanctions Targets**"). U.S. persons are also generally prohibited from facilitating such activities or transactions. The Group will not use any net proceeds from the issuance of the Notes to fund any activities or business with any Sanctions Targets, including Iraq or Syria, with respect to activities or transactions prohibited by U.S. Economic Sanctions, U.N. sanctions, or other relevant government sanctions.

The Group sells a limited quantity of its shell eggs to counterparties which are located in countries subject to U.S. Economic Sanctions. In both the second half of 2009 and the first half of 2010, the Group's sales to counterparties which are located in countries subject to U.S. Economic Sanctions accounted for approximately 8% of the Group's total consolidated revenue. In addition, it is likely that the Group will increase sales to counterparties which are located in countries subject to U.S. Economic Sanctions in the future. There can be no assurance that other persons and entities with whom the Group now, or in the future may, engage in activities or transactions and employ are not, or will not be, Sanctions Targets. There can be no assurance that counterparties which are located in countries subject to U.S. Economic Sanctions with which the Group has some limited activities and transactions will not be subject to further and more restrictive sanctions in the future. There can be no assurance that OFAC or other U.S. and international government agencies will not impose sanctions on other countries, persons or entities with which the Group now, or in the future may, engage in activities or transactions.

If any of the above occurs in the future, Avangard's reputation and its current and future business model may be adversely affected. Damage to Avangard's reputation or the need to change or limit business models, including factors such as re-considering existing or target markets and possible limitations on sources of future investment in the Group, may have a material adverse effect on its business, results of operations and financial condition.

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 certain types of insurance, for example, insurance on mortgaged assets and third party liability insurance as a supplier of products of animal origin and as an owner of vehicles. However, the law is not clear as to the full list of types of insurance the company is required to maintain. In addition, Avangard currently does not maintain all of the types of insurance 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 "Description of the Issuer—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 "Description of the Issuer—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 in transactions between related parties and, under certain circumstances, between unrelated parties (for example, all cross-border transactions), 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 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". Although Management believes that Avangard has sufficient basis to support its compliance with transfer pricing regulations, and has paid all taxes that are applicable, 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 (including to transactions between the CIT and FAT payers in the Group). If such price adjustments are implemented, Avangard's effective tax rate could increase and its future financial results could be materially adversely affected, in particular if the adjustments require profits to be re-allocated from FAT payers (who do not pay CIT) to CIT payers within the Group. 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, principally USD and EUR. 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 information technology ("**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 Issuer 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.

Any failure to observe Cypriot tax residency requirements could materially adversely affect Avangard's business

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

If management and control of the Issuer takes place in another jurisdiction, or strategic or significant operational decisions or management activities take place in that jurisdiction, the Issuer may be treated as being resident for tax purposes 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 Issuer were to be challenged and it had failed to observe the Cyprus tax residency requirements, the Issuer 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 (see below "—Changes in the double tax treaty between Ukraine and Cyprus may significantly increase Avangard's tax burden"). Taxation of the Issuer in a jurisdiction other than Cyprus or its inability to make use of the Cypriot tax treaty network could materially adversely affect the Group'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 and Cyprus (the "**Double Tax Treaty**"). In addition, an EU tax-resident parent company may be able to claim certain 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 Ukrainian Government and the Government of the Republic of Cyprus for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the "**Proposed Convention**"). In contrast to the currently effective Double Tax Treaty, which exempts dividends, capital gains, interest payments and royalty payments from Ukrainian withholding tax, the Proposed Convention reportedly provides that dividends paid to the Issuer by its Ukrainian subsidiaries would be taxable at source in Ukraine at 5% of the gross amount of dividends. The Proposed Convention also, reportedly, 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 provisions and percentages remain subject to ongoing negotiations and final agreement.

Adverse changes in, or the cancellation of, the Double Tax Treaty or a finding that the Issuer does not qualify for tax benefits based on the Double Tax Treaty (see above "—Any failure to observe Cypriot tax residency requirements could materially adversely affect Avangard's business") may significantly increase Avangard's tax burden and adversely affect Avangard's business, results of operations and financial condition.

The Issuer is a holding company and is dependent on the results of operations of its subsidiaries and the ability of its subsidiaries to make distributions or loans to it

The Issuer is a holding company that conducts its operations through its subsidiaries. It holds no significant assets other than its interest in the Group's operating companies and it is therefore dependent upon its subsidiaries to make distributions to it or lend it money to pay future dividends and meet its obligations. Under Ukrainian law, a joint stock company is not allowed to pay dividends on ordinary shares unless current or retained profits are available to cover such distributions. There can be no assurance that the financial results of the Issuer's subsidiaries or its own liquidity requirements will permit it to make distributions or loans to the Issuer in amounts sufficient for it to meet its obligations or make dividend payments. In addition, events such as unfavourable changes in tax laws, the imposition of capital or other foreign exchange controls or limitations on foreign ownership of companies in Ukraine could affect the ability of the Issuer's subsidiaries to make such distributions or loans to the Issuer which could restrict the Group's ability to fund its operations, which could in turn have a material adverse effect on the Group's business, results of operations and financial condition.

The Group may incur non-refundable advance corporate income tax on distributions of dividends in Ukraine

Under the Ukrainian CIT law, certain distributions of dividends by Ukrainian companies trigger an obligation to pay the so-called "**Advance CIT**". Advance CIT is not a withholding tax on dividends, but, in general, represents an advance payment of Ukrainian CIT triggered by the distribution of dividends. Any Advance CIT has to be paid by the Ukrainian company distributing the dividends at a rate of 25% of the dividends distributed. Advance CIT is a domestic tax which applies to dividend distributions by Ukrainian companies even if the recipient shareholders are not resident for tax purposes in Ukraine. This tax may not be reduced or eliminated under a double tax treaty. Certain dividends are exempt from Advance CIT, including to the extent they do not exceed the dividends received by the relevant company from companies (whether Ukrainian resident or non-resident) that it controls.

As a result, upon remittance/accrual of dividends to the Issuer or to intermediate holding companies of the Group, the Ukrainian subsidiaries of the Issuer may simultaneously (or beforehand) have to pay Advance CIT at a standard rate of 25% of the amount of such dividends. Payment of Advance CIT would have to be made from the Ukrainian company's own funds irrespective of the availability of taxable income within the relevant reporting period.

In principle, any Advance CIT could then be set off against the relevant company's regular CIT liability in the current or subsequent reporting periods, without any time limitations. However, Ukrainian tax law does not envisage any exemption from the Advance CIT rules for FAT payers, such as certain of the companies in the Group. These companies should pay Advance CIT when distributing dividends to their shareholders but, unlike CIT payers, FAT payers are not able to set off the amounts of Advance CIT paid as they do not have their own CIT liabilities. Moreover, Ukrainian tax law does not allow any amounts of Advance CIT paid by a FAT payer to be carried forward to be offset against CIT liabilities in the event of a future change of the Ukrainian company's CIT status (i.e. conversion of a FAT payer into a CIT payer). Therefore, for FAT payers, any amounts of Advance CIT that are paid are essentially irrecoverable.

Any obligations of the Group to pay Advance CIT may therefore significantly increase the Group's consolidated tax burden and could have a material adverse effect on the Group's business, results of operations and financial condition.

The tax authorities could challenge some of the Group's transactions on the basis of the "substance over form" principle

The Ukrainian tax authorities and courts historically took the position that for tax purposes the form of a transaction prevailed over its substance. However, the Ukrainian tax authorities and courts alike have recently paid greater attention to the substance of transactions for tax purposes. The relevant practice is still developing and thus is not altogether clear or consistent. However, the risk that appears to be emerging is that the Ukrainian tax authorities may claim that agreements lacking business purpose or whose only purpose is obtaining a tax benefit (based, primarily, on analysis of the economic substance of the transaction rather than the supporting documents) contravene public order and the interests of the state and public at large, and are therefore void. This approach allows the tax authorities to challenge tax benefits obtained by parties to the transaction and it appears it is being widely applied. Therefore, although Management believes that the Group can demonstrate that all its transactions were concluded for proper business reasons and that they are in compliance with all applicable tax rules, there is a risk that the Ukrainian tax authorities might challenge some of the Group's transactions. On this basis the Ukrainian tax authorities could attempt to challenge the Group's tax benefits recognised under these transactions and also apply material penalties and fines which could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group may potentially be subject to mandatory dividend distribution rules in Ukraine

Mandatory dividend distribution requirements as set out in Law of Ukraine "On State Budget of Ukraine for 2010" dated 27 April 2010 No. 2154-VI currently apply to (i) Ukrainian joint stock companies - such companies are currently obliged to direct at least 30% of their net income and/or undistributed profit incurred in their previously reported financial year to the payment of dividends within six months of the end of that previously reported financial year; and (ii) certain business entities, that are partially owned by the state of Ukraine - such companies are likewise currently obliged to direct a percentage (such percentage varies and its amount is contingent on the amount of the state's shareholding in such company) of their net income and/or undistributed profit incurred in their previously reported financial year to the payment of dividends within six months of the end of that previously reported financial year. The risk identified within this paragraph presently applies only to one of the Surety Providers—Zorya. See "—Certain of the Surety Providers, as well as certain of the Issuer's other Ukrainian subsidiaries, may be subject to additional shareholder approval requirements". However, the effect of dividend distribution regulations in Ukraine may become more widespread in the future. If dividend distribution regulations in Ukraine do extend to apply to companies within the Group, management of the Group companies may be obliged to make a dividend distribution in circumstances where they would otherwise not do so, which may have a material adverse effect on the Group's business, results of operations and financial condition, in particular if such distributions give rise to irrecoverable Advance CIT (see "—The Group may incur non-refundable advance corporate income tax on distributions of dividends in Ukraine").

Factors that may affect the Surety Providers' ability to fulfil their obligations under the Surety Agreement

The claims of holders of the Notes may be limited in the event that the Issuer or one or more of the Surety Providers is declared bankrupt

The Issuer, Surety Providers and the Trustee will enter into the Surety Agreement. Ukrainian bankruptcy law may prohibit the Surety Providers from making payments pursuant to the Surety Agreement. Ukrainian bankruptcy law differs from bankruptcy laws of England and the United States, and is subject to varying interpretations. There is not enough precedent to be able to predict how claims of holders of the Notes would be resolved in the event of the bankruptcy of a Surety Provider. In the event of the bankruptcy of a Surety Provider, its obligations to holders of the Notes would be subordinated to the following obligations:

- obligations secured by pledges or mortgages of its assets;
- severance pay and employment-related obligations, including mandatory pension and social security contributions, payment of wages to the relevant Surety Provider's employees due as of the commencement of the liquidation procedure;
- expenditures associated with the conduct of the bankruptcy proceedings and expenses of the liquidator;

- obligations arising as a result of causing harm to life or health of individuals; and
- local and state taxes and other mandatory payments (including claims of the respective governmental authorities managing the state reserve fund).

In the event of the bankruptcy of one or more of the Surety Providers, Ukrainian bankruptcy law may materially adversely affect their ability to make payments to holders of the Notes.

Liquidation of the Issuer

The Issuer is in law a separate and distinct legal person from its subsidiaries and is not liable for the debts incurred by a member of the Group unless it has guaranteed such debts or has participated in the carrying on of the subsidiaries' business with intent to defraud its creditors within the meaning of the Cyprus Companies Law, Cap. 113, as amended (the "**Cyprus Companies Law**").

Preferential Debts

The Cyprus Companies Law and/or Cyprus insolvency law may prohibit the Issuer from making payments pursuant to the Notes. In the event of the liquidation (bankruptcy) of the Issuer, its obligations to holders of the Notes would be subordinated to the following obligations:

- all local and national taxes that became payable within the preceding twelve months and that were owed by the Issuer at the relevant date;
- wages or salary due to persons in the employment of the Issuer;
- compensation payable by the Issuer to its employees for personal injuries sustained in the course of their employment;
- accrued holiday remuneration becoming payable to the employees of the Issuer;
- expenditures associated with the conduct of the liquidation (bankruptcy) proceedings and expenses of the liquidator.

In the event of the liquidation (bankruptcy) of the Issuer, the Cyprus Companies Law and/or Cyprus insolvency law may materially adversely affect its ability to make payments to holders of the Notes and could negatively affect the ability of the holders of the Notes to enforce their rights under the Notes and the Surety Agreement.

Avoidance of previous transactions if they constitute a fraudulent preference

Under the Cyprus Companies Law, any conveyance, charge, mortgage, delivery of goods, payment, execution or other act relating to property made or done by or against a Cyprus company within six months before the commencement of its winding up by a court shall be deemed a fraudulent preference of its creditors and be invalid, provided that the dominant or substantial motive in the mind of the company acting through its directors, was to prefer a particular creditor over other creditors and be the voluntary act of the company. The transaction will be deemed to be fraudulent regardless of whether any moral blame attaches to the company. The risks of a transaction being invalidated as a fraudulent preference are increased where the transactions are made without any consideration or any pressure from the creditor sought to be preferred or are not commercially beneficial to the company. If the company is being wound up, the liquidator may challenge the payment or other transaction as fraudulent and unenforceable and seek to recover the payment made to the preferred creditor/invalidate the transaction.

Insolvency Proceedings

Under Cyprus Companies Law, in a winding up of a company by the court, any disposition of the property of the company, including things in action made after the commencement of the winding up shall, unless the court otherwise orders, be void. Where a company is being wound up by the court, any attachment, sequestration, distress or execution put in force against the estate or effects of the company after the commencement of the winding up shall be void to all intents. When a winding up order has been made or a provisional liquidator has been appointed in respect of a Cyprus company, no action or proceeding shall be proceeded with or commenced against the company except by leave of the court and subject to such terms as the court may impose. The liquidator is entitled to disclaim any unprofitable contracts, with the leave of the court, at any time within twelve months after the commencement of the insolvency proceedings or such extended period as may be allowed by the court.

In the event of bankruptcy proceedings against a Surety Provider, Ukrainian bankruptcy law may materially adversely affect such Surety Provider's ability to make payments to the Trustee on behalf of the holders of the Notes

Claims against a Surety Provider may be incapable of enforcement upon commencement of bankruptcy proceedings. After any bankruptcy proceeding is commenced, the Ukrainian court imposes a moratorium on claims of creditors which became payable prior to the commencement of the bankruptcy proceeding. During the term of such moratorium, the relevant Surety Provider would be unable to make payments to the Trustee on behalf of the holders of the Notes, and the Noteholders' claims against such Surety Provider would not be enforceable in Ukraine. Such Surety Provider may not be held liable in Ukraine for the non-performance of its obligations to the holders of the Notes resulting from the imposition of the moratorium. Upon the termination of the moratorium (other than as a result of a Surety Provider entering bankruptcy proceedings), the Noteholders would be entitled to make, and to enforce, claims against the relevant Surety Provider in the amounts existing as of the date when the moratorium was imposed.

Further, Article 17 of Ukraine's Bankruptcy Law permits a receiver or a liquidator, as the case may be, appointed by the court to carry out any acts aimed at the financial rehabilitation of any debtor, including but not limited to applying to the court for invalidation of the agreements concluded by such debtor prior to the commencement of the bankruptcy proceeding if: (i) such agreement is concluded between the debtor and a related party and, as a result of such agreement, the creditors incur or may incur losses; or (ii) such agreement is concluded with any creditor or any third party within a six-month period before the commencement of the bankruptcy proceeding and grants preference to such creditor as compared to such debtor's other creditors or such agreement is related to the payment of a share out of such debtor's assets due to a redemption or repurchase of the share capital of such debtor. Furthermore, the receiver or the liquidator, as the case may be, may reject, within a three-month period from the commencement of the bankruptcy proceeding, the performance of the agreement which has not yet been performed in full or in part provided that: (i) the debtor incurs losses as a result of implementing the agreement; (ii) the term of the agreement is longer than one year and the agreement is found by the court to grant benefits to such debtor only in the long-term perspective (other than in case of production of goods with technological cycle exceeding the debtor's rehabilitation period); and (iii) the performance of the agreement prevents such debtor from re-establishing its solvency.

If the Surety Agreement were to be declared invalid on any of the above grounds, the holders of the Notes would be required to repay to the Surety Providers all funds received pursuant to the Surety Agreement. There is a lack of certainty as to whether, in such event, the court might impose other requirements as a result of the invalidity. In light of the risks associated with the Ukrainian legal system no assurance can be given as to how the courts in Ukraine would react in the event of the Surety Agreement being invalidated.

Ukrainian currency control regulations may impact a Surety Provider's ability to make payments under the Surety Agreement

The NBU is empowered to establish policies for and to regulate currency operations in Ukraine and has the power to establish restrictions on currency operations and repatriation. Ukrainian currency controls and practice are subject to continuing change, with the NBU exercising considerable autonomy in interpretation and practice.

The obligations of the Surety Providers under the Surety Agreement will constitute a suretyship under Ukrainian law. Under applicable Ukrainian legislation, a resident Ukrainian entity may be required to obtain an individual foreign payment licence from the NBU (a "**Foreign Payment Licence**") in order to make cross border payments pursuant to a suretyship agreement (although no Foreign Payment Licence is required for a resident Ukrainian entity to provide a surety). However, the NBU does not issue Foreign Payment Licences in advance or for contingent payments when the amount and date of a cross border payment are not known. Taking into account that the NBU has discretion in the issuance of Foreign Payment Licences, there may be no assurance that it will grant a Foreign Payment Licence.

The failure or refusal of the NBU to grant such a Foreign Payment Licence should not affect the validity of the underlying legal obligation and such failure or refusal by the NBU may be challenged in a Ukrainian court. The Ukrainian court may order that the NBU issue the Foreign Payment Licence should it decide that such Foreign Payment Licence was unlawfully rejected.

The ability of a Surety Provider to make cross border payments under the Surety Agreement would be further impeded by Ukrainian currency control regulations restricting a resident Ukrainian entity's ability to purchase foreign currency in order to make payments under a suretyship issued with respect to obligations of a foreign debtor. In particular, a Surety Provider may make a cross border payment under the Surety Agreement only out of its own foreign currency funds and would not be entitled under Ukrainian currency control regulations to borrow or purchase any foreign currency funds for the purpose of making such cross border payment, irrespective of whether or not a Foreign Payment Licence has been obtained by it for the purpose of making a payment under the Surety Agreement.

The validity of the Surety Agreement of Surety Provider could be challenged

The Surety Agreement creates a suretyship (in Ukrainian, "*poruka*"), which is a secondary liability of a Surety Provider in relation to the underlying obligations of the Notes and, therefore, if those obligations are invalid, the suretyship under the Surety Agreement will also be invalid. Furthermore, if the underlying obligations are amended so as to increase the scope of responsibility of the surety or are assigned, the prior consent of the surety should be obtained to ensure continued validity of the suretyship under the Surety Agreement. The suretyship is not a guarantee (in Ukrainian, "*guarantiya*"). For the avoidance of doubt, the obligations of the Surety Providers under the Surety Agreement shall not constitute a guarantee obligation as that term is interpreted under Ukrainian law.

Under the Law of Ukraine "On Financial Services and the State Regulation of the Markets of Financial Services" dated 12 July 2001, suretyships are considered "financial services", which may only be rendered by a duly licenced bank or other financial institution or, as an exception, by a non-financial institution when expressly permitted by a law of Ukraine or the State Commission of Ukraine on the Regulation of the Markets of Financial Services (the "**Commission**"). The Commission has in the past permitted non-financial institutions to issue suretyships, subject to compliance by the issuer of a suretyship with anti-money laundering requirements and procedures. Ukrainian companies often conclude suretyship agreements, and neither the Commission nor Ukrainian courts have as yet recognised such practice as invalid. However, due to a lack of guidance by the Commission with regard to the exact scope of such compliance, a particular surety could be viewed by the Ukrainian authorities or courts as not complying with such requirements and procedures and, accordingly, the legal capacity of such surety to issue a suretyship and the validity of any particular suretyship could be challenged. See also "—Certain of the Surety Providers, as well as certain of the Issuer's other Ukrainian subsidiaries, may be subject to additional shareholder approval requirements".

The gross-up obligation in the Surety Agreement may not be enforceable

Payments by a Surety Provider under the Surety Agreement may be subject to Ukrainian withholding tax at the rate of 15% (See "Taxation—Ukraine—Payments under the Surety Agreement"). In the event of the imposition of such tax, the Surety Providers may be obliged under the Surety Agreement or the terms and conditions of the Notes to pay additional amounts such that the recipient receives the amount it would have received had no such withholding been required. Ukrainian law generally prohibits payment of tax for another person and contractual provisions requiring such payment. According to a clarification issued by the State Tax Administration of Ukraine in November 2009, payment of additional amounts to a non-resident entity in order to compensate such entity for tax deducted in Ukraine is contrary to the provisions of the CIT law. Although clarifications issued by the State Tax Administration of Ukraine are generally not legally binding, a risk exists that Ukrainian courts may construe the "gross-up" provisions in the Surety Agreement as being null and void and, therefore, unenforceable against the Surety Providers. (See also "Taxation—Ukraine—Gross-up Provisions").

Foreign judgments may not be enforceable in Ukraine

Courts in Ukraine will generally not recognise and/or enforce any judgment obtained in a court of a country other than Ukraine unless such enforcement is envisaged by an international treaty to which Ukraine is a party, and then only in accordance with the terms of such treaty. There is no such treaty in effect between Ukraine and the United Kingdom or the United States.

In the absence of such international treaty, the Ukrainian courts may recognise and enforce a foreign court judgment only 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 on these provisions of Ukrainian legislation. Accordingly, there is no assurance that the Ukrainian courts will recognise or enforce a judgment rendered by United States or United Kingdom courts on the basis of the principle of reciprocity. Furthermore, the Ukrainian courts might refuse to recognise and enforce a foreign court judgment 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 sought. Accordingly, the holders of the Notes and other parties to the Trust Deed and the Surety Agreement would generally not be able to enforce their rights thereunder.

Since Ukraine is a party to the New York Convention, an arbitral award would be enforceable in Ukraine, subject to the terms of the New York Convention.

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. Furthermore, the Ukrainian economy was severely affected by the global economic recession in late 2008 and 2009, partly as a result of its reliance on industries such as the steel sector. The Ukrainian steel industry is relatively high-cost and the majority of its production is commodity-grade construction steel for export. Ukraine has thus been more impacted by the economic downturn than many other steel-producing nations. In 2009, Ukraine's GDP decreased by 15.1% as compared to 2008. Ukraine's gross domestic product ("**GDP**") growth started to recover in 2010, reaching 4.9% in the first quarter of 2010 and 5.9% in the second quarter of 2010 as compared to the corresponding period in 2009. 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. Moreover, financial turmoil in any emerging market tends to adversely affect prices in the debt and equity markets of all emerging markets, as investors move their money to more stable developed markets. In the second half of 2008, financial problems caused by the global economic slowdown and an increase in the perceived risks associated with investing in emerging economies dampened foreign investment in Ukraine, resulting in an outflow of capital and an adverse effect on the Ukrainian economy. In addition, Ukraine may become subject to heightened volatility due to regional economic, political or military conflicts.

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 Issuer 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 (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 Bloc 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 (the "**CCU**"), 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 CCU 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.

In July 2010, 252 deputies submitted to the CCU an application questioning the constitutionality of the Law of Ukraine "On Amendments to the Constitution of Ukraine", dated 8 December 2004 (the "**Constitutional Reform Law**"). On 30 September 2010, the CCU adopted a decision pursuant to which the Constitutional Reform Law was held to be unconstitutional and lost its validity from the date of the CCU decision. The CCU ruled that the previous edition of the Constitution of Ukraine came back into force as of 30 September 2010. Accordingly, some legislative acts may now contradict the Constitution of Ukraine and will require amendment. This may result in uncertainty with respect to the distribution of powers among state authorities and may lead to further political instability.

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 remain in a state of uncertainty. The formation and dissolution of a coalition Government and factions, the appointment of Government, and the authority of the state bodies may be subject to change through the normal process of political alliance-building or through constitutional amendments and decisions of the CCU.

Recent political developments have also highlighted potential inconsistencies between the Constitution of Ukraine and various laws and presidential decrees. Furthermore, such developments have raised questions regarding the judicial system's independence from economic and political influences.

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 and financial condition.

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 Ukraine's GDP grew at an average of approximately 7.0% each year between 2000 and 2008. This growth was driven mainly by a rapid increase in foreign demand, rising commodity prices on external markets and the availability of foreign financing. While positively affecting the pace of Ukrainian economic growth in those years, these factors made the Ukrainian economy overly vulnerable to adverse external shocks. The negative impact of these factors was compounded by weaknesses in the Ukrainian economy, which is sensitive to external and internal events. Thus, as the global economic and financial situation started to deteriorate, Ukraine's economy was one of the most heavily affected by the downturn. In particular, although the Government has generally been committed to economic reform, the implementation of reform 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 economic crisis has also contributed to an increase in Ukraine's State Budget deficit as a percentage of its GDP. Although this percentage remains relatively low in absolute terms, it has increased significantly from 1.3% at year-end 2008 to 3.9% at year-end 2009. The 2010 State Budget Law initially contemplated a State Budget deficit of approximately 5.3% of GDP for 2010. On 8 July 2010, Parliament passed an amendment to the 2010 State Budget Law (the "**State Budget Amendment**") providing for a decrease of the 2010 State Budget deficit to 4.99% of GDP. The Budget Declaration for 2011 provides for a budget deficit of not more than 4.5% of GDP as a target of 2011 budgetary policy.

As a result, according to the SCSU, the rate of CPI inflation was 12.3% in 2009 and 22.3% in 2008. The rate of CPI inflation for the nine months ended 30 September 2010 was 7.4%. In the fourth quarter of 2008, Ukraine's GDP declined by 7.8% as compared to the same period in 2007. In 2009, Ukrainian GDP decreased by 20.2% in the first quarter of the year, 17.8% in the second quarter of the year, 16.0% in the third quarter of the year and 6.8% in the fourth quarter of the year, each as compared to the corresponding periods in 2008. GDP growth started to recover in 2010, reaching 4.9% in the first quarter of 2010 and 5.9% in the second quarter of 2010 as compared to the corresponding period in 2009. Pursuant to the forecast for Ukraine's macroeconomic development for 2010, approved by the Cabinet of Ministers of Ukraine, Ukraine's real GDP growth is expected to be 3.7% in 2010 while the rate of inflation is expected to be 13.1% in 2010. Negative trends in the Ukrainian economy may resume or continue if commodity prices on the external markets are 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. The most critical structural reforms that need to be implemented or continued include: (i) comprehensive reforms of Ukrainian tax legislation with a view to broadening the tax base by bringing a substantial portion of the shadow economy into the reporting economy; (ii) reform of the energy sector through the introduction of uniform market-based energy prices and improvement in collection rates (and, consequently, the elimination of the persistent deficits in that sector); and (iii) reform of social benefits and pensions. 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.

The Ukrainian banking system may be vulnerable to stress due to fragmentation, undercapitalisation and a potential increase in non-performing loans, all of which could have a material adverse effect on the real economy

The recent 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 Ukrainian Government's policy has been to intervene in support only of banks whose size is such that their failure would create systemic risk for the Ukrainian economy.

Despite progress with the restructuring and recapitalisation of Ukrainian banks, problems with asset quality and indebtedness persist. Asset quality was affected significantly by the devaluation in the hryvnia in 2008 (52.5% against the dollar and 46.3% against the Euro) and further exacerbated by the 15.1% contraction of the economy in 2009. Despite government and NBU intervention and progress in stabilising the foreign exchange market by the end of 2009 and during the first half of 2010, the high dollarisation in the Ukrainian financial system increased exchange rate risks and could contribute to a worsening of banks' asset quality. Doubtful and bad loans are another factor affecting the asset quality of Ukrainian banks. The proportion of loans represented by doubtful and bad loans was 3.8% and 13.1% as at 31 December 2008 and 2009, respectively, and 14.6% as at 31 July 2010. Although the rate of growth of the share of doubtful and bad loans in banks' credit portfolios has slowed, a future increase in this rate could place additional strain on the banking system. Furthermore, in addition to the loans that the NBU categorises as doubtful and bad, a significant proportion of Ukrainian banks' loan portfolios could be described as substandard. The IMF, in connection with approving in July 2010 a new stand-by agreement with Ukraine, which is described in greater detail below, provided two estimates for loans which could be categorised as non-performing. Under a broad definition of non-performing loans that includes loans classified as substandard, doubtful and loss, the IMF estimated that 41.6% of loans held by Ukrainian banks were non-performing as at 31 March 2010. Under a narrower definition that does not count as non-performing those substandard loans that are serviced in a timely manner, the IMF estimated that 15% of loans were non-performing as at 31 March 2010.

The continuation or worsening of the financial crisis, further insolvencies of Ukrainian banks, growth in the share of doubtful and bad loans, the need for the Ukrainian government to inject more capital into the banking system 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 all have a material adverse effect on the Ukrainian economy.

The business environment in Ukraine could deteriorate

Ukrainian enterprises have a limited history of operating in free-market conditions and have had limited experience (compared with companies in more developed jurisdictions) of entering into and performing contractual obligations. Ukrainian enterprises, when compared to businesses operating in more developed jurisdictions, are often characterised by management that lacks experience in responding to changing market conditions and limited capital resources with which to develop their operations. In addition, Ukraine has a limited infrastructure to support a market system, and communications, banks and other financial infrastructure are less well developed and less well regulated than their counterparts in more developed jurisdictions. Ukrainian enterprises face significant liquidity problems due to a limited supply of domestic savings, few foreign sources of funds, high taxes and limited lending by the banking sector to the industrial sector, among other factors. Many Ukrainian enterprises cannot make timely payments for goods or services and owe large amounts in taxes, as well as wages to employees. Any further deterioration in business environment could have a materially adverse effect on our business, results of operations, financial condition and prospects.

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 official exchange rate was UAH 7.91 to U.S.$1.00 as at 21 October 2010. The fluctuations in hryvnia exchange rates have negatively affected the ability of Ukrainian borrowers to repay their foreign exchange denominated liabilities to Ukrainian banks (more than 50% of the domestic loans are denominated in foreign currency) as well as to external lenders.

The Ukrainian currency may depreciate further in the near future, given the absence of significant currency inflow from exports and foreign investment, limited foreign currency reserves, the need for borrowers to repay a substantial amount of short-term external debt (estimated by the NBU to be approximately U.S.$21.1 billion as at 1 April 2010) as well as requirements to pay a substantial amount of foreign currency for energy supplies from Russia and the rest of the CIS. Any further currency fluctuations may negatively affect the Ukrainian economy and the Group's business.

Ukraine's physical infrastructure is in a poor condition, which may lead to disruptions in the Group's business or an increase in its costs

Ukraine's physical infrastructure, including its power generation and transmission and communication systems and building stock, largely dates back to Soviet times and has not been adequately funded and maintained over the past decade. Road conditions throughout Ukraine are relatively poor in comparison with more developed countries. The Ukrainian Government has been implementing plans to develop the nation's rail, electricity and telephone systems, which may result in increased charges and tariffs whilst failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. The deterioration of Ukraine's physical infrastructure has an adverse effect on the national economy, disrupts the transportation of goods and supplies, adds costs to doing business in Ukraine and can interrupt business operations. Any further deterioration in Ukraine's physical infrastructure could have a materially adverse effect on the Group's business, financial condition and operational results.

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 ("**2008 SBA**") with Ukraine for approximately U.S.$16.4 billion to assist the Ukrainian Government in restoring financial and economic stability. In November 2009, the IMF cancelled the provision of the next tranche to be provided to Ukraine under the 2008 SBA in the amount of U.S.$3.8 billion, after failure to reach agreement with respect to the results of the third review of Ukraine's compliance with the terms of 2008 SBA. After the presidential elections in March 2010, the IMF renewed negotiations with Ukraine regarding the provision of the next tranche under the 2008 SBA or the adoption of a new Stand-By Arrangement. In July 2010, the IMF cancelled the 2008 SBA and approved a new 29-month Stand-By Arrangement ("**2010 SBA**") for Ukraine for approximately U.S.$ 15.15 billion. By 2 August 2010, Ukraine received the first tranche under the 2010 SBA in the amount of approximately U.S.$ 1.89 billion.

The drawdowns of the IMF financing are contingent upon Ukraine's satisfaction of the requirements, according to IMF Country report No.10.262 dated August 2010, including:

- enacting a supplementary budget with fiscal measures of UAH 16 billion and consistent with a 5.5% of GDP deficit for the general government in 2010 and the commitments in the Memorandum of Economic and Financial Policies;
- increasing gas tariffs for all households and utility companies by 50% (effective August 1, with the coming billing cycle);
- enacting amendments to the NBU law in line with IMF recommendations;
- amending NBU regulations in order to strengthen the emergency liquidity assistance framework and eliminate the possibility of NBU lending to the private sector in line with IMF recommendations;
- adopting legislation transferring the authority for setting heating tariffs for communal utilities to a new independent regulator.

As at the date of this Prospectus, only the initial disbursement of the 2010 SBA has been drawn down by the Ukrainian Government. As at the date of this Prospectus, the total disbursements under the 2008 SBA amounted to approximately U.S.$10.6 billion.

On 8 July 2010, in order to comply with the new arrangements reached with the IMF, Parliament passed the State Budget Amendment. The State Budget Amendment provides for a decrease in revenues to the 2010 State Budget of approximately UAH 13.4 billion, a decrease in expenditures from the 2010 State Budget of approximately UAH 17.1 billion, a decrease in the 2010

State Budget deficit of approximately UAH 3.65 billion (to 4.99% of GDP) and a decrease in target privatisation proceeds of approximately UAH 3.65 billion. The UAH 13.4 billion decrease in revenues includes a decrease in revenues from VAT collection of approximately UAH 10 billion. The UAH 17.1 billion decrease in expenditures includes an approximately UAH 8.75 billion decrease in expenditures from the stabilisation fund and an approximately UAH 3.0 billion decrease in transfers to cover the deficit in the pension fund.

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; and
- 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 government of Russia and the Ukrainian Government 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. 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. 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.$333 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.$333 per 1,000 cubic metres, a discount of 30% of the price will apply. Such discount shall account for part of the rental price of stationing the Russian Black Sea Fleet in the territory of Ukraine. On 27 April 2010 this agreement was ratified by the Ukrainian Parliament and on 28 April 2010 by the Russian Parliament. Reportedly, in August 2010, Prime Minister Azarov stated that Ukraine and Russia had begun negotiations on the revision of the gas supply agreements between both countries.

As of 1 August 2010, approximately 25% 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.

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 the Avangard's business, results of operations and financial condition.

A failure to develop relations with the EU might have negative effects on the Ukrainian economy and the Group's business, financial condition and operational results

Ukraine continues to develop its economic relationship with the EU. In 2008, the EU was the largest external trade partner of Ukraine importing goods and services from Ukraine amounting to U.S.$22.2 billion (28.2% of Ukraine's total exports of goods and services), and exporting goods and services to Ukraine amounting to U.S.$32.7 billion (35.5% of Ukraine's total imports of goods and services). In 2009, the EU remained the largest external trade partner of Ukraine with its share in the total foreign trade turnover of Ukraine amounting to about 31.0% (exports of goods and services from Ukraine to the EU amounted to approximately U.S.$12.5 billion, and imports of goods and services from the EU to Ukraine amounted to approximately U.S.$18.4 billion). In the six months ended 30 June 2010, the EU's share in the total foreign trade turnover of Ukraine amounted to 28.5%. Goods and services exported from Ukraine to the EU amounted to U.S.$7.1 billion, while goods and services imported to Ukraine from the EU amounted to U.S.$9.0 billion.

European Union imports from Ukraine are to a large extent liberalised, apart from metal scrap, on which Ukraine levies export duties.

In return for effective implementation of political, economic and institutional reforms, Ukraine and other neighbouring countries should be offered the prospect of gradual integration with the EU's internal market, accompanied by further trade liberalisation. Ukraine's accession to the WTO created the necessary preconditions for the launch of formal negotiations for introduction of a free trade area ("**FTA**") with the EU. In thirteen rounds of negotiations on the FTA held between Ukraine and the EU from 2008, the parties achieved progress in harmonisation of, among others, the following areas: trade in goods (including in relation to instruments of trade protection, tariffs, technical barriers in trade, sanitary and customs issues), intellectual property, rules relating to origin of goods, sustainable development and trade, trade in services, and public procurement.

Given that the Group is considering exporting its products to the EU, the Group would benefit from a strong relationship between the EU and Ukraine. Should Ukraine fail to develop its relations with the European Union or should such developments be protracted, it may have negative effects on the Ukrainian economy and, consequently, adversely affect the Group's business, financial condition and operational results and impose risks associated with the Group's further development and growth plans.

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. For instance, Ukraine's industrial output has decreased dramatically starting from the fourth quarter of 2008: the full-year decline in industrial output in 2008 amounted to 5.2%, compared to a growth of 7.6% in 2007 and 6.2% in 2006. Industrial output further declined in 2009 by 21.9%. In addition, consumer price inflation in Ukraine was 9.1% in 2006, 12.8% in 2007, 25.2% in 2008, 15.9% in 2009 and 9.3% for the nine months ended 30 September 2010, in each case as compared to the corresponding period of the previous year. Wholesale prices are also vulnerable to the increases in world prices for metal products and grain, as well as natural gas and oil, and wholesale price inflation ("**WPI**"), levels have been also high (at year-end 2008 and 2009, Ukraine had 23% and 14.3% inflation, respectively, in each case over the end of the previous year as measured by WPI). For the eight months ended 31 August 2010, Ukraine had 15.1% inflation (as measured by WPI) as compared to the year-end 2009.

Further, Ukraine's economy has been significantly affected by the global credit crunch that began in 2007, as a result of which international capital markets ceased to be available to Ukrainian borrowers. Prior to the global credit crunch, relatively easy access to liquidity, both from within Ukraine and internationally, was a significant factor facilitating growth in Ukraine's GDP. Reduced external financing available for Ukrainian companies contributed to a decline in industrial production and cutting down of investment projects and capital expenditures generally. Any further deterioration of global or regional economic conditions, including a so-called "double dip" recession, may stall any current recovery or lead to worsening of the economic and financial crisis in Ukraine. Any such developments, including continued unavailability of external funding and increases in world prices for goods imported to Ukraine or decreases in world prices for goods exported from Ukraine, may have or continue to have a material adverse effect on the economy and thus on the ability of the Issuer to perform its obligations under the Notes.

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.

However, in February 2010, Ukraine was noted by FATF as having demonstrated progress in improving its anti-money laundering—combating the financing of terrorism regime ("**AML/CFT**") despite still having certain strategic AML/CFT deficiencies. Ukraine has made a high-level political commitment to work with FATF and the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism ("**MONEYVAL**") to address these deficiencies.

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 Notes 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 CCU 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 tax laws imposed by both central and local authorities. Applicable taxes include value added tax, CIT (profits tax), customs duties, payroll (social) taxes and other taxes. These tax laws have not been in force for significant periods of time in comparison to more developed market economies, and regulations implementing such laws (as well as guidance as to their proper interpretation) may be unclear or may not exist. Moreover, tax laws in Ukraine are subject to frequent changes and amendments. Certain of these changes and amendments could positively affect taxpayers, including companies in the Group, but others may have an adverse effect on Avangard and its business generally.

On 17 June 2010, the Ukrainian Parliament adopted a draft Tax Code in the first reading. However, in September 2010 this draft was dismissed. A new draft Tax Code was registered by the Parliament on 21 September 2010 and adopted by the Parliament in the first reading on 7 October 2010. Reportedly, the Parliament is expected to adopt such draft Tax Code in November.

The final form of the Tax Code and its effect on taxpayers are not currently known. In particular, whilst the current draft Tax Code does not contemplate any changes to the FAT regime, there can be no assurance that the draft Tax Code will not be amended in such a way as to affect the FAT regime or the VAT benefits currently available to qualifying agricultural producers (see above "—Changes in the Ukrainian tax system may significantly increase Avangard's tax burden"). Depending on what changes, if any, the new Tax Code makes to current Ukrainian tax law, it could potentially have a material adverse effect on the Group's business, results of operations and financial condition.

In addition, differing opinions regarding the interpretation of Ukrainian tax laws and regulations often exist both among and within governmental ministries and organisations, including the tax authorities, creating uncertainties and areas of conflict. Furthermore, the Ukrainian tax authorities may apply new interpretations of Ukrainian tax laws and regulations retroactively and/or adopt a more restrictive approach to interpreting tax laws and regulations. As a result of these factors, tax risks in Ukraine are more significant than those typically found in jurisdictions with more developed tax systems and complicate the tax planning and related business decisions of the Group. It is possible that the relevant authorities could in the future take differing positions with regard to interpretative issues to those taken by management or that the Ukrainian Government might introduce changes to tax laws, which could have a material adverse effect on the Group's business, results of operations and financial condition.

The position is further complicated by the fact that 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. 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.

Such tax audits may result in additional tax liabilities, significant fines, penalties for late payment and enforcement measures for the Group if the relevant authorities conclude that companies within the Group did not satisfy their tax obligations in any given year.

The above factors could 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 Issuer'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 Issuer 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:

- can block those decisions of the subsidiary which require a qualified majority of votes; or
- 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 Issuer'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 Issuer 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 Notes

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Notes; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

There is no public market for the Notes

There is no existing market for the Notes, and there can be no assurance regarding the future development of a market for the Notes. Application has been made for admission to trading of the Notes on the London Stock Exchange's Regulated Market. However, an active trading market in the Notes may not develop or be maintained after listing. No assurance can be made as to the liquidity of any market that may develop for the Notes, the ability of Noteholders to sell the Notes or the price at which Noteholders may be able to sell the Notes. The liquidity of any market for the Notes will depend on the number of Noteholders, prevailing interest rates, the market for similar securities and other factors, including general economic conditions and the Issuer's financial condition, performance and prospects, as well as recommendations of securities analysts. Disruptions recently experienced in the global capital markets have led to reduced liquidity and increased credit risk premiums and have therefore resulted in a reduction in investment in securities globally.

If an active trading market does not develop or cannot be maintained, this could have a material adverse effect on the liquidity and the trading price of the Notes.

The market price of the Notes may be volatile

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in our operating results and those of our competitors, adverse business developments, changes to the regulatory environment in which the Group operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors, including the credit rating of the Issuer. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the market price of the Notes without regard to our operating results, financial condition or prospects or credit rating.

Financial turmoil in emerging markets could cause the price of the Notes to suffer

The market price of the Notes will be influenced by economic and market conditions in Ukraine and, to a varying degree, economic and market conditions in other CIS, Eastern European and emerging markets generally. Financial turmoil in Ukraine and other emerging markets in 1997-1998 as well as in 2008-2009 adversely affected market prices in the world's securities markets for companies that operate in those developing economies. Even if the Ukrainian economy remains relatively stable, financial turmoil in these countries could materially adversely affect the market price of the Notes. Since the beginning of the current financial and economic crisis, many global securities markets have experienced extreme price and volume fluctuations, particularly those in Ukraine and other developing economies. Continuation or intensification of financial or economic turmoil could materially adversely affect the market price of the Notes.

Redemption prior to maturity for tax reasons

The Issuer may redeem all outstanding Notes in accordance with the Conditions of the Notes in the event that (i) the Issuer or the Surety Providers have been or would be obliged to increase the amounts payable in respect of the Notes due to certain changes in or amendments to the laws or regulations of Cyprus or Ukraine or any other taxing jurisdiction to which the Issuer or the Surety Providers are subject or of any political subdivision or authority therein or thereof having the power to tax (or certain changes in or amendments to the application or official interpretation of such laws or regulations); and (ii) such obligation cannot be avoided by the Issuer and/or the Surety Providers taking reasonable measures available to them.

On any such redemption for tax reasons (a "**Redemption for Changes in Withholding Taxes**"), Noteholders would receive the principal amount of the Notes that they held, together with interest accrued on those Notes up to (but excluding) the date fixed for redemption. Following such a redemption, it might not be possible to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes. See "Conditions of the Notes—Condition 8.4 (*Redemption and Purchase—Redemption for Taxation Reasons*)".

The Issuer may not be able to finance a change of control offer required by the Trust Deed

Upon the occurrence of (i) a Change of Control (as defined in "Conditions of the Notes—Condition 8.2 (*Redemption and Purchase—Redemption at the Option of the Holders Upon a Change of Control*)") or (ii) failure by the Issuer to meet the requirements of Condition 5.15, the Issuer will be required to offer to repurchase outstanding Notes at a purchase price in cash equal to 101 percent of the principal amount of the Notes plus accrued and unpaid interest and additional amounts, if any, to the date of the repurchase. If the circumstances set out in (i) or (ii) were to occur, there can be no assurance that the Issuer would have sufficient funds available at the time to pay the price of the outstanding Notes. The occurrence of the circumstances set out in (i) or (ii) may cause the acceleration of other indebtedness that may be senior to the Notes or rank equally with the Notes. In any case, the Issuer expects that it would require third party financing to make a Change of Control Offer (as defined in "Conditions of the Notes—Condition 8.2 (*Redemption and Purchase—Redemption at the Option of the Holders upon a Change of Control*)") or a Failure to Redeem Offer (as defined in "Conditions of the Notes—Condition 8.3 (*Redemption at the Option of the Holders Upon Failure to Redeem Intragroup Indebtedness*)". There can be no assurance that the Issuer would be able to obtain this financing. See "Conditions of the Notes—Condition 8.2 (*Redemption and Purchase—Redemption at the Option of the Holders Upon a Change of Control*)" and "Conditions of the Notes—Condition 8.3 (*Redemption at the Option of the Holders Upon Failure to Redeem Intragroup Indebtedness*)".

Modification, waivers and substitution

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. The Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to: (i) the modification of, or to the waiver or authorisation of any breach or proposed breach of, certain provisions of the Notes, the Trust Deed, the Surety Agreement or the Agency Agreement or determine that certain Defaults or Events of Default shall not be treated as such; (ii) certain modifications which in its opinion are of a formal, minor or technical nature or to correct a manifest or proven error or (iii) the substitution of another company as principal debtor under the Notes in place of the Issuer in the circumstances described in "Conditions of the Notes—Condition 5.6 (*Covenants—Merger, Consolidation or Sale of Assets*) and Condition 16 (*Substitution*)".

As the Global Certificate is held by or on behalf of Euroclear, Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer or the Surety Providers

The Notes will be represented by the Global Certificate except in certain limited circumstances described therein. The Global Certificate will be deposited with a common depositary on behalf of Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Global Certificate, investors will not be entitled to receive definitive Certificates. Euroclear, Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Certificate. While the Notes are represented by the Global Certificate, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer and the Surety Providers will discharge their payment obligations under the Notes by making payments to the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in the Global Certificate must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer and the Surety Providers have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

The Issuer is not required to pay additional amounts on account of withholding pursuant to the EU Savings Tax Directive

If any person by or through whom a payment on the Notes is made or received is required to withhold any amount from such payment as a consequence of or pursuant to EC Directive

2003/48/EC on the taxation of savings income (the "**EU Savings Tax Directive**") or any law implementing or complying with, or introduced in order to conform to, the EU Savings Tax Directive, there is no requirement for the Issuer to pay any additional amounts on account of that withholding. In this regard, prospective Noteholders should read the information about the EU Savings Tax Directive in the section entitled "Taxation" and consult their advisors.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to U.S. dollars would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Credit ratings may not reflect all risks

The credit rating(s) assigned to the Notes at any time may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Any negative change in Ukraine's or the Notes' credit rating could adversely affect the market price of the Notes

Ukraine's long-term foreign currency credit ratings are "B+ (stable)" by S&P, "B (stable)" by Fitch and "B2 (negative)" by Moody's and the Notes are expected to be rated B by Fitch. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. Any negative change in Ukraine's or the Notes' credit rating could materially adversely affect the market price of the Notes.

Trading in the clearing systems is subject to minimum denomination requirements

The Notes will initially only be issued in global certificated form, and held through the clearing systems. Interests in the Global Certificate will trade in book-entry form only, and notes in definitive registered form, or definitive Certificates, will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of Notes. The common depository, or its nominee, for the clearing systems will be the sole registered holder of the Global Certificate representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the Global Certificate representing the Notes will be made to the Principal Paying Agent, who will make payments to the clearing systems. Thereafter, these payments will be credited to accounts of participants who hold book-entry interests in the Global Certificate representing the Notes and credited by such participants to indirect participants. After payment to the common depository for the clearing systems, none of the Issuer, the Surety Provider, the Joint Lead Managers, the Trustee or the Agents will have any responsibility or liability for the payment of interest, principal or other amounts to the owners of the book-entry interests. Accordingly, an owner of book-entry interests must rely on the procedures of the clearing systems, and if an owner of book-entry interests is not a participant in the clearing systems, on the procedures of the participant through which it holds its interest, to exercise any rights and obligations of a holder of the Notes under the Trust Deed.

Unlike the holders of the Notes themselves, owners of book-entry interests will not have the direct right to act upon the Issuer's solicitations for consents, requests for waivers or other actions from holders of the Notes. Instead, if a holder of a Note owns a book-entry interest, it will be permitted to act only to the extent it has received appropriate proxies to do so from the relevant clearing system. The procedures implemented for the granting of such proxies may not be sufficient to enable an owner of book-entry interests to vote on a timely basis.

Similarly, upon the occurrence of an Event of Default under the Trust Deed, unless and until Definitive Note Certificates are issued in respect of all book-entry interests, an owner of book-entry interests will be restricted to acting through Euroclear and Clearstream, Luxembourg. The procedures to be implemented through Euroclear and Clearstream, Luxembourg may not be adequate to ensure the timely exercise of rights under the Notes. See "Book Entry, Delivery and Form of the Global Certificate".

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules. See "Subscription and Sale".

OVERVIEW OF THE ISSUER

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. According to Pro-Consulting, in the first half of 2010, Avangard had an estimated domestic market share of the industrially produced shell eggs market of approximately 40% and an estimated domestic market share of the dry egg products market of approximately 78%. 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. As of 30 June 2010, Avangard's flock consisted of 18,670 thousand birds, as compared to 15,984 thousand as of 30 June 2009.

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 the first half of 2010, Avangard had revenues of U.S.$165,901 thousand and net profit of U.S.$61,943 thousand. In that period, shell egg sales accounted for approximately 63.6% and egg products sales accounted for approximately 19.6% of Avangard's revenues, while poultry sales accounted for approximately 12.2% 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. As of 30 June 2010, Avangard's total assets were U.S.$1,122,689 thousand as compared to assets of U.S.$1,088,955 thousand as of 30 June 2009.

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. Avangard produced approximately 1,910 million shell eggs in the first half of 2010 as compared to approximately 1,481 million in the first half of 2009. 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.

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.

In the first half of 2010, approximately 14% (U.S.$14,535 thousand) of Avangard's shell eggs were sold for export, approximately 78% (U.S.$82,188 thousand) were sold to domestic wholesale customers, approximately 1% (U.S.$1,050 thousand) were sold to Ovoline and approximately 7% (U.S.$7,669 thousand) were sold to supermarket chains and other retailers. In the first half of 2010, approximately 23% (U.S.$7,346 thousand) of Avangard's egg products were sold for export and approximately 77% (U.S.$25,196 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:

- Expanding export of shell eggs and egg products
- Increasing its market share in Ukraine
- Expanding egg production capacity
- 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 the Notes 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 Notes 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 and internationally
- Competition in the egg production industry
- Any failure in Avangard's attempt to establish a market share in export markets for shell 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
- Changes in the Ukrainian tax system may significantly increase Avangard's tax burden
- Any discontinuation of state subsidies from which Avangard currently benefits
- Avangard has been and will continue to be controlled by a majority shareholder
- The Group has engaged itself and continues to engage itself in transactions with related parties that may present conflicts of interest, potentially resulting in the conclusion of transactions on less favourable terms than those that could be obtained in arm's-length transactions
- The Group's Consolidated Financial Statements for the year ended 31 December 2007 include a qualification relating to the counting of physical inventory
- Any failure by Avangard to generate or raise sufficient capital
- Certain restrictive covenants under the terms of Avangard's indebtedness
- The Group's substantial indebtedness
- The Group has indebtedness that is secured and therefore effectively senior to the Notes and the Surety Providers
- 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
- Certain of the Surety Providers, as well as certain of the Issuer's other Ukrainian subsidiaries, may be subject to additional shareholder approval requirements
- The tax lien over Bohodukhivska may adversely affect the ability of Bohodukhivska to perform under the Surety Agreement
- Public pledges over the assets of certain Avangard companies may adversely affect the Issuer's business
- Any failure to successfully manage Avangard's planned growth and diversification
- Avangard may be unable to manage inventories effectively
- Avangard's accounting and reporting systems, accounting personnel and its internal controls and procedures relating to the preparation of IFRS financial statements are less developed than those in more developed jurisdictions
- Loss of the services of Avangard's qualified personnel
- Compliance with changing regulation of corporate governance and public disclosure may cause additional expenditure
- Avangard is not subject to and does not comply with the requirements of any national corporate governance requirements of Cyprus or Ukraine
- Any failure in Avangard's attempt to launch biogas plants
- Avangard's operations could be limited by antitrust law
- Avangard may be subject to penalties imposed by the Antimonopoly Committee of Ukraine
- 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
- Avangard's limited activities and transactions with countries, governments, entities or persons targeted by U.S. and international economic embargoes and sanctions
- 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
- 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 the results of operations of its subsidiaries and on distributions or loans from its subsidiaries
- Avangard may incur non-refundable advance corporate income tax on distributions of dividends in Ukraine
- The tax authorities could challenge some of the Group's transactions on the basis of the "substance over form" principle
- The Group may potentially be subject to mandatory dividend distribution rules in Ukraine
- Risk factors that may affect the Surety Providers' ability to fulfil their obligations under the Surety Agreement
- Risks relating to Ukraine
- Risks relating to the Notes

Use of Proceeds

The Issuer intends (i) to use certain of the net proceeds to repay approximately U.S.$170,000,000 of its indebtedness, including all indebtedness owed to Public Joint-Stock Company "Commercial Bank "Finansova Inityatyva"; and (ii) to use the remaining net proceeds, together with funds from other sources, including the Issuer's operating cash flows and proceeds from other loans, to expand the operations of Imperovo. These may, to a certain extent, depend on the availability of opportunities and other factors which may not be within the Group's control.

Recent Trends and Developments

In the third quarter of 2010, trade receivables in the amount of U.S.$68,420 thousand have been paid to the Group by related and unrelated parties.

On 14 July 2010, cash in the amount of U.S.$100,000 thousand, previously held by the Issuer on deposit, was transferred into the current account of the Issuer.

The Group and LLC "Hypo Alpe-Adria-Leasing" entered into finance lease agreements on 6 September 2008 in relation to caging equipment for laying hens. In late 2009 and early 2010 certain of the Group companies defaulted under such finance lease agreements, following which LLC "Hypo Alpe-Adria-Leasing" filed claims for the repayment of the outstanding amounts. Certain of the Surety Providers were parties to such disputes. As of the date of this Prospectus, the Group and LLC "Hypo Alpe-Adria-Leasing" have entered into a number of settlement agreements in relation to the Group's finance lease liabilities owed to LLC "Hypo Alpe-Adria-Leasing" in the aggregate amount of UAH24,466,150 (approximately U.S. $3,093,065). As of 30 September 2010 some, but not all, of the settlement agreements have been approved by the respective commercial courts. Under Ukrainian law amicable settlement agreements must be approved by the commercial courts in order to take effect.

A significant portion of the Group's assets and revenues is derived from related parties transactions. Related parties may enter into transactions into which unrelated parties might not. Transactions with related parties may not be effected on the same terms and conditions as transactions with unrelated parties.

The Consolidated Financial Statements contain a qualification in respect of the Group's financial information for the year ended 31 December 2007. The Independent Reporting Auditors did not observe the counting of physical inventories as of 31 December 2006 (since that date was prior to their engagement) and were unable to satisfy themselves with the inventory quantities based on other audit procedures.

THE NOTES

The overview below describes the principal terms and conditions of the Notes which are subject to important limitations and exceptions. The "Conditions of the Notes" section in this Prospectus contains a more detailed description of the terms and conditions of the Notes, including the definitions of certain capitalised terms used but not defined herein. Words and expressions defined in "Conditions of the Notes" shall have the same meanings when used herein.

Notes	USD200,000,000 10.0% Notes due 29 October 2015
Issuer	Avangardco Investments Public Limited
Surety Providers	LLC "Areal-Snigurivka" CJSC Agrofirma "Avis" LLC "Torgivelniy Budynok "Bohodukhivska Ptakhofabryka" CJSC Chernivetska Ptakhofabryka OJSC "Ptakhohospodarstvo "Chervonyi Prapor" APP CJSC "Chornobaivske" CJSC "Avangard" ALLC "Donetska Ptakhofabryka" SC "Gorodenkivska Ptakhofabryka" of CJSC "Avangard" LLC "Imperovo Foods" PSPC "Interbusiness" SC "Rohatynska Ptakhofabryka" of CJSC "Avangard" SC Ptakhofabryka "Lozuvatska" of Private Joint Stock Company with Limited Liability "Avangardco Investments Public Limited" LLC PF "Volnovaska" PJSC "Cross-P/F "Zorya"
Joint Bookrunners and Joint Lead Managers	J.P. Morgan Securities Ltd. TD Investments Limited (the **"Joint Lead Managers**", and each, a **"Joint Lead Manager"**)
Issue Date	29 October 2010 (the "**Issue Date**")
Maturity Date	29 October 2015
Trustee	BNY Corporate Trustee Services Limited
Principal Paying and Transfer Agent	The Bank of New York Mellon (the **"Principal Paying Agent**")
Registrar	The Bank of New York Mellon (Luxembourg) S.A.
Use of Proceeds	The Issuer intends (i) to use certain of the net proceeds to repay approximately U.S.$170,000,000 of its indebtedness, including all indebtedness owed to Public Joint-Stock Company "Commercial Bank "Finansova Inityatyva"; and (ii) to use the remaining net proceeds, together with funds from other sources, including the Issuer's operating cash flows and proceeds from other loans, to expand the operations of Imperovo. These may, to a certain extent, depend on the availability of opportunities and other factors which may not be within the Group's control.

Risk Factors .... An investment in the Notes involves significant risks. See "Risk Factors".

Issue Price .... 98.093% of the principal amount of the Notes.

Interest .... The Notes will bear interest from 29 October 2010 at a rate of 10.0% per annum payable semi-annually in arrear on 29 April and 29 October in each year, commencing on 29 April 2011.

Yield 10.5%

Suretyship .... The USD200,000,000 10.0% Notes due 29 October 2015 are constituted by a trust deed dated 29 October 2010 (the "**Trust Deed**") entered into between the Issuer, the Surety Providers and the Trusteee. The Surety Providers will, pursuant to a suretyship contained in the Surety Agreement unconditionally and irrevocably, to the maximum extent permitted by law, ensure the due payment of all sums expressed to be payable by the Issuer under the Notes and the Trust Deed. The Suretyship will constitute a suretyship (in Ukrainian: "*poruka*") for the purposes of Ukrainian law and shall not constitute a guarantee obligation (in Ukrainian: "*garantiya*") as that term is interpreted under Ukrainian law. Payment of amounts due under the Suretyship will require compliance with certain Ukrainian currency control regulations. See "Risk Factors". The obligations of the Surety Providers under the Surety Agreement create a secondary liability of each of the Surety Providers in relation to the underlying obligations of the Notes and therefore, if those obligations are invalid, the suretyship under the Surety Agreement will also be invalid.

The Issuer will be required to cause each of its Restricted Subsidiaries that is created on or after the Issue Date to become an additional surety provider in respect of the Notes (an "**Additional Surety Provider**") by causing it to execute and deliver to the Trustee a supplement to the Surety Agreement (and with an opinion of counsel addressed to the Trustee as to the enforceability of its Suretyship), pursuant to which such Restricted Subsidiary will become a Surety Provider.

The Issuer may from time to time designate a Restricted Subsidiary as an Additional Surety Provider of the Notes by causing it to execute and deliver to the Trustee a supplemental Suretyship Agreement (and an opinion of counsel addressed to the Trustee as to the enforceability of its Suretyship), pursuant to which such Restricted Subsidiary will become a Surety Provider.

In the event that each of the total assets or revenue of any Restricted Subsidiary that is not a Surety Provider, as at the end of any fiscal quarter, accounts for 10% or more of the Issuer's total assets or revenue on a consolidated basis, respectively, the Issuer shall cause the relevant Restricted Subsidiary to execute and deliver to the Trustee an Additional Suretyship, pursuant to which such Restricted Subsidiary will jointly and severally ensure the payment of all moneys payable under the Notes. In the event that the total revenue of any Affiliate of the Issuer related to a Permitted Business which is entered into with the Issuer or any of its Subsidiaries, as at the end of any fiscal quarter, accounts for 10 per cent. or more of the Issuer's total revenue on a consolidated basis, the Affiliate shall, and the Issuer shall procure such Affiliate to, within 3 months of the end of such fiscal quarter, cause the relevant Affiliate to, execute and deliver to the Trustee an Additional

Suretyship, pursuant to which such Affiliate will unconditionally and irrevocably and jointly and severally ensure the payment of all moneys payable on the Notes. In the event that the total assets or revenue of all Surety Providers account for less than 75% of the Issuer's total assets or revenue on a consolidated basis, respectively, the Issuer shall cause additional Restricted Subsidiaries to execute and deliver to the Trustee an Additional Suretyship, pursuant to which such additional Restricted Subsidiary will unconditionally and irrevocably and jointly and severally ensure the due payment of all moneys payable by the Issuer under the Trust Deed and the Notes such that the total assets and revenue of all Surety Providers will then account for 75% or more of the Issuer's total assets or revenue on a consolidated basis, respectively.

Any Additional Suretyship shall be issued on substantially the same terms as the Suretyship. The Surety Agreement also provides that a Suretyship shall be released upon the happening of certain events as described in Condition 4.4 (*Release of the Suretyship*). For purposes of the Trust Deed and the Conditions, references to the Suretyships include references to any Additional Suretyships and references to the Surety Providers include references to any Additional Surety Providers.

Ranking of the Notes .... The Notes will constitute direct, unsecured, unsubordinated and unconditional obligations of the Issuer and shall rank *pari passu* and without any preference or priority among themselves.

Ranking of the Suretyship .... The Suretyship will constitute direct, unsecured, unsubordinated and unconditional obligations of each Surety Provider and shall at all times rank *pari passu* and without any preference among themselves, with all outstanding unsecured and unsubordinated obligations of each Surety Provider, present and future, save for the obligations that are preferred solely by virtue of mandatory provisions of the applicable law.

Withholding Tax; Gross-up .... All payments of principal, premium and interest by or on behalf of the Issuer or the Surety Providers in respect of the Notes or under the Suretyship will be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Cyprus, Ukraine or certain other jurisdictions, or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, subject to certain exceptions, the Issuer or the Surety Providers, as the case may be, will pay such additional amounts as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required as described in Condition 9 ("*Taxation*").

Change of Control .... Following a Change of Control, a Noteholder will be entitled to require the Issuer to redeem the Notes at 101% of their principal amount, plus accrued and unpaid interest and additional amounts (if any). See "Conditions of the Notes—Condition 8.2 (*Redemption and Purchase—Redemption at the Option of the Holders Upon a Change of Control*)".

Failure to Redeem Affiliate Indebtedness .... Upon failure by the Issuer to meet the requirements of Condition 5.15, a Noteholder will be entitled to require the Issuer to purchase all or any part of such Noteholder's Notes at 101% of the principal amount thereof, plus accrued and unpaid interest and additional amounts (if any). See "Conditions of the Notes—Condition 8.3 (*Redemption at the Option of the Holders Upon Failure to Redeem Intragroup Indebtedness*)".

Redemption for Taxation Reasons............................... The Issuer may redeem the Notes in whole, but not in part, at their principal amount plus accrued interest, in certain circumstances in which the Issuer (or the Surety Providers, as the case may be) has or would become obliged to pay Additional Amounts as provided in the Conditions (or certain undertakings given in addition to, or substitution for, Condition 9 (*Taxation*)). See "Conditions of the Notes—Condition 8.4 (*Redemption and Purchase—Redemption for Taxation Reasons*)."

Certain Covenants.................... The terms and conditions of the Notes will contain, amongst others, the following limitations on the Issuer.

- Limitation on incurrence of Indebtedness and Issuance of Preference Shares
- Limitations on Restricted Payments
- Limitation on Asset Sales
- Limitation on Liens
- Limitations on Sale and Leaseback Transactions
- Mergers, Consolidation and Sale of Assets
- Additional Suretyships
- Limitation on Affiliate Transactions
- Limitation on Issuer/subsidiary distributions and other payments
- Limitation on change of business activities
- Payments for Consent
- Provision of Financial Information
- Restricted Subsidiary Definition
- Restriction on Payment of Proceeds
- Restriction on Use of Proceeds

Each of these covenants is subject to certain exceptions and qualifications.

Lock-up .... The Issuer has agreed that for a period of 90 days after the Issue Date, it will not, directly or indirectly, issue, arrange, announce, discuss with other parties, and will not provide any security for, any issues of equity or debt securities (including, without limitation, equity based or debt based securities or instruments).

Events of Default .... Standard events of default including:

- Non-payment of interest;
- Non-payment of principal;

- Breach of other obligations;
- Breach of the Surety Agreement, including a breach that results from a failure by certain Surety Providers to ratify entry into the Surety Agreement;
- Cross acceleration, subject to materiality threshold;
- Insolvency, winding-up;
- Unlawfulness or ineffectiveness; and
- Litigation, judgments.

Form, Denomination and Initial Delivery of the Notes .... The Notes will be issued in registered form in denominations of USD100,000 and integral multiples of USD1,000 in excess thereof. The Notes will be represented initially by a single global bond in registered form without coupons, which will be deposited with, and registered in the name of a nominee for a common depositary on behalf of Euroclear and Clearstream, Luxembourg on or about the Closing Date.

Listing and admission to trading .... Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 ("**FSMA**") (the "**UK Listing Authority**") for the Notes to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the regulated market of the London Stock Exchange (the "**Market**"). The Market is regulated for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

Governing Law .... The Notes, the Agency Agreement, the Surety Agreement and the Trust Deed will be governed by English law.

Security Codes .... ISIN: XS0553088708

Common Code: 055308870

Representation of Noteholders..... BNY Corporate Trustee Services Limited (the "**Trustee**").

Rating .... The Notes are expected to be rated B by Fitch Ratings Limited.

DESCRIPTION OF THE TRANSACTION

The following information about the Notes should be read in conjunction with, and is qualified in its entirety by, the information set forth under "Conditions of the Notes" appearing elsewhere in this Prospectus.

The transaction will be structured as a Note issue with the benefit of a suretyship from the Surety Providers (subject to the limitations described in the section entitled "*Risk Factors*" relating to the Surety Providers).

Pursuant to the Surety Agreement, the Surety Providers unconditionally and irrevocably agree that if the Issuer does not pay any sum payable by it under the Trust Deed, by the time and date specified, the Surety Providers will pay that sum to the Trustee. For the avoidance of doubt, the obligations of the Surety Providers under the Surety Agreement shall constitute a suretyship (in Ukrainian: "*poruka*") for the purposes of Ukrainian law and shall not constitute a guarantee obligation (in Ukrainian: "*garantiya*") as that term is interpreted under Ukrainian law. Accordingly, the Suretyship is a secondary liability in relation to the underlying obligations of the Notes and, therefore, if obligations under the Notes are held to be invalid, the Suretyship will also be invalid. Further a Surety Provider must obtain an individual licence from the NBU in order to make cross-border payments and such licence cannot be obtained prior to the contingent obligation under the Surety Agreement becoming actual and the amount and the date of payment becoming known. See "Risk Factors".

USE OF PROCEEDS

The Issuer will receive the net proceeds of the issuance of the Notes. The net proceeds of the issuance of the Notes are expected to be approximately U.S.$195,000,000.

The Issuer intends (i) to use certain of these net proceeds to repay approximately U.S.$170,000,000 of its indebtedness, including all indebtedness owed to Public Joint-Stock Company "Commercial Bank "Finansova Inityatyva"; and (ii) to use the remaining net proceeds, together with funds from other sources, including the Issuer's operating cash flows and proceeds from other loans, to expand the operations of Imperovo. These may, to a certain extent, depend on the availability of opportunities and other factors which may not be within the Group's control.

EXCHANGE RATE INFORMATION

The table below sets out, for the periods indicated, the period-end, average and high and low official rates set by the National Bank of Ukraine, in each case for the purchase of UAH, all expressed in UAH per U.S. dollar. The UAH/U.S. dollar exchange rate set by the NBU reported on 30 September 2010 was UAH 7.91 to U.S.$1.00. The rates may differ from the actual rates used in the preparation of the Consolidated Financial Statements and Interim Consolidated Financial Statements and other financial information appearing in this Prospectus. The Issuer does not represent that the U.S. dollar amounts referred to below could be or could have been converted into UAH at any particular rate indicated or any other rate at all.

The average rate for a year means the average of the exchange rates set by the NBU on the last day of each month during a year. The average rate for a month, or for any shorter period, means the average of the rate set by the NBU during that month, or shorter period, as the case may be.

	UAH per U.S.$1.00			
Year	**High**	**Low**	**Average(1)**	**Period end**
2005	5.31	5.05	5.11	5.05
2006	5.05	5.05	5.05	5.05
2007	5.05	5.05	5.05	5.05
2008	7.88	4.84	5.39	7.70
2009	8.01	7.61	7.81	7.99
Month				
January 2010	8.01	7.99	8.00	8.00
February 2010	8.01	7.99	8.00	7.99
March 2010	7.99	7.93	7.97	7.93
April 2010	7.93	7.92	7.93	7.93
May 2010	7.93	7.93	7.93	7.93
June 2010	7.93	7.91	7.92	7.91
July 2010	7.91	7.89	7.90	7.89
August 2010	7.89	7.89	7.89	7.89
September 2010	7.91	7.89	7.91	7.91
October 2010 (through 21 October)	7.91	7.91	7.91	7.91

Source: NBU
Note:
(1) The average annual exchange rate is the average of the exchange rates on the last day of each full month during the relevant year. The average monthly exchange rate is the average of the exchange rates for each business day of that month.

Fluctuations in the exchange rates between the UAH and U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future. No representation is made that UAH 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 legislation, the NBU is authorised to intervene through buying or selling foreign currencies on the interbank currency exchange in order to maintain indirectly the exchange rate of UAH to foreign currencies. The NBU establishes such official exchange rate on a daily basis for a particular foreign currency, based on the weighted average (bid and ask) applications submitted by the participants of the interbank currency exchange.

CAPITAL RESOURCES

The following table sets out the capitalisation and indebtedness of the Group as of 30 June 2010 and as adjusted to reflect the net proceeds of the issuance of the Notes to the Issuer. The adjustments are provided for illustrative purposes only and do not purport to represent what the Group's financial condition would have been as at 30 June 2010 nor does it purport to project the Group's financial condition at any future date. The adjustments address a hypothetical situation and, therefore, do not represent the Issuer's actual financial position or results. The entries in this table stated in the "Actual" column set forth below are derived from the Interim Consolidated Financial Statements, prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". This table should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and Interim Consolidated Financial Statements (including the notes thereto) included elsewhere in this Prospectus.

	30 June 2010		
	Actual	**Adjustment(1)**	**As Adjusted(2)**
		(U.S.$'000)	
Non-current liabilities:			
Long-term loans	80,653	—	80,653
Long-term bond liabilities	—	195,000(4)	195,000
Deferred income tax liabilities	1,271	—	1,271
Deferred income (non-current portion)	6,022	—	6,022
Long-term finance leases	5,167	—	5,167
Total non-current liabilities	**93,113**	195,000	288,113
Current liabilities:			
Short-term bond liabilities	24,488	—	24,488
Current portion of non-current financial liabilities	119,476	—	119,476
Short-term loans	43,425	—	43,425
Trade payables	86,016	—	86,016
Current income tax liabilities	6	—	6
Accrued expenses	958	—	958
Other current liabilities and accrued expenses	127,416	5,000(5)	132,416
Total current liabilities	**401,785**	5,000	406,785
Equity:			
Share capital	835	—	835
Capital contribution reserve	317,021	—	317,021
Retained earnings	360,688	—	360,688
Currency translation reserve	(60,199)	—	(60,199)
Total equity attributable to:			
Equity holders of the parent	**618,345**	—	**618,345**
Non-controlling interests	9,446	—	9,446
Total Equity	**627,791**	—	**627,791**
Total capitalisation(3)	**1,122,689**	200,000(6)	1,322,689

Notes:

(1) Adjustment reflects the issuance of the Notes and the net proceeds of the issuance of the Notes.

(2) As adjusted to reflect issuance of the Notes and the net proceeds of the issuance of the Notes.

(3) Total capitalisation equals total liabilities plus total equity.

(4) The net proceeds of the issuance of the Notes.

(5) The total expenses related to the issuance of the Notes, which includes the expenses related to the admission of the Notes to the Official List and banking and professional fees.

(6) The gross proceeds of the issuance of the Notes.

There has been no material change in total capitalisation and indebtedness (including in respect of contingent liabilities and guarantees) of Avangard since 30 June 2010.

SELECTED HISTORICAL FINANCIAL INFORMATION

The selected consolidated financial information set forth below shows the Issuer's historical consolidated financial information as of 31 December 2007, 2008 and 2009 and for the years then ended as if the Issuer were formed on 1 January 2007 and as at and for the six months ended 30 June 2009 and 2010. Such financial information has been extracted or derived from the Consolidated Financial Statements and Interim Consolidated Financial Statements, and related Notes included elsewhere in this Prospectus. This section should be read together with the Consolidated Financial Statements and Interim Consolidated Financial Statements, 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".

	Half-Year ended 30 June		Year ended 31 December		
	2010	2009	2009	2008	2007
	Unaudited (U.S.$'000)	Unaudited (U.S.$'000)	(U.S.$'000)	(U.S.$'000)	(U.S.$'000)
COMPREHENSIVE INCOME STATEMENT DATA[1]**:**					
Continuing Operations					
Revenue	**165,901**	**98,567**	**319,855**	**302,292**	**127,788**
Net change in fair value of biological assets	14,735	14,729	7,695	12,690	6,467
Cost of sales	(125,275)	(72,981)	(220,407)	(232,975)	(114,689)
Gross profit	**55,361**	**40,315**	**107,143**	**82,007**	**19,566**
General administrative expenses	(2,505)	(2,596)	(4,933)	(7,932)	(4,986)
Distribution costs	(2,436)	(1,433)	(3,086)	(4,429)	(4,005)
Income from government grants and incentives	466	6,786	9,440	39,068	17,187
Income/(expenses) from special VAT treatment	9,060	(603)	12,291	—	—
Other operating expenses	(2,743)	(5,612)	(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	**57,203**	**36,857**	**139,807**	**101,958**	**33,160**
Finance income	15,590	19,643	41,180	26,897	20,868
Finance costs	(10,511)	(22,792)	(46,150)	(52,986)	(22,540)
Profit before income tax	**62,282**	**33,708**	**134,837**	**75,869**	**31,488**
Income tax (expense)/benefit	(339)	(341)	(1,168)	1,414	(1,254)
Net profit for the period	**61,943**	**33,367**	**133,669**	**77,283**	**30,234**
Other comprehensive income—effect of translation into presentational currency	3,935	1,351	(7,441)	(59,998)	—
Total comprehensive income	**65,878**	**34,718**	**126,228**	**17,285**	**30,234**
Attributable to:					
Equity holders of the parent	64,515	34,302	124,517	18,050	24,026
Minority interest	1,363	416	1,711	(765)	6,208

	Half-Year ended 30 June		Year ended 31 December		
	2010	2009	2009	2008	2007
	Unaudited	Unaudited			
	(U.S.$'000)	(U.S.$'000)	(U.S.$'000)	(U.S.$'000)	(U.S.$'000)
STATEMENT OF FINANCIAL POSITION DATA(2):					
Non-current assets:					
Property, plant and equipment, net	384,315	385,135	375,426	368,264	213,529
Financial assets available for sale	40	41	40	41	29,766
Non-current biological assets	42,538	40,289	21,546	9,185	21,343
Financial assets—long-term bank deposits	28	4,229	504	49,351	107,627
Deferred income tax assets	6	479	230	830	—
Other non-current assets	20,106	36,220	16,630	55,368	110,288
Total non-current assets	**447,033**	**466,393**	**414,376**	**483,039**	**482,553**
Current assets:					
Inventories	99,216	70,381	92,757	47,076	12,688
Prepaid income tax	10	7	35	5	—
Trade and other receivables	120,519	128,383	90,923	163,498	102,359
Current biological assets	34,785	30,678	44,910	47,935	18,075
Short-term financial assets	315,501	391,667	199,648	272,535	62,927
Cash and cash equivalents	105,625	1,446	1,727	5,878	4,460
Total current assets	675,656	622,562	430,000	536,927	200,509
Total assets	**1,122,689**	**1,088,955**	**844,376**	**1,019,966**	**683,062**
Equity attributable to equity holders of the parent:					
Share capital	835	644	644	644	3
Capital contributions reserve	317,021	—	115,858	—	—
Retained earnings	360,688	201,098	300,107	168,151	74,109
Currency translation reserve	(60,199)	(64,137)	(64,137)	(56,968)	—
Total attributable to the equity holders of the parent	618,345	146,399	352,472	112,097	74,112
Non-controlling interests	9,446	6,817	8,083	6,406	17,680
Total equity	**627,791**	**153,216**	**360,555**	**118,503**	**91,792**
Non-current liabilities:					
Financial liabilities	85,820	243,153	92,117	201,020	189,340
Deferred tax liabilities	1,271	623	1,173	650	1,201
Deferred income (non-current portion)	6,022	6,558	5,963	6,499	10,136
Total non-current liabilities	93,113	250,334	99,253	208,169	200,677
Current liabilities:					
Financial liabilities	198,256	514,641	185,737	313,614	227,542
Trade and other payables	203,523	170,758	198,824	379,680	163,045
Accounts payable for income tax	6	6	7	—	6
Total current liabilities	401,785	685,405	384,568	693,294	390,593
Total liabilities	**494,898**	**953,739**	**483,821**	**901,463**	**591,270**
Total liabilities and shareholders' equity	**1,122,689**	**1,088,955**	**844,376**	**1,019,966**	**683,062**

	Half-Year ended 30 June		Year ended 31 December		
	2010	2009	2009	2008	2007
	Unaudited	Unaudited			
	(U.S.$'000)	(U.S.$'000)	(U.S.$'000)	(U.S.$'000)	(U.S.$'000)
CASH FLOW DATA[1]:					
Operating activities:					
Cash flows from operating activities before working capital changes	48,740	27,507	121,310	109,546	55,734
Net working capital movements	(20,976)	(61,425)	96,179	43,773	(53,770)
Interest paid	(9,831)	(18,113)	(51,781)	(54,653)	(25,909)
Income tax paid	(1)	(11)	(48)	(29)	(65)
Net cash flows generated from (used by) operating activities	17,932	(52,042)	165,660	98,637	(24,010)
Investing activities:					
Purchases of property, plant and equipment	(20,819)	(948)	(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	(101,418)	40,304	126,200	(137,632)	(93,924)
Acquisition of investments	—	—	—	—	(29,766)
Disposal of investments	—	—	—	28,993	—
Interest received	—	532	1,769	26,848	20,868
Net cash generated by (used in) investing activities	(122,237)	39,888	124,627	(337,918)	(249,029)

	Half-Year ended 30 June		Year ended 31 December		
	Unaudited	Unaudited			
	2010	2009	2009	2008	2007
	(U.S.$'000)	(U.S.$'000)	(U.S.$'000)	(U.S.$'000)	(U.S.$'000)
Financing activities:					
Increase in share capital	191	—	—	641	—
Proceeds from loans received	9,150	10,341	15,511	469,156	293,775
Repayment of bank loans	(412)	(1,379)	(308,016)	(256,800)	(16,676)
Proceeds from/(repayment of) short-term bonds	(1,621)	(528)	(2,964)	25,754	—
Net cash (used in) generated from financing activities	208,472	8,434	(295,469)	238,751	277,099
Effects of translation into presentation currency	(270)	(647)	1,097	1,856	—
Net increase/(decrease) in cash and cash equivalents	**103,897**	**(4,367)**	**(4,085)**	**1,326**	**4,060**
Cash and cash equivalents, at beginning of the period	**1,701**	**5,786**	**5,786**	**4,460**	**400**
Cash and cash equivalents, at end of the period	**105,598**	**1,419**	**1,701**	**5,786**	**4,460**
OTHER MEASURES:					
EBITDA[3]	63,498	43,075	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.

	Half-Year ended 30 June	
	2010	**2009**
	Unaudited	**Unaudited**
	(U.S.$'000)	**(U.S.$'000)**
Operating profit	57,203	36,857
Depreciation[1]	6,295	6,218
EBITDA	63,498	43,075

Note:

(1) The Group has no intangible assets and so no amortisation is charged in the first half of 2009 and 2010.

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 and for the six months ended 30 June 2009 and 2010 should be read together with the Financial Statements and the Notes thereto and the other information included elsewhere in this Prospectus. The Consolidated Financial Statements have 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 "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. According to Pro-Consulting, in the first half of 2010, Avangard had an estimated domestic market share of the industrially produced shell eggs market of approximately 40% and an estimated domestic market share of the dry egg products market of approximately 78%.

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. Avangard and Ovoline are related parties which conduct all transactions on market terms. In the first half of 2010, approximately 14% (U.S.$14,535 thousand) of Avangard's shell eggs were sold for export, approximately 78% (U.S.$82,188 thousand) were sold to domestic wholesale customers, approximately 1% (U.S.$1,050 thousand) were sold to Ovoline and approximately 7% (U.S.$7,669 thousand) were sold to supermarket chains and other retailers.

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. In the first half of 2010, approximately 23% (U.S.$7,346 thousand) of Avangard's egg products were sold for export and approximately 77% (U.S.$25,196 thousand) were sold domestically.

All of Avangard's export sales of shell eggs are made through a related party intermediary, Myaso Prykarpattya LLC. Most of Avangard's export sales of egg products are also made through the same related party intermediary, but beginning in 2010, Avangard began to make some export sales of egg products directly. Avangard intends to make all export sales of shell eggs and egg products directly by the end of 2011.

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 of U.S.$240,586 thousand or 75.2% of Avangard's total revenues in 2009 (and total revenues of U.S.$105,442 thousand or 63.6% of Avangard's total revenues in the first half of 2010). 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 of U.S.$37,746 thousand or 11.8% of Avangard's total revenues in 2009 (and total revenues of U.S.$20,258 thousand or 12.2% of Avangard's total revenues in the first half of 2010). 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 of U.S.$15,515 thousand or 4.9% of Avangard's total revenues in 2009 (and total revenues of U.S.$4,839 thousand or 2.9% of Avangard's total revenues in the first half of 2010). 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 of U.S.$21,964 thousand or 6.9% of Avangard's total revenues in 2009 (and total revenues of U.S.$32,542 thousand or 19.6% of Avangard's total revenues in the first half of 2010). Imperovo, which operates the Group's egg processing plant, was acquired by the Group in December 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 of U.S.$4,044 thousand or 1.3% of Avangard's total revenues in 2009 (and total revenues of U.S.$2,820 thousand or 1.7% of Avangard's total revenues in the first half of 2010).

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 in 2008 and 3,634 million in 2009. Avangard's shell egg production volume increased from approximately 1,481 million pieces in the first half of 2009 to 1,910 million in the first half of 2010. 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 Statements, 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 Statements.

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 UAH1,000.

Segments and Intragroup Transactions

The Group applies IFRS 8 "Operating Segments" to the disclosure of information on business segments in the Consolidated Financial Statements. Intragroup transactions are eliminated within the Consolidated Financial Statements. 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. These sales constituted 37.2% in the first half of 2010. Intersegment sales from the animal feed segment, which were eliminated from the Group's revenues, decreased to U.S.$7,989 thousand in the first half of 2010 from U.S.$32,060 thousand in the first half of 2009. 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. These sales constituted 53.8% in the first half of 2010. 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**	**Beneficial Ownership as at 30 June 2010**
Chervonyi Prapor	Farm for laying hens	Acquisition	2007	86.01%	97.7%	97.7%	97.7%
SC Chervonyi Prapor	Farm for young laying hens	Start-up	2007	86.01%	97.7%	97.7%	97.7%
SC Yuzhnaya-Holding	Farm for young laying hens	Start-up	2007	100%	100%	100%	100%
SC Volnovaske	Farm for young laying hens	Start-up	2007	99.9%	99.9%	99.9%	99.9%
SC Zorya	Farm for young laying hens	Start-up	2007	89.4%	89.4%	89.4%	89.4%
SC PH Donetske	Farm for young laying hens	Start-up	2007	99.9%	99.9%	99.9%	99.9%
SC Chornobaivske	Farm for young laying hens	Start-up	2007	60.4%	97.3%	97.3%	97.3%
SC PF Lozuvatska	Farm for laying hens and fodder mill	Acquisition	2007	100%	100%	100%	100%
SC PH Lozuvatske	Farm for young laying hens	Acquisition	2007	100%	100%	100%	100%
Volnovaska	Farm for laying hens	Acquisition	2007	99.9%	99.9%	99.9%	99.9%
Volnovaskyi KHP	Fodder mill	Acquisition	2007	72.4%	72.4%	72.4%	72.4%
Vuhlehirskyi	Fodder mill	Acquisition	2007	79.2%	79.2%	79.2%	79.2%
Pershe Travnya	Farm for laying hens and fodder mill	Acquisition	2007	92.7%	92.7%	92.7%	92.7%
Yuzhnaya-Holding	Farm for young laying hens	Acquisition	2007	100%	100%	100%	100%
Zorya	Farm for laying hens	Acquisition	2007	89.4%	89.4%	89.4%	89.4%
Ptytsecomplex	Breeder farm and farm for laying hens	Acquisition	2007	100%	100%	100%	100%
Cross	Dormant	Acquisition	2007	99.9%	99.9%	99.9%	99.9%
Bohodukhivska	Farm for laying hens	Acquisition	2008	—	100%	100%	100%
Areal-Snigurivka	Farm for laying hens	Acquisition	2008	—	100%	100%	100%
Interbusiness	Farm for laying hens	Acquisition	2008	—	100%	100%	100%
LLC Pershe Travnya	Fodder mill	Acquisition	2009	—	—	92.7%	92.7%
Imperovo	Egg processing plant	Acquisition	2009	—	—	100%	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 Statements 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 sales prices for shell eggs in Ukraine increased between 2007 and 2009 due to a number of market factors, including increases in grain prices in 2007 and early 2008, growth of internal demand for shell eggs and increases in exports in 2009 which created additional price pressure in that year. The average sales price for Avangard's shell eggs was UAH0.36 per piece in the first half of 2009 as compared to UAH0.52 per piece in the first half of 2010 (excluding VAT). In the first half of 2010, the average sales price for Avangard's shell eggs remained high due to increases in export sales (although to a certain extent was affected by seasonal price fluctuations typical for this time of the 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 the price levels in countries on Ukraine's western borders.

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. The prices of egg products also grew as a result of the increase in prices of shell eggs, which are the key raw material in the production of egg products, and also as a result of general inflation. The average sales price for Avangard's egg products was UAH 24.65 thousand per ton in the first half of 2009 as compared to UAH54.18 thousand per ton in the first half of 2010 (excluding VAT). Average market prices for egg products in Ukraine increased between 2009 and 2010 due to a number of factors, including the increase in prices of shell eggs as key raw materials for the production of egg products and general inflation.

As Avangard plans to increase the share of its export sales in the future, export markets are expected to have more impact on Avangard's sales and the prices of its products.

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 over which Avangard has little or no control, such as crop production and weather.

Avangard uses feed grains, such as corn and wheat, in its operations. 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 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. In June and July 2010, Avangard entered into forward contracts for the purchase of feed grains for approximately 210,000 tons. 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. Since the end of 2009, feed grain prices increased due to developments on world commodity markets. Feed grain prices continued to grow in the first half of 2010 due to, amongst other things, a smaller than average harvest in Ukraine. However, they have not to date returned to the peak levels reached in 2007.

	26 October 2007	31 October 2008	30 October 2009	10 September 2010
Prices for feed grains		**(U.S.$ per ton)[(1)]**		
Fodder corn	203.96	86.80	127.50	183.35
Fodder wheat	195.05	85.06	112.50	168.18

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 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 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, leading generally to a decrease in shell egg prices. 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, using its long-term egg storage facilities. In addition, since acquiring the Imperovo processing plant in 2009, Avangard is able to reduce 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.

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 increased by 4.9% in the first half of 2010, following a decrease of 15.1% in 2009 and 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, however in the first half of 2010 it showed an increase of 3.7%.

The table below sets out the key macroeconomic indicators for Ukraine for the years ended 31 December 2007, 2008 and 2009, as well as for the first quarter of 2010.

	Year ended 31 December			First quarter of
	2007	**2008**	**2009**	**2010**
Real GDP (% change)(1)	7.9%	2.3%	(15.1%)	4.9%
Nominal GDP (UAH billion)	721.0	948.0	915.0	218.1
Nominal GDP (% change)(2)	32.5%	31.5%	(3.5%)	16%
Consumer price index, end of period(3)	16.6%	22.3%	12.3%	11.2%
Real disposable household income (% change)(4)	14.8%	7.6%	(8.5%)	3.7%

Source: SCSU

Notes:

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

(2) The nominal GDP percentage change for a particular period indicates the percentage change compared to the same period of the previous year.

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

(4) Real disposable household income shows the percentage change in disposable household income adjusted for consumer inflation as compared to the same period of 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.$384.5 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 2009 overall agricultural output as reported by the SCSU, the upper limit of "amber box" subsidies in 2010, excluding product-specific support, was equal to approximately UAH10.733 billion (U.S.$1,356.2 million). This was approximately 8 times higher than direct state subsidies to the Ukrainian agricultural sector set under the Budget Law of Ukraine for 2010 of approximately UAH1.333 billion (U.S.$168.4 million).

In 2007, 2008 and 2009 and the first half of 2010, 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 for the years ended 31 December 2007, 2008 and 2009—Government Grants and Incentives" and "Results of Operations for the first half year ended 30 June 2009 and the first half year ended 30 June 2010—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 CIT and pay FAT in accordance with the Law on Fixed Agricultural Tax. FAT is paid in lieu of CIT, land tax, duties for special use of water resources, 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 that are used for agricultural production. FAT expenses are recorded under general administrative expenses and were not material in any of the periods under review. The FAT regime has been extended for an unlimited period of time. If the FAT regime is discontinued in the future, the Ukrainian tax-resident companies in the Group would be required to pay CIT at the standard rate (currently 25%) for Ukrainian companies, as well as certain other taxes and duties. See Note 20 to the Consolidated Financial Statements.

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). In the first half of 2010, Avangard benefitted from a total of U.S.$466 thousand in government grants income, the majority of which related to partial compensation of complex agricultural equipment cost. 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).

Some of Avangard's Ukrainian subsidiaries receive partial compensation of interest expense under loans received from Ukrainian commercial banks. See "Industry Overview—State Subsidies—Partial Compensation for Finance Costs". 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.

Government VAT refunds for the agricultural industry

According to the Law of Ukraine "On Value Added Tax", dated 3 April 1997, as amended (the "**VAT Law**") qualifying Ukrainian agricultural companies are entitled to retain the difference between the input VAT they pay on purchases of goods or services for their agricultural operations and the VAT they charge on the sale of their agricultural products (at the rate of 20%). Such retained amounts can be used for any business purposes of the company. This benefit was received by Avangard in 2009 and continues to be available to Avangard. The value of this benefit to the Group amounted to U.S.$12,291 thousand in 2009 and is treated in the Consolidated Financial Statements as income from special VAT treatment rather than income from government grants.

Prior to 1 January 2009, taxpayers were not entitled to retain the difference between the VAT that they charged on sales of their agricultural products and the VAT that they paid on purchases of goods or services for their agricultural operations. Instead, the equivalent amounts were paid by qualifying agricultural companies into special bank accounts and could be used to pay for goods and services related to their agricultural activities. This benefit was received by companies in the Group in 2008 and 2007 and amounted to approximately U.S.$7,795 thousand and U.S.$3,957 thousand in 2008 and 2007, respectively, or approximately 10.3% and 12.6%, respectively, of the Group's total income for the relevant years, net of tax. This benefit is treated in the Consolidated Financial Statements as income from government grants. In 2009, Avangard additionally received a delayed payment of U.S.$2,855 thousand due to it for the year ended 31 December 2008.

Foreign Currency Exchange Rates

Avangard's operating assets are located in Ukraine, and its revenues and costs are denominated primarily in hryvnia. The Consolidated Financial Statements is, however, presented solely in dollars. Changes in the dollar/hryvnia exchange rate, particularly in 2008 and 2009, have had a significant impact on the results reported in the Consolidated Financial Statements 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.$43,425 thousand at 30 June 2010, U.S.$42,700 thousand (98.3%) was hryvnia denominated. U.S.$196,358 thousand (99.2%) of Avangard's long-term debt balance of U.S.$197,903 thousand at 30 June 2010 was hryvnia denominated (the remainder is Swiss franc denominated debt of approximately U.S.$1,545 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.

Components of Principal Income Statement Items

Revenue

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 and 63.6% in the first half of 2010.

As described in "—Key Factors Affecting Avangard's Results of Operations—Demand for Shell Eggs and Egg Products in the Ukrainian 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 produced approximately 1,910 million shell eggs in the first half of 2010 as compared to approximately 1,481 million in the first half of 2009. Avangard continued to expand its production capacity during 2009 bringing the total capacity to 18.9 million 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). The average sales price for Avangard's shell eggs was UAH0.52 in the first half of 2010 (excluding VAT).

See also "—Key Factors Affecting Avangard's Results of Operations—Seasonality".

Animal Feed Segment

Avangard presently uses the majority of the animal feed it produces in its own operations. 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 it produced in some geographical areas to outside buyers in those geographical areas. 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 and 2.9% of Avangard's total revenues in the first half of 2010.

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 and 12.2% of Avangard's total revenues in the first half of 2010. 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 December 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 and 19.6% of Avangard's revenues in the first half of 2010. 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 and 1.7% in the first half of 2010.

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 which are revalued year on year 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 and agricultural produce 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.

The changes in value of biological assets for the period ended 30 June 2010 was U.S.$14,735 thousand as compared to U.S.$14,729 thousand for the period ended 30 June 2009.

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 hen rearing 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 89.75% in 2007 to 68.9% 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, fuel and payroll.

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 ages 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 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 above "—Key Factors Affecting Avangard's Results of Operations—State Support for Agricultural Production in Ukraine—State Subsidies".

Income from Special VAT Treatment

Income from special VAT treatment consists of amounts agricultural companies are entitled to retain as the difference between the input VAT they pay on purchases of goods or services for their agricultural operations and the VAT they charge on the sale of their agricultural products. Such retained amounts can be used for any business purposes of the company. See above "—Key Factors Affecting Avangard's results of Operations—State Support for Agricultural Production in Ukraine-Government VAT refunds for the agricultural industry".

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.

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.

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/Finance Income

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

Financial Expenses/Finance Costs

Avangard's finance expenses/finance costs consist of interest expense on Avangard's bank indebtedness (net of capitalised interest), the cost of finance leases and interest incurred on the CJSC Avangard 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 CIT at a rate of 25% in each of 2007, 2008 and 2009. The CIT rate for 2010 is 25%. To reduce the Group's tax expense, it elects to pay FAT rather than CIT with respect to all eligible subsidiaries. FAT expenses are recorded under general administrative expenses and were not material in any 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 30 June 2010

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 the CIS and the Middle East.

In the third quarter of 2010, trade receivables in the amount of U.S.$68,420 thousand have been paid to the Group by related and unrelated parties.

On 14 July 2010, cash in the amount of U.S.$100,000 thousand, previously held by the Issuer on deposit, was transferred into the current account of the Issuer.

The Group and LLC "Hypo Alpe-Adria-Leasing" entered into finance lease agreements on 6 September 2008 in relation to caging equipment for laying hens. In late 2009 and early 2010 certain of the Group companies defaulted under such finance lease agreements, following which LLC "Hypo Alpe-Adria-Leasing" filed claims for the repayment of the outstanding amounts. Certain of the Surety Providers were parties to such disputes. As of the date of this Prospectus, the Group and LLC "Hypo Alpe-Adria-Leasing" have entered into a number of settlement agreements in relation to the Group's finance lease liabilities owed to LLC "Hypo Alpe-Adria-Leasing" in the aggregate amount of UAH24,466,150 (approximately U.S.$3,093,065). As of 30 September 2010 some, but not all, of the settlement agreements have been approved by the respective commercial courts. Under Ukrainian law amicable settlement agreements must be approved by the commercial courts in order to take effect.

Results of Operations for the years ended 31 December 2007, 2008 and 2009

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	—	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**	**33.7**	**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)**	**1.0**
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.$302,292 thousand in 2008. Avangard's total revenue increased by 136.6% in 2008 from U.S.$127,788 thousand in 2007. 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.

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%**	**302,292**	**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 due to the acquisitions in this period, an increase in exports and an increase in the price of shell eggs in such period driven by increased demand for shell eggs in Ukraine.

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 by 898.4% 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 December 2009 of the egg processing facilities at Imperovo, resulting in the significantly increased scale of operations in this segment.

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 per ton in 2008 and UAH52.69 thousand per ton in 2009. The significant price increase in 2009 was driven by the acquisition of Imperovo in December 2009, which enabled the Group to sell its products at a higher average price, as Imperovo's products were generally of a higher quality than the Group's other products. 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 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, notwithstanding 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 generally 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 increased 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 in 2008 was due to increases in salaries paid to personnel employed at Avangard's production facilities, which were attributable to both the increase in average headcount (from 4,721 in 2007 to 5,366 in 2008) 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	81.9	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	151.0
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 in connection with feed purchases, 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.$79,615 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 81.9% 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 257.4% 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 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 151.0% 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 68.5% 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 due to volume increases, together with a cyclical time-lag between increases in costs of inputs prior to the realisation of 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 processing shell eggs that would otherwise have gone to waste.

The gross profit from Avangard's egg products segment as a percentage of total gross profit was 4.9% in 2009, as compared to a gross loss of 3.3% in 2008.

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. This compared to a gross loss of U.S.$5,459 thousand 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 real salaries and wages of administrative personnel, a decrease in salaries and wages in USD terms due to the fluctuating exchange rate, more stringent cost controls being put in place at the management level and 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 2.2% 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.

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.

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	1.5
Total	**3,086**	**1.0**	**4,429**	**1.4**	**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. As a percentage of total revenue, 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.

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.

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.

Other government grants and incentives include partial compensation of complex agricultural equipment cost which 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 1.2% in 2008 from 2.7% 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	1.1
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.

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.

Other Operating Income

Other operating income increased by 1064.2% in 2009 to U.S.$1,397 thousand from U.S.$120 thousand in 2008. In 2007, other operating income constituted U.S.$255 thousand. In the years under review, Avangard's other operating expenses were higher than its other operating income.

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.$33,160 thousand in 2007. As a percentage of total revenue, operating profit increased to 33.7% in 2008 from 25.9% in 2007. These increases were due to the factors described above and also due to increased sales which exceeded the increase in costs of goods sold, a decrease in cost due to the modernisation of equipment, and the depreciation of the hryvnia in 2009 which led to a decrease in costs of goods sold in U.S.$. and had no effect on the Group's export revenues.

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.$20,868 thousand in 2007. This increase was primarily due to the increased average value of deposits held by the Issuer 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	18.8	56,063	18.5	25,907	20.3
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 Issuer 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 above "—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 18.8% 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 20.3% 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 in 2008. This increase was due to new leases and also the full year expenses of leases entered into in 2008. There were no finance leases in 2007.

Financial expenses in relation to the CJSC Avangard Bonds decreased by 29.3% to U.S.$2,259 thousand in 2009 from U.S.$3,194 thousand in 2008. This decrease was due to the CJSC Avangard Bonds being denominated in hryvnia and the effect of the depreciation of the hryvnia towards the end of 2008. The CJSC Avangard 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.

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.

Results of Operations for the first half year ended 30 June 2009 and the first half year ended 30 June 2010

The following table summarises Avangard's results of operations in the first half of 2009 and in the first half of 2010.

	Half-Year ended 30 June			
	2010		2009	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue
	(U.S.$'000)	(%)	(U.S.$'000)	(%)
Continuing Operations				
Revenue	**165,901**		**98,567**	
Net change in fair value of biological assets	14,735	8.9	14,729	14.9
Cost of sales	**(125,275)**	**(75.5)**	**(72,981)**	**(74.0)**
Gross profit	**55,361**	**33.4**	**40,315**	**40.9**
General administrative expenses	(2,505)	(1.5)	(2,596)	(2.6)
Distribution expenses	(2,436)	(1.5)	(1,433)	(1.5)
Income from government grants and incentives	466	0.3	6,786	6.9
Income/(expenses) from special VAT treatment	9,060	5.5	(603)	(0.6)
Other operating expenses	(2,743)	(1.7)	(5,612)	(5.7)
Operating profit	**57,203**	**34.5**	**36,857**	**37.4**
Other income/(expense), net				
Finance income	15,590	9.4	19,643	19.9
Finance cost	(10,511)	(6.3)	(22,792)	(23.1)
Profit before tax	**62,282**	**37.5**	**33,708**	**34.2**
Income tax expense	(339)	(0.2)	(341)	(0.3)
Profit for the period	**61,943**	**37.3**	**33,367**	**33.9**
Profit for the period attributable to:				
Owners of the parent	60,580	36.5	32,949	33.4
Non-controlling interests	1,363	0.8	418	0.4
	61,943	**37.3**	**33,367**	**33.9**

Revenue

Avangard's total revenue increased by 68.3% to U.S.$165,901 thousand in the first half of 2010 from U.S.$98,567 thousand in the first half of 2009. In the first half of 2010 sales of shell eggs and egg products accounted for approximately 83.2% of Avangard's total revenues.

The following table presents Avangard's revenues by type for operations in the first half of 2009 and in the first half of 2010.

	Half-Year ended 30 June			
	2010		2009	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue
	(U.S.$'000)	(%)	(U.S.$'000)	(%)
Shell eggs	105,442	63.6%	65,747	66.7%
Poultry	20,258	12.2%	22,742	23.1%
Animal feed	4,839	2.9%	9,115	9.2%
Egg products	32,542	19.6%	629	0.6%
Other activities	2,820	1.7%	334	0.3%
Total	**165,901**	**100%**	**98,567**	**100%**

Shell Egg Segment

Avangard's revenues from sales of shell eggs increased by 60.4% to U.S.$105,442 thousand or 63.6% of total revenues in the first half of 2010 from U.S.$65,747 thousand or 66.7% of total revenues, in the first half of 2009. 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 the first half of 2010 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 1,910 million shell eggs in 2010 from approximately 1,481 million shell eggs in the first half of 2009 or by 29%, due to the expanded laying hens flock at rearing facilities which grew from approximately 10.6 million heads as at 30 June 2009 to 13.9 million heads as at 30 June 2010. The weighted average egg price amounted to UAH0.52 per piece in the first half of 2010, a 44.4% increase compared to UAH0.36 in the first half of 2009. In the first half of 2010, the average sales price for Avangard's shell eggs remained high due to increases in exports (although to a certain extent was affected by seasonal price fluctuations typical for this time of the year).

Intersegment sales from the shell egg segment, which were eliminated from the Group's revenues, constituted U.S.$11,556 thousand in the first half of 2010. Such intersegment eliminations were not material in the first half of 2009. The increase in intersegment eliminations was consistent with the expansion of the Group's activities and, in particular, the significant expansion in the Group's egg products segment.

Poultry Segment

Avangard's revenue from sales of poultry decreased by 10.9% to U.S.$20,258 thousand, or 12.2% of total revenues, in the first half of 2010 compared to U.S.$22,742 thousand or 23.1% of total revenues, in the first half of 2009. This decrease in revenue for the sale of poultry was primarily due to a lower quantity of livestock sold (due to the to the Group's decision to cease selling one-day old laying hens to third parties) and a decreased focus by the Group on this segment.

Intersegment sales by the poultry segment, which were eliminated from the Group's revenues, constituted U.S.$925 thousand in the first half of 2010.

Animal Feed Segment

Revenues from the animal feed segment decreased by 46.9% to U.S.$4,839 thousand, or 2.9% of total revenues, in the first half of 2010 compared to U.S.$9,115 thousand, or 9.2% of total revenues, in the first half of 2009. The decrease was primarily due to lower sales to third parties of animal feed due to a decreased focus by the Group on this segment.

Egg Products Segment

Avangard's revenues from the sale of egg products increased to U.S.$32,542 thousand or 19.6% of total revenues in the first half of 2010 from U.S.$629 thousand or 0.6% of total revenues in the first half of 2009. The increase in revenue from such sales was primarily attributable to the consolidation by the Group in December 2009 of the egg processing facilities at Imperovo and the significantly increased scale of operations in this segment which resulted.

The total volume of egg products sold amounted to 203 tons and 4,778 tons in the first half of 2009 and the first half of 2010, respectively. The average sales price for egg products increased from UAH24.65 thousand per ton in the first half of 2009 to UAH54.18 thousand in the first half of 2010. The price increase in the first half of 2010 was driven by the acquisition of Imperovo by the Group in December 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 increased to U.S.$2,820 thousand or 1.7% of total revenues in the first half of 2010 from U.S.$334 thousand or 0.3% of total revenues in the first half of 2009.

Net Change in Fair Value of Biological Assets

The net change in fair value of biological assets increased by 0.04% from U.S.$14,735 thousand in the fist half of 2010 as compared to U.S.$14,729 thousand in the first half of 2009.

Cost of Sales

Avangard's cost of sales increased by 71.7% to U.S.$125,275 thousand or 75.5% of total revenues in the first half of 2010 from U.S.$72,981 thousand or 74% of total revenues in the first half of 2009. This increase was primarily 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 the first half of 2010.

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

	Half-Year ended 30 June			
	2010		**2009**	
	Amount	**Percentage of total revenue**	**Amount**	**Percentage of total revenue**
	(U.S.$'000)	**(%)**	**(U.S.$'000)**	**(%)**
Raw materials	104,248	62.8	55,216	56.0
Payroll of production personnel and related taxes[(1)]	7,772	4.7	7,271	7.4
Depreciation[(2)]	5,949	3.6	5,892	6.0
Services provided by third parties	6,193	3.7	3,632	3.7
Other expenses	227	0.1	3	0
Cost of goods and services sold/rendered	886		967	
Total	**125,275**	**74.9**	**72,981**	**73.1**

The cost of raw materials and other inventory consumed increased by 88.8% to U.S.$104,248 thousand in the first half of 2010 or 62.8% of total revenue from U.S.$55,216 thousand or 56.0% of total revenue in the first half of 2009. 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 the first half of 2010. Raw materials costs as a percentage of total costs of sales increased to 83.8% in the first half of 2010 from 76.7% in the first half of 2009.

Avangard's payroll and related taxes increased by 6.9% to U.S.$7,772 thousand or 4.7% of total revenue in the first half of 2010 from U.S.$7,271 thousand or 7.4% of total revenue in the first half of 2009 primarily due to an increase in the amount of the minimum salary introduced by the state. These expenses constituted 6.2% of Avangard's total cost of sales in the first half of 2010 as compared to 10.1% of Avangard's total cost of sales in the first half of 2009.

Depreciation increased by 1.0% to U.S.$5,949 thousand or 3.6% of total revenue in the first half of 2010 from U.S.$5,892 thousand or 6.0% of total revenue in the first half of 2009.

Services provided by third parties increased by 70.5% to U.S.$6,193 thousand or 3.7% of total revenue in the first half of 2010 from U.S.$3,632 thousand or 3.7% of total revenue in the first half of 2009. This increase was due to increased utility payments consistent with higher production volumes and price increases in Ukraine in this period.

Gross Profit

Gross profit increased by 37.3% to U.S.$55,361 thousand or 33.4% of the total revenue in the first half of 2010 from U.S.$40,315 thousand or 40.9% of the total revenue in the first half of 2009. 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. 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.

General Administrative Expenses

	Half-Year ended 30 June			
	2010		2009	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue
	(U.S.$'000)	(%)	(U.S.$'000)	(%)
Salaries and wages of administrative personnel[1]	1,598	0.96	1,379	1.4
Services provided by third parties	483	0.29	735	0.7
Depreciation[2]	73	0.04	73	0.1
Repairs and maintenance cost	20	0.01	27	0.03
Tax expenses, except for income tax	136	0.08	180	0.18
Material usage	143	0.09	148	0.15
Other expenses	52	0.03	54	0.05
Total	**2,505**	**1.5**	**2,596**	**2.6**

General administrative expenses decreased by 3.5% to U.S.$2,505 thousand or 1.5% of total revenue in the first half of 2010 from U.S.$2,596 thousand or 2.6% of total revenue in the first half of 2009. This decrease was primarily due to decreases in services provided by third parties and other tax expenses.

General administration expenses for salaries and wages of administrative personnel increased by 15.9% to U.S.$1,598 thousand or 0.96% of total revenue in the first half of 2010 from U.S.$1,379 thousand or 1.4% of total revenue in the first half of 2009. The increase was partially due to an increase in the amount of the minimum salary introduced by the state. As a percentage of total general administrative expenses, this represented an increase to 63.8% in the first half of 2010 from 53.1% in the first half of 2009.

Services provided by third parties decreased by 34.3% to U.S.$483 thousand or 0.3% of total revenue in the first half of 2010 from $U.S.735 thousand or 0.7% of total revenue in the first half of 2009. This decrease was due to the reduction in insurance, training and security services provided by third parties as well as differences in currency exchange rates. As a percentage of total general administrative expenses this represented a decrease to 19.3% in the first half of 2010 from 28.3% in the first half of 2009.

Distribution Expenses

	Half-Year ended 30 June			
	2010		2009	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue
	(U.S.$'000)	(%)	(U.S.$'000)	(%)
Salaries and wages of distribution personnel[1]	681	0.4	390	0.4
Transport expenses	1,244	0.7	410	0.4
Depreciation[2]	247	0.15	252	0.3
Services provided by third parties	48	0.03	146	0.15
Packing materials	122	0.07	32	0.03
Repairs and maintenance costs	19	0.01	9	0.01
Other expenses	75	0.05	194	0.2
Total	**2,436**	**1.4**	**1,433**	**1.5**

Distribution expenses increased by 70% to U.S.$2,436 thousand in the first half of 2010 from U.S.$1,433 thousand in the first half of 2009. As a percentage of total revenue, distribution expenses were 1.4% in the first half of 2010 and 1.5% in the first half of 2009. This increase was primarily due to increased salaries and wages of distribution personnel and transport expenses.

Distribution expenses for salaries and wages of distribution personnel increased by 74.6% to U.S.$681 thousand or 0.4% of total revenue in the first half of 2010 from U.S.$390 thousand or 0.4% of total revenue in the first half of 2009. This increase was due to the factors discussed above and increased headcount in this area. As a percentage of total distribution expenses this represented an increase to 28% in the first half of 2010 from 27.2% in the first half of 2009.

Transport expenses increased by 203.4% to U.S.$1,244 thousand or 0.7% of total revenue in the first half of 2010 from U.S.$410 thousand or 0.4% of total revenue in the first half of 2009. This increase was due to increased deliveries by the Group of its products to its customers. As a percentage of total distribution expenses, this represented an increase to 51.1% in the first half of 2010 from 28.6% in the first half of 2009.

Government Grants and Incentives

The table below summarises the government grants and incentives recognised as income by Avangard in the first half of 2009 and in the first half of 2010.

	Half-Year ended 30 June			
	2010		2009	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue
	(U.S.$'000)	(%)	(U.S.$'000)	(%)
Partial compensation of interest payable received by agro- industrial enterprises from financial institutions	79	0.05	3,757	3.8
VAT refunds for development of poultry farming	233	0.1	2,861	2.9
Partial compensation of complex agricultural cost	153	0.1	158	0.2
Other grants	1	0	10	0.01
Total	**466**	**0.3**	**6,786**	**6.9**

Partial compensation of interest payable on loans received by agro-industrial enterprises from financial institutions decreased by 97.9% to U.S.$79 thousand or 0.05% of total revenue in the first half of 2010 from U.S.$3,757 thousand or 3.8% of total revenue in the first half of 2009. This decrease was due to a reduction in the amount allocated in the Ukrainian state budget to such compensation programme. Management believes that amounts may be allocated to such programme later in 2010 and that the Group is then likely to resume the receipt of such compensation.

Total government VAT refunds for the development of poultry keeping decreased by 91.9% to U.S.$233 thousand or 0.1% of total revenue in the first half of 2010 from U.S.$2,861 thousand or 2.9% of total revenue in 2009. Such decrease was due to a lack of funds being available to the Ukrainian Government to pay such amounts in the first half of 2010.

Partial compensation of complex agricultural equipment cost decreased by 3.2% to U.S.$153 thousand or 0.1% of total revenue in the first half of 2010 from U.S.$158 thousand or 0.2% of total revenue in the first half of 2009.

Income from special VAT treatment

Income from special VAT treatment constituted U.S.$9,060 thousand or 5.5% of total revenue in the first half of 2010 compared to expenses of U.S.$603 thousand or 0.6% of total revenue in the first half of 2009 due to an increase in Avangard's sales volumes as compared to purchase volumes in the first half of 2010.

Other Operating Expenses

	Half-Year ended 30 June			
	2010		2009	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue
	(U.S.$'000)	(%)	(U.S.$'000)	(%)
Loss on disposal of current assets	170	0.1	464	0.5
Loss on disposal of non-current assets	19	0.01	26	0.03
Impairments of current assets	258	0.2	181	0.2
Income from accounts payable written off	(18)	(0.01)	(136)	(0.14)
Losses on exchange	14	0.01	537	0.5
Provision for doubtful debts	311	0.2	81	0.08
Fines, penalties recognised	575	0.35	729	0.74
Other expenses	1,414	0.85	3,730	3.78
Total	**2,743**	**1.7**	**5,612**	**5.7**

Other operating expenses decreased by 51.1% in the first half of 2010 to U.S.$2,743 thousand from U.S.$5,612 thousand in the first half of 2009. The main components of that decrease were reductions in fines, penalties, losses on disposal of current assets and reductions in the amount of taxes written off.

Operating Profit

The operating profit of the Group increased by 55.2% to U.S.$57,203 thousand in the first half of 2010 from U.S.$36,857 thousand in the first half of 2009. As a percentage of total revenue operating profit has increased to 34.5% in the first half of 2010 from 37.4% in the first half of 2009. This increase is due to the factors discussed above.

Finance Income

Finance income decreased by 20.6% to the amount of U.S.$15,590 thousand in the first half of 2010 from U.S.$19,643 thousand in the first half of 2009. As a percentage of total revenue, finance income has decreased to 9.4% in the first half of 2010 from 19.9% in the first half of 2009. This decrease was due to a lower average volume of deposits being held in the first half of 2010 than the first half of 2009 because Avangard reduced the average volume of deposits in order to discharge some of its creditor indebtedness and increase its working capital and reduced interest receipts as a result.

Finance Costs

	Half-Year ended 30 June			
	2010		2009	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue
	(U.S.$'000)	(%)	(U.S.$'000)	(%)
Interest payable on loans	16,938	10.2	28,672	29.1
Less interest capitalised	(8,970)	(5.4)	(8,736)	(8.9)
Total financial expenses on loans	7,968	4.8	19,936	20.2
Financial expenses on finance leases	502	0.3	648	0.7
Financial expenses on bonds (interest)	2,041	1.2	2,173	2.2
Other financial expenses	—	—	35	0.04
Total	**10,511**	**6.3**	**22,792**	**23.1**

Finance costs decreased by 53.9% to U.S.$10,511 thousand in the first half of 2010 from U.S.$22,792 thousand in the first half of 2009. This decrease was due to a lower loan portfolio outstanding on average for this period and lower interest payable as a result. As a percentage of total revenue financial expenses decreased to 6.3% in the first half of 2010 from 23.1% in the first half of 2009.

Financial expenses on loans decreased by 41% to U.S.$16,938 thousand or 10.2% of total revenue in the first half of 2010 from U.S.$28,672 thousand or 29.1% of total revenue in the first half of 2009. This decrease was due to a lower loan portfolio outstanding on average for this period.

Interest payable on loans increased by 2.7% to U.S.$8,970 thousand in the first half of 2010 from U.S.$8,736 thousand in the first half of 2009.

Financial expenses on finance leases decreased by 22.5% to U.S.$502 thousand in the first half of 2010 from U.S.$648 thousand in the first half of 2009. This decrease was due to a lower aggregate volume of such leases outstanding.

Financial expenses on bonds decreased by 6.1% to U.S.$2,041 thousand in the first half of 2010 from U.S.$2,173 thousand in the first half of 2009 due to fluctuating exchange rates.

Profit Before Tax

Profit before tax of the Group increased by 84.8% to U.S.$62,282 thousand in the first half of 2010 from U.S.$33,708 thousand in the first half of 2009. As a percentage of total revenue, profit before tax increased to 37.5% in the first half of 2010 from 34.2% in the first half of 2009. This increase was a result of the factors described above.

Profit for the Period

Profit for the period increased to U.S.$61,943 thousand, or 37.3% of total revenues, in the first half of 2010 from U.S.$33,367 thousand, or 33.9% of total revenues, in the first half of 2009, as a result of the factors discussed above.

Other Comprehensive Income (Expense)

Effect of Translation into Presentation Currency

The positive effect of translation into presentation currency in the first half of 2010 was U.S.$3,935 thousand, or 6.35% of the profit for first half of 2010 after tax, which was an increase from U.S.$1,351 thousand in the first half of 2009, or 4.05% of the profit for the first half of 2009, as a result of the stabilisation of the hryvnia against the dollar after a prolonged period of devaluation in 2008.

Total Comprehensive Income

Total comprehensive income increased to U.S.$65,878 thousand, or 39.7% of total revenues, in the first half of 2010 from U.S.$34,718 thousand, or 35.2% of total revenues, in the first half of 2009, as a result of the factors discussed above.

Liquidity and Capital Resources for the years ended 31 December 2007, 2008 and 2009

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.$90,703 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 increases 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, respectively, 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 CJSC Avangard 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.$54,192 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 CJSC Avangard 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.$177,800 thousand, U.S.$117,997 thousand and U.S.$85,973 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.

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 Statements.

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 CJSC Avangard Bonds in an aggregate amount of UAH200 million (U.S.$25,974 thousand). The CJSC Avangard 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 CJSC Avangard 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 CJSC Avangard 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 CJSC Avangard Bonds early in accordance with the terms and condition of the CJSC Avangard Bonds.

CJSC Avangard's obligations under the CJSC Avangard 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 "**Bond Surety**"). The suretyship agreements entered into among CJSC Avangard and the Bond Surety (the "**Bond Suretyship Agreement**") secure the whole amount of the CJSC Avangard Bonds issuance and the amount of interest accrued thereunder. The Bond Suretyship Agreement provides for the joint liability of the Bond 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 Issuer'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.

Liquidity and Capital Resources for the first half year ended 30 June 2009 and the first half year ended 30 June 2010

Cash Flows

The following is a summary of Avangard's cash flows in the first half of 2009 and in the first half of 2010:

	Half-Year ended 30 June	
	2010	2009
	(U.S.$'000)	(U.S.$'000)
Net cash generated from/(used in) operating activities	17,932	(52,042)
Net cash generated (used in)/from investing activities	(122,237)	39,888
Net cash generated by financing activities	208,472	8,434
Effect of translation into presentation currency	(270)	(647)
Net increase/(decrease) in cash	**103,897**	**(4,367)**

Net Cash Generated From (Used In) Operating Activities

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

	Half-Year ended 30 June	
	2010	**2009**
	(U.S.$'000)	**(U.S.$'000)**
Operating profit before working capital changes	48,740	27,507
Increase in trade receivables	(41,362)	(69,027)
Decrease/(increase) in prepayments and other current assets	8,894	(18,132)
Decrease in taxes recoverable and prepaid	4,208	27,209
Increase in inventories	(6,717)	(23,486)
(Decrease)/increase in deferred income	(13)	61
(Increase)/decrease in other non-current assets	(13)	148
Increase in trade payables	18,016	56,565
Decrease in biological assets	4,585	1,467
Decrease in advances received and other current liabilities	(8,575)	(36,230)
Cash generated from operations	**27,763**	**(33,918)**
Interest paid	(9,831)	(18,113)
Income taxes paid	(1)	(11)
Net cash generated from (used in) operating activities	**17,932**	**(52,042)**

Net cash generated from operating activities was U.S.$17,932 thousand and net cash used in operating activities was U.S.$(52,042) in the first half of 2010 and the first half of 2009, respectively. The increased amount of net cash generated from operating activities was due to factors including the acceleration of inventories turnover, decrease in advance tax payments and indemnifiable tax, decrease in prepayments made and increase in trade payables.

Net Cash Used In Investing Activities

Net cash used in investing activities was U.S.$(122,237) thousand as compared to U.S.$39,888 generated from investing activities in the first half of 2009 and the first half of 2010, respectively. This difference was due to increased purchases of property, plant and equipment in 2010 as well as the placing of a significant amount of money on bank deposits in this period.

In the first half of 2010, Avangard's investments into property, plant and equipment were U.S.$(20,819) thousand, while bank deposits constituted U.S.$(101,418) thousand.

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

Net Cash Generated From (Used In) Financing Activities

	Half-Year ended 30 June	
	2010	**2009**
	Amount (U.S.$'000)	**Amount (U.S.$'000)**
New loan received	9,150	10,341
Repayment of loans	(412)	(1,379)
Interest paid for bonds issued	(1,621)	(61)
Repayment of short-term bonds issued	—	(467)
Increase in share capital	191	—
Increase in share capital	201,164	—
Net cash generated by financing activities	**208,472**	**8,434**

Net cash generated by financing activities was U.S.$8,434 thousand and U.S.$208,472 thousand in the first half of 2009 and in the first half of 2010, respectively. In the first half of 2010, Avangard decreased its reliance on borrowed capital through the results of the Issuer's offering of global depositary receipts.

Capital Expenditures

Avangard's capital expenditures in the first half of 2009 and in the first half of 2010 are summarised in the following table:

	Half-Year ended 30 June	
	2010	2009
	(U.S.$'000)	(U.S.$'000)
Type of Capital Expenditure(1)(2)		
Land acquisition	—	—
Buildings and structures	189	6,615
Machinery and equipment	102	2,513
Equipment for biological assets	2	229
Vehicles	103	67
Other equipment	31	67
Assets under construction and uninstalled equipment	11,042	10,183
Total	**11,469**	**19,674**

Avangard's total investments into fixed assets amounted to U.S.$19,674 thousand and U.S.$11,469 in the first half of 2009 and in the first half of 2010, respectively.

The amounts of investments into unfinished construction and uninstalled equipment in the first half of 2009 and in the first half of 2010 were related primarily to the Avis and Chornobaivske egg production complexes.

Assets pledged as security

As at 30 June 2010, Avangard had pledged assets with a carrying value of U.S.$526,346 thousand as security for long- and short-term loans of the Group's companies (comprising non-current assets of U.S.$322,663 thousand and current assets of U.S.$203,683 thousand).

Pursuant to a pledge agreement dated 5 July 2007 (the "**Pledge Agreement**") and a mortgage agreement dated 4 July 2007 (the "**Mortgage Agreement**" and, together with the Pledge Agreement, the "**Security Agreements**"), entered in to between OJSC VTB Bank ("**VTB Bank**") and Pershe Travnya, Pershe Travnya agreed to secure the fulfilment of the obligations of OJSC "Agromash-IF" ("**Agromash**") under a loan agreement in the amount of U.S.$10 million entered into between VTB Bank and Agromash on 4 July 2007.

The security is currently the subject of litigation between VTB Bank and Pershe Travnya. See "Description of the Issuer—Legal Proceedings".

On 11 February 2010, following a tax claim filed by the Ukrainian tax authorities against Bohodukhivska, a court imposed a tax lien on all of Bohodukhivska's assets. The aggregate amount of the tax debt owed by Bohodukhivska and subject to the tax lien is UAH699,374.37 (approximately U.S.$88,416.48). As of the date of this Prospectus, the Tax Debt has been repaid in full, and management of Bohodukhivska anticipates that following such payment the tax authorities will take the necessary procedural steps to release the assets of Bohodukhivska from the Tax Lien. See "Risk Factors—Risks Relating to Avangard—The tax lien over Bohodukhivska may adversely affect the ability of Bohodukhivska to perform under the Surety Agreement".

All of the assets of each of Yuzhnaya-Holding, SC Yuzhnaya-Holding, Pershe Travnya, Ptytsecomplex, Rohatyn-Korm, Volnovaskyi KHP, Vuhlehirskyi and Kamyanets-Podilsky are encumbered with public pledges imposed on the basis of court decisions. The aggregate amount of the obligations of the above companies secured under the public pledges is UAH5,190,968.26 (approximately U.S.$656,253.89). See "Risk Factors—Risks Relating to Avangard—Public pledges over the assets of certain Group companies may adversely affect the Issuer's business".

In addition, Avangard's bank deposits with PJSC "Commercial Bank "Finansova Initsiatyva" are pledged in favour of the bank to secure Avangard's obligations under its loan agreements with PJSC "Commercial Bank "Finansova Initsiatyva".

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 Statements, 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**

Financial assets	30 June 2010	31 December 2009	30 June 2010
	(U.S.$'000)	(U.S.$'000)	(U.S.$'000)
Cash and cash equivalents	105,625	1,727	1,446
Long-term deposits	28	504	4,229
Short-term deposits	297,223	155,917	238,089
Trade accounts receivable, net	88,868	47,320	84,721
Loans to related parties	2,717	4,320	108,451
Interest receivable for deposits	15,561	39,411	19,190
Accounts receivable for bonds	—	—	25,937
Total	**510,022**	**249,199**	**482,063**

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 fulfilment 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**

	30 June 2010 (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 value of trade accounts receivable	60,108	10,400	4,339	3,811	979	—	9,231	**88,868**

	30 June 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 value of trade accounts receivable	14,227	13,852	5,454	7,151	9,101	2	34,934	**84,721**

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	47,320	—	—	—
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)	—	—	—
CJSC Avangard Bonds coupon profit payable	(2,055)	(2,055)	—	—	—
Other accounts payable	(7,421)	(7,421)	—	—	—
Total	**(110,091)**	**9,289**	**(28,877)**	**(90,502)**	**—**
31 December 2008:					
Bank deposits	282,622	510	232,761	49,351	—
Trade accounts receivable, net	15,593	15,593	—	—	—
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)	—	—	—
CJSC Avangard Bonds coupon profit payable	(2,039)	(2,039)	—	—	—
Other accounts payable	(123,947)	(123,947)	—	—	—
Total	**(516,775)**	**(202,286)**	**(163,971)**	**(150,518)**	**—**

	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	47,954	—	—	—
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)**	**(124,498)**	**(115,237)**	**(79,937)**	**(21)**

	30 June 2010				
	Carrying value	Less than 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
			(U.S.$'000)		
Bank deposits	297,251	100,000	197,223	28	—
Trade accounts receivable	88,868	88,868	—	—	—
Financial assistance issued	2,717	2,717	—	—	—
Cash and cash equivalents	105,625	105,625	—	—	—
Other non-trading accounts receivable	2,417	2,417	—	—	—
Interest receivable for deposits	15,561	15,561	—	—	—
Bank loans	(226,078)	(6,964)	(120,373)	(98,741)	—
Trade accounts payable	(86,016)	(86,016)	—	—	—
Financial assistance received	(15,250)	(15,250)	—	—	—
Finance lease (including VAT)	(7,240)	—	(2,073)	(5,167)	—
Current liabilities for bonds	(24,488)	—	(24,488)	—	—
Accounts payable for property, plant and equipment	(7,762)	(7,762)	—	—	—
Interest payable	(6,969)	(6,969)	—	—	—
Bonds coupon profit payable	(2,052)	(2,052)	—	—	—
Other accounts payable	(6,735)	(6,735)	—	—	—
Total	**129,849**	**183,440**	**50,289**	**(103,880)**	**—**

	30 June 2009				
	Carrying value	Less than 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
	(U.S.$'000)				
Bank deposits	242,318	—	238,089	4,229	—
Trade accounts receivable	84,719	84,719	—	—	—
Financial assistance issued	108,451	108,451	—	—	—
Cash and cash equivalents	1,446	1,446	—	—	—
Other non-trading accounts receivable	2,748	2,748	—	—	—
Accounts receivable for bonds	25,937	25,937	—	—	—
Interest receivable for deposits	19,190	19,190	—	—	—
Bank loans	(471,807)	(131)	(236,026)	(236,026)	—
Trade accounts payable	(76,958)	(76,958)	—	—	—
Financial assistance received	(241,929)	(60,481)	(181,448)	—	—
Finance lease (including VAT)	(9,673)	—	(2,170)	(7,503)	—
Current liabilities for bonds	(26,376)	—	(25,376)	—	—
Accounts payable for property, plant and equipment	(9,618)	(9,618)	—	—	—
Interest payable	(2,750)	(2,750)	—	—	—
Bonds coupon profit payable	(4,184)	(4,184)	—	—	—
Other accounts payable	(4,850)	(4,850)	—	—	—
Total	**(363,336)**	**83,519**	**(206,931)**	**(239,300)**	**—**

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	—	—	**1,614**
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	231,857	**237,406**

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	—	19,571	**20,529**
Accounts payable for property, plant and equipment	866	221	—	8,025	**9,112**
Net exposure to foreign currency risk	**2,312**	**504**	**2,146**	**392,919**	**397,881**

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	—	—	—	—	**—**
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**

	30 June 2010				
	USD	EUR	CHF	UAH	Total
		(in conversion to U.S.$'000)			
Short-term bank deposits	(100,000)	—	—	(197,223)	**(297,223)**
Long term bank loans	—	—	1,545	195,237	**196,782**
Short-term bank loans	725	—	—	27,450	**28,175**
Trade accounts payable	203	1,109	—	84,704	**86,016**
Trade accounts receivable, net	—	(11,733)	—	(77,135)	**(88,868)**
Accounts payable for property, plant and equipment	—	1,265	—	6,497	**7,762**
Net exposure to foreign currency risk	**(99,072)**	**(9,359)**	**1,545**	**39,530**	**(67,356)**

	30 June 2009				
	USD	EUR	CHF	UAH	Total
		(in conversion to U.S.$'000)			
Long term bank loans	—	—	1,774	247,569	**249,343**
Short-term bank loans	738	—	—	220,564	**221,302**
Trade accounts payable	1,422	300	—	72,623	**74,345**
Accounts payable for property, plant and equipment	—	920	—	2,109	**3,029**
Net exposure to foreign currency risk	**2,160**	**1,220**	**1,774**	**542,865**	**548,019**

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)

Effect in USD thousand:

	30 June 2010	
	Increase in currency rate against UAH	Effect on profit before tax
	Effect in U.S.$ '000:	
USD	15%	14,861
EUR	10%	936
CHF	10%	(154)

Effect in USD thousand:

	30 June 2009	
	Increase in currency rate against UAH	Effect on profit before tax
	Effect in U.S.$ '000:	
USD	15%	(324)
EUR	10%	(122)
CHF	10%	(177)

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	156,421	233,271	144,990
Financial liabilities	(247,194)	(394,156)	(315,611)
Instruments with variable interest rate			
Financial assets	—	—	—
Financial liabilities	8,199	(10,681)	—

	30 June 2010	30 June 2009
	(U.S.$'000)	(U.S.$'000)
Instruments with fixed interest rate		
Financial assets	297,250	242,319
Financial liabilities	(250,566)	(497,183)

	30 June 2010	30 June 2009
	(U.S.$'000)	(U.S.$'000)
Instruments with variable interest rate		
Financial assets	—	—
Financial liabilities	(7,240)	(9,673)

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 Statements 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 29.5%, 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**

	Carrying amount		
	31 December 2009	31 December 2008	31 December 2007
	(U.S.$'000)	(U.S.$'000)	(U.S.$'000)
Share capital	644	644	3
Capital contribution reserve	—	—	—
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	**244,697**	**118,503**	**91,792**
Total amount of equity and net debt	**347,268**	**339,440**	**350,163**
Financial leverage coefficient	**29.5%**	**65.1%**	**73.8%**

Carrying value	**30 June 2010**	**30 June 2009**
	(U.S.$'000)	(U.S.$'000)
Short-term loans	43,425	463,233
Long-term loans	80,653	235,650
Current portion of long-term loans	117,250	14,855
Long-term finance lease (including VAT)	5,167	7,503
Current portion of non-current liabilities for finance lease (including VAT)	2,073	2,170
Total amount of borrowing costs	**273,056**	**748,787**
Cash and cash equivalents	105,625	1,446
Deposits	297,250	242,319
Financial assistance issued	2,717	108,451
Accounts receivable for bond	—	25,937
Net debt	**(132,536)**	**370,634**
Share capital	835	644
Share premium	317,021	—
Retained earnings	360,883	201,098
Effect from translation into presentation currency	(60,199)	(55,343)
Minority interest	9,446	6,817
Total equity	**627,986**	**153,216**
Total amount of equity and net debt	**495,450**	**523,850**
Financial leverage coefficient	**(26.8)%**	**70.8%**

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

	Year ended		
	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**

For the 6 months ended 30 June 2010, the ratio of net debt to EBITDA was:

	6 months ended	
Carrying value	**30 June 2010**	**30 June 2009**
	(U.S.$'000)	**(U.S.$'000)**
PROFIT/(LOSS) FOR THE PERIOD	61,943	33,367
Income tax income/expenses	339	341
Financial income	(15,590)	(19,643)
Financial expenses	10,511	22,792
EBIT (earnings before interest and income tax)	**57,203**	**36,857**
Depreciation	6,295	6,218
EBITDA (earnings before interest, income tax, depreciation and amortisation)	**63,498**	**43,075**
Net debt at period end(1)	(132,536)	370,634
Net debt at the period end/EBITDA(2)	**(2.1)**	**8.6**

(1) Net debt at period end excluding proceeds from IPO was U.S.$68,628 thousand for the six months ended 30 June 2010.
(2) Net debt at period end excluding proceeds from the IPO/last twelve months EBITDA was 0.4.

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 "Description of the Issuer—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 Statements. 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 Statements.

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.

DESCRIPTION OF THE ISSUER

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. According to Pro-Consulting, in the first half of 2010, Avangard had an estimated domestic market share of the industrially produced shell eggs market of approximately 40% and an estimated domestic market share of the dry egg products market of approximately 78%. 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. As of 30 June 2010, Avangard's flock consisted of 18,670 thousand birds, as compared to 15,984 thousand as of 30 June 2009.

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 the first half of 2010, Avangard had revenues of U.S.$165,901 thousand and net profit of U.S.$61,943 thousand. In that period, shell egg sales accounted for approximately 63.6% and egg products sales accounted for approximately 19.6% of Avangard's revenues, while poultry sales accounted for approximately 12.2% 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. As of 30 June 2010, Avangard's total assets were U.S.$1,122,689 thousand as compared to assets of U.S.$1,088,955 thousand as of 30 June 2009.

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. Avangard produced approximately 1,910 million shell eggs in the first half of 2010 as compared to approximately 1,481 million in the first half of 2009. 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. Avangard and Ovoline are related parties which conduct all transactions on market terms. In the first half of 2010, approximately 14% (U.S.$14,535 thousand) of Avangard's shell eggs were sold for export, approximately 78% (U.S.$82,188 thousand) were sold to domestic wholesale customers, approximately 1% (U.S.$1,050 thousand) were sold to Ovoline and approximately 7% (U.S.$7,669 thousand) were sold to supermarket chains and other retailers.

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. In the first half of 2010, approximately 23% (U.S.$7,346 thousand) of Avangard's egg products were sold for export and approximately 77% (U.S.$25,196 thousand) were sold domestically.

All of Avangard's export sales of shell eggs are made through a related party intermediary, Myaso Prykarpattya LLC. Most of Avangard's export sales of egg products are also made through the same related party intermediary, but beginning in 2010, Avangard began to make some export sales of egg products directly. Avangard intends to make all export sales of shell eggs and egg products directly by the end of 2011.

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. According to Pro-Consulting, in the first half of 2010, Avangard had an estimated domestic market share of the industrially produced shell eggs market of approximately 40% and an estimated domestic market share of the dry egg products market of approximately 78%. 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.$10,315 thousand) of its egg products. In the first half of 2010, export sales of shell eggs accounted for approximately 14% (U.S.$ 14,535 thousand) of its shell egg sales and of egg products for approximately 23% (U.S.$7,346 thousand) of its egg products sales. All of Avangard's export sales of shell eggs are made through a related party intermediary, Myaso Prykarpattya LLC. Most of Avangard's export sales of egg products are also made through the same related party intermediary, but beginning in 2010, Avangard began to make some export sales of egg products directly. Avangard intends to make all export sales of shell eggs and egg products directly by the end of 2011. Some of Avangard's establishments are currently liaising with Ukrainian state authorities in order to be accredited to sell egg products into the EU. An initial inspection was made by the EU authorities in May 2010 and a further inspection is anticipated by the end of 2010. 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. Avangard also benefits from the expertise of the Chairman of the Board of the Issuer who oversees the strategic development of the Group. Although the Issuer was incorporated only recently, the majority of Avangard's enterprises have conducted their operations for more than 10 years. Avangard's centralised 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:

- ***Expanding export of shell eggs and egg products.*** Avangard aims to strongly increase its export sales. 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 other CIS countries. 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 and the private sector body GLOBALGAP, as well as 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 intends to capitalise on the opportunities created by the European Council Directive 99/74/EC on the welfare of laying hens, which Management believes may decrease the production capacities of European egg producers, due to the expected increase in these producers' maintenance costs as they are required to implement the directive by 1 January 2012 (although any such competitive advantage may not accrue if Avangard itself is required to comply with such requirements). 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).

- ***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 Overview—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 30 June 2010, Avangard had a total production capacity of 18.9 million laying hens capable of producing approximately 5.2 billion 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 30 June 2010 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—New Production Facilities" below, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources for the years ended 31 December 2007, 2008 and 2009—Capital Expenditures" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources for the first half year ended 30 June 2010 and the first half year ended 30 June 2010—Capital Expenditures".

- ***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 which are each expected to have a fodder mill. 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' and brands 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. In the first half of 2010, sales to supermarkets and other retailers increased to 7% (as compared to 2% in the first half of 2009) of total sales and currently Avangard supplies its shell eggs to all leading supermarkets in Ukraine, including Furshet, Fozzi, ATB, Ashan, Velyka Kyshenya, Pakko, Karavan, Eco, Tavriya, Ukrainsky Retail, Kray, Evrotek, Amstor and Target.

- ***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 5 registered trademarks for its shell eggs and egg products. Avangard intends to continue to focus its marketing efforts on enhancing the value of its trademarks. Management believes that its trademarks are perceived as representing high quality and reliability thereby helping to support Avangard's pricing strategy. In the second half of 2010, Avangard is launching a new trademark for shell eggs "Kvochka".

- ***Expansion into neighbouring countries through acquisitions.*** 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 neighbouring EU countries, 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 Issuer 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,

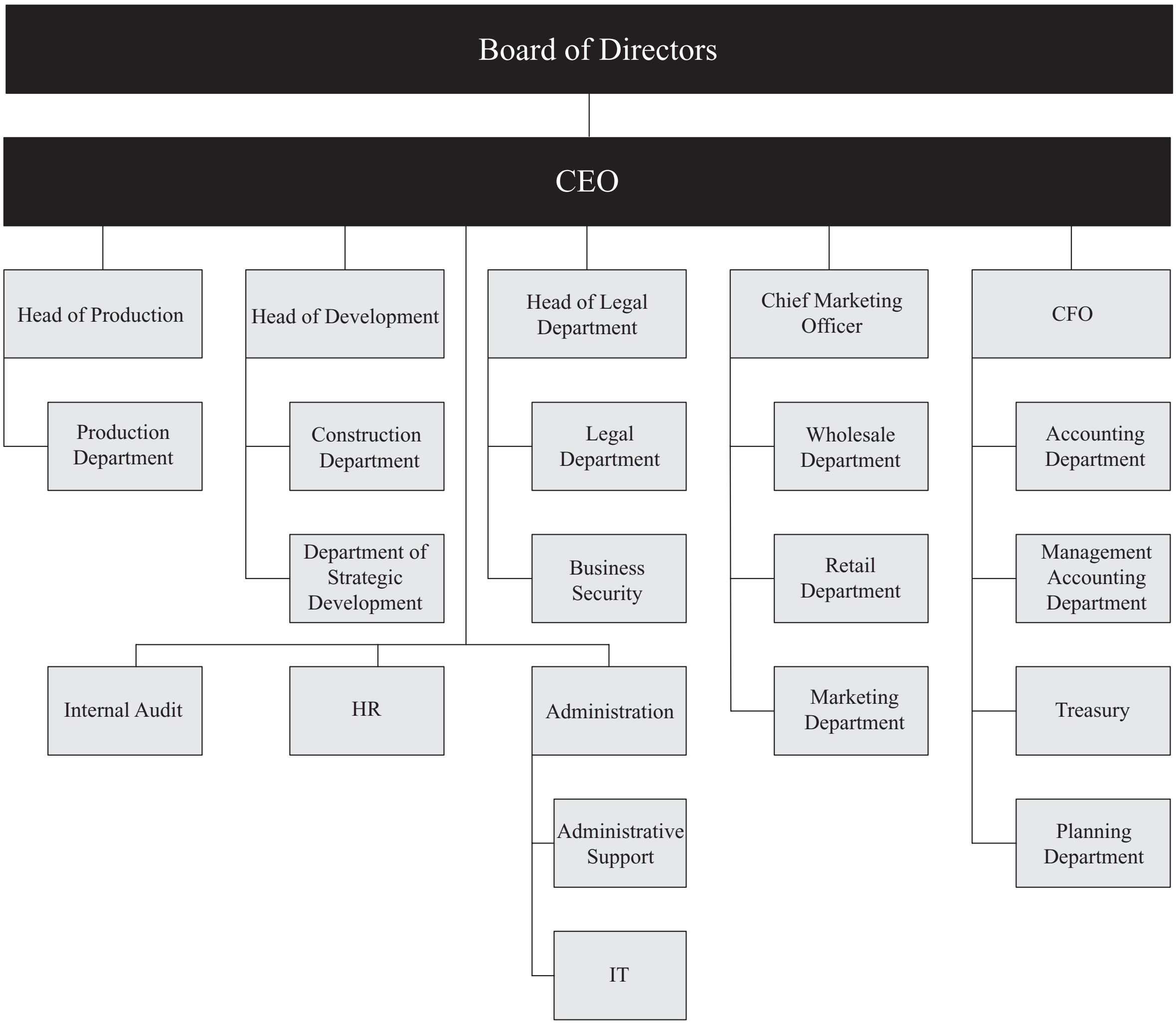
which allowed Avangard to increase its long-term storage of shell eggs to 180 days. Avangard concentrated its efforts on the construction of the Avis and Chornobaivske egg production complexes. Avangard obtained concentration approvals for the consolidation of most of the Group companies.

2009 The Imperovo egg processing plant joined the Group.

2010 The Issuer's general depositary receipts were admitted to trading on the main market of the London Stock Exchange.

Organisational Structure

The Issuer 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—Information Relating to the Issuer's Subsidiaries". 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. Shell eggs and egg products accounted respectively for approximately 63.6% and 19.6% of Avangard's revenues from continuing operations in the first half of 2010. 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%**

The following table presents Avangard's revenues by type for operations in the first half of 2009 and in the first half of 2010.

	Half-Year ended 30 June			
	2010		2009	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue
	(U.S.$'000)	(%)	(U.S.$ '000)	(%)
Shell eggs	105,442	63.6%	65,747	66.7%
Poultry	20,258	12.2%	22,742	23.1%
Animal feed	4,839	2.9%	9,115	9.2%
Egg products	32,542	19.6%	629	0.6%
Other activities(1)	2,820	1.7%	334	0.3%
Total revenue from continuing operations	**165,901**	**100%**	**98,567**	**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 revenues in 2009, 74.7% in 2008 and 68.4% in 2007. Avangard's sales of shell eggs accounted for 63.6% of total revenues in the first half of 2010. 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, "extra" class, class "A", table eggs, class "B", cooled, and for industrial purposes—"used for processing", 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°C and not lower than 0°C. Shell eggs with a shelf life of more than 7 days are classified as follows:

Egg class	Shelf life (excluding the day of production)	Temperature of storage	Comments
Extra	9 days	Between 5°C and 15°C	Can be exported
Class "A"	28 days	Between 5°C and 15°C	Can be exported
Table	25 days	Between 0°C and 20°C	Can be exported
Class "B"	25 days	Between 0°C and 20°C	-
Cooled	90 days	Between -2°C and 0°C	Stored in refrigerators
For industrial purposes	Designated as such not later than 1 day after being laid		

Depending on their weight, shell eggs are divided into 5 categories: premium, supreme, first, second and small.

Category	1 shell egg weight, grams	10 shell eggs' weight, not less than, grams	360 shell eggs' weight, not less than, kilograms
Premium or XL	73 and more	735	26.5
Supreme or L	63-72.9	640	23.0
First or M	53-62.9	540	19.4
Second or S	45-52.9	460	16.6
Small	35-44.9	360	13.0

Note: small eggs can only be of cooled or table category. Eggs weighing less than 35 grams cannot be sold in retail.

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 20°C for no longer than 6 months and at a temperature of 2°C 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 is considering launching a line for the production of liquid egg products in the future.

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

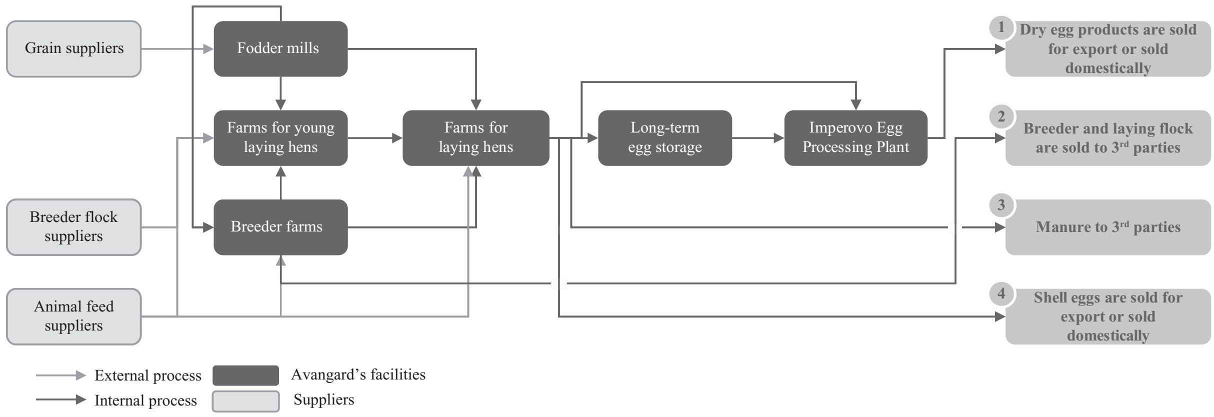
Avangard presently uses the majority of the animal feed it produces in its own operations. Surplus animal feed is sold to third parties. In 2009, Avangard was able to produce approximately 75% of its animal feed needs, purchasing the remaining amount from third party suppliers while simultaneously selling excess animal feed it produced in some geographical areas to outside buyers in those geographical areas.

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. Avangard produced approximately 1,910 million shell eggs in the first half of 2010 as compared to approximately 1,481 million in the first half of 2009.

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 30 June 2010, 100% of Avangard's breeder flock and approximately 91% 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 cockerels 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 30 June 2010, 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. As of 30 June 2010, Avangard maintained 151.3 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. As a result of Avis putting into operation its facilities for growing young laying hens in the first half of 2010, as of 30 June 2010 Avangard's farms for growing young laying hens had an indicative capacity for the simultaneous maintenance of 5,720.6 thousand young laying hens. The table below sets forth certain information on Avangard's principal farms for young laying hens. As of 30 June 2010, Avangard maintained 4,563.7 thousand heads of 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 farms for laying hens 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 30 June 2010, Avangard maintained approximately 13,955 thousand laying hens. As of 30 June 2010, 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)[3]
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 December 2009.
(2) Date when latest construction/renovation works took place.
(3) As of 30 June 2010.

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 30 June 2010.

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 60 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 entered into agreements with "Andriz Feed & Biofuel A/S" and "Buhler AG" for the supply of the equipment for its new fodder facilities, with "Meyn" for the supply of the equipment for its new slaughter facilities, with "MOBA" for the supply of egg sorting equipment and with "VadoGroup" and "GHD USA" for the supply of the equipment for its biogas plants. Avangard has almost completed the construction of facilities for young laying hens at Avis. 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 for the years ended 31 December 2007, 2008 and 2009—Capital Expenditures" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources for the first half year ended 30 June 2010 and the first half year ended 30 June 2010—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 tons and 443 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. It remained at the same level as of 30 June 2010.

(3) Imperovo was not acquired by the Group until December 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 considering launching a line for the production of liquid egg products at Imperovo in the future. 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 and 5,133 tons in the first half of 2010.

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 30 June 2010.

(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 requirements of 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—Regulation of Ukrainian Egg Industry—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 and a Food Safety Management System. 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". 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). During the first half of 2010, Avangard sold its products to the following countries: Jordan, Turkey, Saudi Arabia, Kuwait, Indonesia, Thailand, South Korea, Oman, Moldova, Pakistan, Georgia, Iraq, Kazakhstan and Syria.

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 Ukrainian 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.

The EU's Food and Veterinary Office carried out a mission in Ukraine in order to evaluate the control systems in place governing, amongst other things, egg products for potential export to the EU. Pursuant to the final report issued by the European Commission's Health and Consumers Directorate—General, according to the SCVM, at present Ukraine neither has farms for laying hens, nor egg packing centres, whose situation is in full compliance with EU requirements. On this basis, the SCVM currently decided not to approve egg products establishments for EU exports, unless raw materials (i.e. shell eggs) to be processed for EU exports are imported from EU member states.

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 of the deadline for the implementation of the directive, largely because of concerns that EU producers will not have sufficient time or resources to implement the directive by 1 January 2012, but also in part due to concerns about competition from imported products not subject to the same higher standards. The request was rejected by the European Commission. Avangard believes that implementation of the directive 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. According to Pro-Consulting, in the first half of 2010, Avangard had an estimated market share of 80% of shell egg exports from Ukraine, compared to 73% in 2009. 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. In the first half of 2010, approximately 14% (U.S.$14,535 thousand) of Avangard's shell eggs were sold for export, approximately 78% (U.S.$82,188 thousand) were sold to domestic wholesale customers, approximately 1% (U.S.$1,050 thousand) were sold to Ovoline and approximately 7% (U.S.$7,669 thousand) were sold to supermarket chains and other retailers. Avangard continues to strengthen its existing export customer base.

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			Half-Year ended 30 June
Sales Channel	**2007** (%)	**2008** (%)	**2009** (%)	**2010** (%)
Sale for export	—	—	11	14
Wholesale customers (for subsequent resale)	84	62	83	78
Ovoline	16	38	4	1
Supermarkets and other retailers	—	—	2	7
Total	**100**	**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. 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. In the first half of 2010, the majority of Avangard's export sales of shell eggs were made to Iraq, Syria and Kazakhstan. Avangard has historically conducted all of its exports sales of shell eggs via a related intermediary company, LLC Myaso Prykarpattya.

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. In the first half of 2010, sales to supermarkets and other retailers increased to 7% of total sales. 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. 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 its national brand for its shell eggs "Kvochka" in the second half of 2010. In addition, Avangard intends to develop `private labels' in collaboration with some supermarket chains. Currently Avangard supplies its shell eggs to all leading supermarkets in Ukraine, including Furshet, Fozzi, ATB, Ashan, Velyka Kyshenya, Pakko, Karavan, Eco, Tavriya, Ukrainsky Retail, Kray, Evrotek, Amstor and Target. Most of the sales to supermarkets and other retailers were made via Ovoline.

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. In the first half of 2010 sales to wholesale purchasers decreased due to an increase in sales to supermarkets and other retail chains (from 2% in the first half of 2009 to 7% in the first half of 2010).

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 (including to large multinational corporations, such as Nestlé). According to Pro-Consulting, in the first half of 2010, Avangard had an estimated market share of 94% of dry egg product exports from Ukraine, compared to 86% in 2009. 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 are made through a related party intermediary.) In the first half of 2010, approximately 23% (U.S.$7,346 thousand) of Avangard's egg products were sold for export and approximately 77% (U.S.$25,196 thousand) were sold domestically.

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. All of Avangard's export sales of shell eggs are made through a related party intermediary, Myaso Prykarpattya LLC. Most of Avangard's export sales of egg products are also made through the same related party intermediary, but beginning in 2010, Avangard began to make some export sales of egg products directly. Avangard intends to make all export sales of shell eggs and egg products directly by the end of 2011. In the first half of 2010, the majority of Avangard's export sales of egg products were made to Jordan, Saudi Arabia and Indonesia.

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.

In the first half of 2010 Avangard sold its egg products for export to Jordan, Turkey, Saudi Arabia, Kuwait, Indonesia, Thailand, South Korea, Oman, and also commenced sales of egg products to Pakistan.

From 1 July 2010, the Russian Federation lifted its ban on imports of agricultural products from Ukraine. However, only Ukrainian companies that have been certified by the relevant Russian authorities may export their agricultural products to Russia. Avangard intends to apply for such registration shortly and hopes to commence sales of egg products to Russia in 2011.

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".

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. The Issuer plans to increase its advertising expenses due to the introduction of a national brand for shell eggs "Kvochka" in the second half of 2010.

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.

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 the purchase of breeder flocks accounted for approximately 0.3% of Avangard's cost of sales in the first half of 2010. 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 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 held the constituent meeting of the new limited liability company Imperovo LTD on 17 September 2010 and filed the necessary documents with the Ivano-Frankivsk registrar of companies.

Avangard's Ukrainian corporate headquarters building is located at Shchorsa street 7/9 in Kyiv and belongs to Imperovo.

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. 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 technological processes used for food production 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. Furthermore, any extraction of ground waters from a source which belongs to the Ukrainian State Fund of Deposits of Minerals requires a licence for minerals extraction. 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. The Issuer does not require licences for minerals extraction. 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 as 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 five 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 as 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 established by regulation of the CMU of 1 March 1999, as amended. 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 prohibits the use of genetically modified materials ("**GMM**") only for the production 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. See "Certain Regulatory Matters—Antimonopoly Laws".

Other than as 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 five 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, the "Imperovo" trademark owned by Imperovo and the "Kvochka" trademark owned by Volnovaska. 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 Disease, Marek's Disease 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.

Legal Proceedings with VTB

Litigation is currently pending between Pershe Travnya and VTB Bank. Pursuant to the Pledge Agreement and the Mortgage Agreement entered into between Pershe Travnya and VTB Bank, Pershe Travnya agreed to secure the fulfilment of obligations of Agromash under the loan agreement for the amount of U.S.$10 million entered into between VTB Bank and Agromash on 4 July 2007. Agromash is not a member of the Group, but is a related party. On 30 April 2010 Pershe Travnya filed a lawsuit in order to invalidate the Security Agreements based on the lack of due corporate approvals of Pershe Travnya for entering into the Security Agreements. In addition, VTB Bank filed a lawsuit against Pershe Travnya for the enforcement of collateral under the Mortgage Agreement securing the debt in the aggregate amount of UAH70,829,100 (approximately U.S.$8,954,374) (the "**Collateral**"). Furthermore, in December 2009, VTB Bank filed a lawsuit against Pershe Travnya for the placement of the Collateral under its administration. All cases are subject of ongoing proceedings.

Legal Proceedings with LLC "Hypo Alpe-Adria-Leasing"

The Group and LLC "Hypo Alpe-Adria-Leasing" entered into finance lease agreements on 6 September 2008 in relation to caging equipment for laying hens. In late 2009 and early 2010 certain of the Group companies defaulted under such finance lease agreements, following which LLC "Hypo Alpe-Adria-Leasing" filed claims for the repayment of the outstanding amounts. Certain of the Surety Providers were parties to such disputes. As of the date of this Prospectus, the Group and LLC "Hypo Alpe-Adria-Leasing" have entered into a number of settlement agreements in relation to the Group's finance lease liabilities owed to LLC "Hypo Alpe-Adria-Leasing" in the aggregate amount of UAH24,466,150 (approximately U.S. $3,093,065). As of 30 September 2010 some, but not all, of the settlement agreements have been approved by the respective commercial courts. Under Ukrainian law amicable settlement agreements must be approved by the commercial courts in order to take effect.

Employees

The average number of employees in Avangard for the first half of 2010 was 5,132. The average number of employees in Avangard for the years ended 31 December 2009, 31 December 2008 and 31 December 2007 was 4,978, 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 122 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, Ukrainian companies of the Group are 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. For October and November 2010 the minimum subsistence level of an employable individual in Ukraine is UAH 907 per month and from 1 December 2010 the minimum subsistence level will be UAH 922 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 the first half of 2010 amounted to U.S.$2,637 thousand.

Avangard's employees do not hold any shares in the capital of the Issuer.

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.

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 Issuer 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, 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 194.62 thousand tons in 2005 to 228.92 thousand tons in 2009, representing an increase of 17.6%. 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)

Eggs import volume in 2000-2009 by continents, in thousand dollars

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total import....	946,347	929,214	994,414	1,254,433	1,297,177	1,456,550	1,605,424	2,106,393	2,468,742	2,627,209
Gain, %.....		-1,81%	7,02%	26,15%	3,41%	12,29%	10,22%	31,20%	17,20%	6,42%
Africa.......	40,604	43,656	43,538	47,613	52,437	65,000	76,771	97,681	108,000	115,000
Gain, %.....		7,52%	-0,27%	9,36%	10,13%	23,96%	18,11%	27,24%	10,56%	6,48%
America	134,304	163,046	141,206	132,132	165,935	182,929	190,068	213,316	226,700	230,000
Gain, %.....		21,40%	-13,39%	-6,43%	25,58%	10,24%	3,90%	12,23%	6,27%	1,46%
Asia.........	234,669	207,980	224,777	239,959	258,055	297,095	306,655	453,167	578,342	630,000
Gain, %.....		-11,37%	8,08%	6,75%	7,54%	15,13%	3,22%	47,78%	27,62%	8,93%
Europe......	533,992	511,141	580,841	830,412	817,110	906,751	1,025,106	1,336,242	1,550,000	1,646,409
Gain, %.....		-4,28%	13,64%	42,97%	-1,60%	10,97%	13,05%	30,35%	16,00%	6,22%
Oceania.....	2,778	3,391	4,052	4,317	3,640	4,775	6,824	5,987	5,700	5,800
Gain, %.....		22,07%	19,49%	6,54%	-15,68%	31,18%	42,91%	-12,27%	-4,79%	1,75%

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	USA	Germany
	Iraq	Spain	Netherlands
	Switzerland	Poland	China
	Singapore	India	France
		Malaysia	Belgium
Dry egg products	Great Britain	India	Netherlands
	Japan	USA	France
	Denmark	Argentina	Germany
	Mexico	China	Belgium
	Russia	Canada	Austria
Liquid egg products	Switzerland	USA	France
	Japan	Italy	Germany
	Austria		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 biscuits, 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

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
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.

According to estimates by Pro-Consulting, the number of laying hens in Ukraine in 2009 was 32,461 thousand.

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. According to Pro-Consulting, the proportion of shell eggs produced by households in the first half of 2010 was 44%, compared to 46% in the first half of 2009. In 2009, Avangard's share in industrial laying hens flock stood at 43% and remained at the same level in the first half of 2010. 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. According to Pro-Consulting, in the first half of 2010, Avangard had an estimated market share of 80% of shell egg exports from Ukraine, compared to 73% in 2009.

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. According to Pro-Consulting, in the first half of 2010, Avangard had an estimated market share of 94% of dry egg product exports from Ukraine, compared to 86% in 2009.

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 which is 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 "Description of the Issuer—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 "Imports 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, 2% for dry albumen and 5% for other albumen. 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 or egg products were completely eliminated, this would not significantly increase the import of shell eggs or egg products into Ukraine.

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, three cases of Newcastle Disease were reported in household birds in the Chernigiv and Rivne regions of Ukraine in April 2006 and in the Zhytomyr region in July 2007. 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, qualifying Ukrainian agricultural companies are entitled to retain the difference between input VAT paid on goods and services purchased by such companies for their agricultural operations and VAT charged on sales of their agricultural products (currently at the rate of 20%). The amounts so retained may be used for any business purposes of the company. This VAT 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 1 January 2009 (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—Government VAT refunds for the agricultural industry"). 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. 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. Under the 2010 State Budget Law the Ukrainian agricultural sector is expected to receive a total of UAH1.333 billion in state subsidies in 2010 in various forms, including but not limited to partial compensation for finance costs in the amount of UAH621.6 million.

On 13 September 2010 a new annual plan on interest rate rebates came into force. According to the 2010 annual plan, interest rate rebates are expected to be provided, subject to compliance with certain conditions, to companies, which secured loans in relation to, among other things: (i) construction and reconstruction of poultry farms and acquisition of the equipment for them, as well as with regards to related expenses in connection with egg production, if such interest rate rebate was not provided in 2009; (ii) purchase of compound fodder, veterinary medicine, hatching eggs under short-term (up to 12 months) loan agreements, including extended or refinanced loan agreements in 2010; (iii) purchase of compound fodder, veterinary medicine, hatching eggs, equipment for poultry farms, construction and reconstruction of poultry farms under mid-term (up to 36 months) loan agreements, including extended or refinanced loan agreements in 2010; (iv) construction and reconstruction of poultry farms, purchase of equipment for keeping and servicing chickens and laying hens, as well as purchase of breeder flock under loans secured in 2006-2009 or under long-term (more than 36 months) loan agreements, including extended or refinanced loan agreements in 2010. Under the above listed loan agreements, the interest rate rebate constitutes 2 times the NBU discount rate for loans in hryvnia and 10% for loans in foreign currency. From 10 August 2010 the NBU discount rate is 7.75%.

In addition, the 2010 annual plan provides for interest rate rebates in the amount of 90% of the interest rate under long-term loans in hryvnia or in foreign currency obtained in 2009 or in 2010 for the construction of poultry farms or egg processing facilities.

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 "Description of the Issuer—Quality Control", "Description of the Issuer—Licences and Permits", "Description of the Issuer—Regulatory Compliance" and "Description of the Issuer—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 is available to consumers in relation to nutritional value, ingredients, proper conditions for storage and preparation of food products, as well as health warnings associated with such products. 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 egg 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 Disease. 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.

All shell eggs must have labels in the Ukrainian language containing their group, category and producer's details. Labels for dietary eggs and eggs intended for export must also contain the date of laying.

In addition, the eggs' packaging must have labels in the Ukrainian language containing the product name, its group and category, the quantity of eggs, a trademark (if available), producer's details, date of expiry (or packaging date and life term), storage and preservation conditions and notice of the proper Ukrainian State Standard (USS/DSTU 5028:2008). Moreover, the eggs' packaging label intended for export must also contain the conditions of poultry keeping and feeding, translation into English or into the language of the country of destination and notice "NON-EC STANDARDS" instead of the Ukrainian State Standard.

Health and Safety

The production and processing of food products, including egg products, involves the performance of certain hazardous activities, including sanitising and disinfecting operations, use of 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, which came into effect on January 2002 (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.

Ukrainian law distinguishes between ownership rights with respect to land and buildings. However, the Land Code provides a person, acquiring the ownership rights to a building with a statutory right to acquire the ownership or lease rights to the land plot underlying such building.

In addition, the Land Code 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 previous law, only Ukrainian citizens were permitted to own land in Ukraine and land sale transactions were permitted only under very limited circumstances. The Land Code also permitted the mortgage of privately owned land (except with respect to agricultural land for which only banks may hold mortgages).

The Land Code provides for the following basic rights with respect to land: (i) ownership; (ii) use of land, 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.

Land is divided into various categories based upon its designated purpose (for example, residential, industrial and 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 used for farming and other agricultural purposes. Moreover, land in Ukraine is further subdivided into different kinds of 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, foreign individuals' and foreign legal entities' lease rights 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 foreign-owned Ukrainian company, then there should not be any issues related to land ownership by the subsidiary 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 and/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.

Both land lease agreements and lease rights are subject to state registration. Any amendments to a land lease agreement also require state registration. Ukrainian law is ambiguous as to the moment when the lease agreement becomes effective. Before amendments were introduced into the Land Lease Law in July 2010, a land lease agreement came into effect from the moment of registration of the agreement with land authorities. According to the recent amendments, a land lease agreement becomes effective only after the lease rights are registered in accordance with the procedure stipulated by law. However, the law governing state registration of the lease rights will come into force only on 1 January 2012. Hence, at the moment there is no procedure for the registration of the land lease rights and consequently the moment when the land lease agreement becomes effective is uncertain.

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 rented 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, for example, that land under privately owned buildings may be sold without auction procedures. The Land Code requires the auction procedure to be stipulated by law. The law governing the sale and purchase of state or municipal land through an auction has not yet been adopted. Pending adoption of the new law, the CMU adopted temporary procedures governing the acquisition of state and municipal land by auction in 2010. However, some implementing legislation regulations are 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 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 and joint ventures established with the participation of 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. The ownership to a land plot arises upon execution of a land sale acquisition agreement and the state registration of the transferee's ownership to the land.

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 with the local Bureau of Technical Inventory in relation to a building and with the local Department for Land Resources in relation to a land plot.

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 (the "**Register of Rights to Immovable Property**") will become effective from 1 January 2012. The Register of Rights to Immovable Property should contain consolidated information on all property rights to real estate as well as the encumbrances 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

Unless they are registered as FAT payers, owners of Ukrainian land and those with permanent rights to use such land must pay a land tax. 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, an undertaking (including all entities connected to it by relations of control) 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 and it is subject to such competition. 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 split 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 administrative 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 intellectual property law with the EU and the Agreement on Trade-Related Aspects of Intellectual Property Rights, which was adopted by the WTO 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, CORPORATE GOVERNANCE AND MANAGEMENT

Directors

Avangardco Investments Public Limited's Directors (together, the "**Board of Directors**") as at the date of this Prospectus 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
Michalis Mouaimis	1980	Administrative Director

Oleg Bakhmatyuk is a Non-Executive Chairman of the Issuer. 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 an Executive Director of the Issuer 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 PJSC "Commercial Bank "Finansova Initsiatyva" (formerly "Finansova Initsiatyva" LLC) 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 an Executive Director of the Issuer 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 an Executive Director of the Issuer 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.

Michalis Mouaimis is an Administrative Director, resident in Cyprus. Mr. Mouaimis was appointed as a member of the Board of Directors of the Issuer on 2 July 2010. Mr. Mouaimis is an attorney-at-law practising in Cyprus, graduated from the Law School, Athens University, obtained an LL.M degree in International Business Law at London University, University College London and a Master 2 Professional in International Commercial Law at University of Paris 1 Panthéon—Sorbonne. Mr. Mouaimis is responsible for the administrative and corporate law matters involving the Issuer.

The business address for all of the members of the Board of Directors, other than Michalis Mouaimis, is Shchorsa Street 7/9, Kyiv. The business address for Michalis Mouaimis is 16-18 Zinas Kanther Street, 3035 Limassol, Cyprus.

Senior Management of the Avangard Group

Members of Avangard's senior management, other than the Issuer's Board of 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.

Nataliya Honcharenko has been the director of PJSC "Cross-P/F Zorya", one of Avangard's farms since 8 June 2010. Ms. Honcharenko graduated from the Kharkiv State Zoological and Veterinary Academy as a livestock engineer in 1995. She has a science degree and prior to joining the Group, taught poultry related subjects at the Kharkiv State Zoological and Veterinary Academy since 2003.

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 is the chairman of OJSC "Ptakhohospodarstvo Chervonyi Prapor" since 24 April 2010. 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.

Iryna Melnyk is the Deputy Chief Financial Officer of Avangard. She has worked for Avangard since 2010. Prior to joining Avangard, Iryna served as chief financial officer of "Ukrmiaso" Ltd., a company processing agricultural produce. Ms. Melnyk graduated from the V. Stefanyk Prykarpatsky University (Department of Economics).

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 and Ms. Melnyk'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 Issuer 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 Issuer is not subject to the UK combined code on corporate governance issued by the financial reporting council.

The Issuer has implemented its own corporate governance system under which it has already appointed five Directors, one of whom is a non-executive chairman, three of whom are executive directors (chief executive officer, chief financial officer and chief marketing officer) and one of whom is an administrative director. The Issuer intends to appoint two additional Directors who will be independent non-executive directors. The Issuer considers this to be a satisfactory balance for the purposes of decision making at the Board of Directors and the Board of Directors intends to establish audit, nomination and remuneration committees upon the appointment of the two independent non-executive directors.

Board of Directors

Pursuant to the Articles, the Issuer's Board of Directors is vested with the management of the business and the conduct of the affairs of the Issuer 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 Issuer 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 at least half 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. 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 Issuer 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 Issuer 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 Issuer is approved by the Issuer'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 Issuer'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 Issuer'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 Issuer'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 Issuer'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 Issuer 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 Issuer'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 Issuer, 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 Issuer 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 Issuer 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 Issuer 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 Issuer any information in his possession or control which the Issuer reasonably requests in order to assess and meet its obligations under the Listing Rules and any applicable laws or regulations;

(c) keep confidential and not use for his own benefit any confidential information relating to the Issuer or the Group to which he has been given access by reason of his interest in the share capital of the Issuer or any role as Director of the Issuer 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 Issuer 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 Issuer (or any subsidiary of the Issuer) 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 Issuer's articles of association that would be contrary to the Issuer'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 Issuer Group, as named in the Relationship Agreement, is then carrying on a business and which is material for the Issuer Group) in Ukraine which is or is about to be in competition with any business of any member of the Issuer 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 Issuer.

The Issuer 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 Issuer'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".

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 Issuer or the Issuer'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 Issuer 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 Issuer and private interests may arise or have arisen. See "Shareholders and Related Party Transactions".

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 or the Group's senior management (as listed above under "—The Senior Management of the Avangard Group") to the Issuer and their respective private interests and/or other duties.

There are no potential conflicts of interest between the duties of Yevhen Pelekh to Areal-Snigurivka and his private interests and/or other duties.

There are no potential conflicts of interest between the duties of Yuriy Tymofiyev to Avis and his private interests and/or other duties.

There are no potential conflicts of interest between the duties of Vasyl Bryzhan to Bohodukhivska and his private interests and/or other duties.

There are no potential conflicts of interest between the duties of Viktor Anikin to Chenivestka and his private interests and/or other duties.

There are no potential conflicts of interest between the duties of Volodymyr Krasutskyi to Chervonyi Prapor and his private interests and/or other duties.

There are no potential conflicts of interest between the duties of Andriy Chirkov to Chornobaivske and his private interests and/or other duties.

There are no potential conflicts of interest between the duties of Valeriy Kovalchuk to CSJC Avangard and his private interests and/or other duties.

There are no potential conflicts of interest between the duties of Ihor Naumovych to Donetska and his private interests and/or other duties.

There are no potential conflicts of interest between the duties of Yevhen Petrychka to Gorodenkivska and his private interests and/or other duties.

There are no potential conflicts of interest between the duties of Vasyl Vityuk to Imperovo and his private interests and/or other duties.

There are no potential conflicts of interest between the duties of Volodymyr Krasutskyi to Interbusiness and his private interests and/or other duties.

There are no potential conflicts of interest between the duties of Luybov Zhenchyk to Rohatynska and her private interests and/or other duties.

There are no potential conflicts of interest between the duties of Tamara Vlasenko to SC PF Lozuvatska and her private interests and/or other duties.

There are no potential conflicts of interest between the duties of Vyacheslav Kotsan to Volnovaska and his private interests and/or other duties.

There are no potential conflicts of interest between the duties of Nataliya Honcharenko to Zorya and her private interests and/or other duties.

SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Shareholders

The table below sets forth certain information regarding ownership of the Ordinary Shares as of the date of this Prospectus.

	Ordinary Shares Owned	
Shareholder	**Number**	**%**
Quickcom Limited	1,074,684	16.8
Omtron Limited	1,848,575	28.9
Tanchem Limited	926,280	14.5
Mobco Limited	1,080,143	16.9
Oleg Bakhmatyuk	20,000	0.3
Avonex Limited	1	—
Maltofex Limited	1	—
Ultrafinance Limited	1	—
BNY (Nominees) Limited	1,437,500	22.5
Total	**6,387,185**	**100**

As shown above, the Issuer has four controlling shareholders, each of which is owned by Oleg Bakhmatyuk, the Chairman of the Issuer's Board of Directors, who is also a direct shareholder of the Issuer. The controlling shareholders and Oleg Bakhmatyuk continue to own approximately 77.5% of the Issuer. The controlling shareholders and Oleg Bakhmatyuk control the Issuer, 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 Issuer's shareholders, increasing or decreasing the Issuer'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 Noteholders.

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 Issuer.

Save as disclosed above, there are no other persons who could, directly or indirectly, exercise control over the Issuer.

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 Issuer's shareholders has voting rights different from any other holders of the Issuer'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 Statements.

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 has adopted, shortly after the launch of the offering of its global depositary receipts, 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 and for the half year ended 30 June 2010 were as follows:

	Half year ended 30 June 2010	31 December 2009	31 December 2008	31 December 2007
	(U.S.$'000)	(U.S.$'000)	(U.S.$'000)	(U.S.$'000)
Salary	498	932	1,346	730
Contributions to pension funds	158	244	278	106
Other contributions	17	31	43	20
	673	**1,207**	**1,667**	**856**

The Group's transactions with related parties as at 31 December 2009, 31 December 2008 and 31 December 2007 and 30 June 2010 were as follows:

	Amount of transactions with related parties for the half year ended 30 June 2010	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.$'000)	(U.S.$'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;	11,876	14,413	84,454	1,925
(d) Companies whose activities are significantly influenced by the Group's owners	17,593	83,507	81,974	1,639
	29,469	**97,920**	**166,430**	**3,564**

	Amount of transactions with related parties for the half year ended 30 June 2010	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.$'000)	(U.S.$'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 income/ (expenses), net:				
(b) Companies having the same top management;	—	(18)	—	—
(c) Companies in which the Group's owners have a share in share capital;	40	80	1,239	—
(d) Companies whose activities are significantly influenced by the Group's owners.........	—	(30)	(594)	4
	40	**32**	**645**	**4**
Financial income:				
(d) Companies whose activities are significantly influenced by the Group's owners.........	15,467	40,472	24,625	507
	15,467	**40,472**	**24,625**	**507**
Financial expenses:				
(d) Companies whose activities are significantly influenced by the Group's owners.........	(7,555)	41,510	(41,036)	(1,524)
	(7,555)	**41,510**	**(41,036)**	**(1,524)**
Cost of sales:				
(d) Companies whose activities are significantly influenced by the Group's owners.........	(256)			
	(256)			
Distribution expenses:				
(d) Companies whose activities are significantly influenced by the Group's owners.........	(791)			
	(791)			

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 "Description of the Issuer—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

All of Avangard's export sales of shell eggs are made through a related party intermediary, Myaso Prykarpattya LLC. Most of Avangard's export sales of egg products are also made through the same related party intermediary, but beginning in 2010, Avangard began to make some export sales of egg products directly. Avangard intends to make all export sales of shell eggs and egg products directly by the end of 2011. The amount of export sales in 2009 was U.S.$26,241 thousand (for shell eggs) and U.S.$10,315 thousand (for egg products). The amount of export sales in the first half of 2010 was U.S.$14,535 thousand (for shell eggs) and U.S.$7,346 thousand (for egg products).

In late 2009 and early 2010, the Group contracted for the export sale of 1.2 billion shell eggs in 2010 through a related party intermediary, LLC Myaso Prykarpattya.

PJSC "Commercial Bank "Finansova Initsiatyva"

Public Joint-Stock Company "Commercial Bank "Finansova Initiatyva" is a Ukranian bank which is a related party of the Group. Some of the Group companies are the bank's customers. As of 30 June 2010, the Group's companies had entered into facility agreements with PJSC "Commercial Bank "Finansova Initiatyva" in the total amount of U.S.$186,380 thousand and deposit agreements in the total amount of U.S.$197,222 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.

Pledges and mortgages

Pursuant to the Security Agreements entered into between Pershe Travnya and VTB Bank, Pershe Travnya agreed to secure the fulfilment of obligations of Agromash, a related party of Avangard, under a loan agreement dated 4 July 2007 between VTB Bank and Agromash in the amount of U.S.$10 million.

DESCRIPTION OF OTHER INDEBTEDNESS

The Issuer has presented in this section translations of some hryvnia amounts into U.S. dollars at a conversion rate of UAH7.91 to U.S$1.00, which was the rate published by the NBU on 30 June 2010. In addition, the Issuer has presented in this section translations of some hryvnia amounts into U.S. dollars in relation to the loan agreements entered into between PJSC Commercial Bank Finansova Initsiatyva" and LLC Pershe Travnya dated 6 September 2010, Rohatyn-Korm dated 1 September 2010, Volnovaskyi KHP dated 7 September 2010 and Kamyanets-Podilsky dated 3 September 2010 at a conversion rate of UAH7.91 to U.S$1.00, which was the rate published by the NBU on 30 September 2010. No representation is made that the hryvnia and/or U.S. dollar amounts referred to herein could have been or could be converted into hryvnias and/or U.S. dollars, as the case may be, at such rates, at any other particular rate or at all.

PJSC Commercial Bank "Finansova Initsiatyva"

In October 2007, PJSC Commercial Bank "Finansova Initsiatyva", a related party of the Group, entered into a secured credit facility agreement with each of Avis, Chervonyi Prapor, Chornobaivske and Kirovskyi. In addition, in October 2008, PJSC Commercial Bank "Finansova Initsiatyva" entered into a secured credit facility agreement with Volnovaska. Furthermore, in September 2010, PJSC Commercial Bank "Finansova Initsiatyva" entered into a secured credit facility agreement with each of LLC Pershe Travnya, Rohatyn-Korm, Volnovaskyi KHP and Kamyanets-Podilsky.

The facility with Avis is for U.S.$25.3 million (UAH 200 million) maturing on 30 November 2010. As of 30 June 2010, the indebtedness under this facility was U.S.$25.3 million (UAH 200 million). The interest rate under the credit facility agreement is fixed at 14% per annum.

The facility with Chervonyi Prapor is for U.S.$12.8 million (UAH 101 million) maturing on 30 November 2010. As of 30 June 2010, the indebtedness under this facility was U.S.$12.8 million (UAH 101 million). The interest rate under the credit facility agreement is fixed at 14% per annum.

The facility with Chornobaivske is for U.S.$27.9 million (UAH 221 million) maturing on 26 October 2010. As of 30 June 2010, the indebtedness under this facility was U.S.$27.9 million (UAH 221 million). The interest rate under the credit facility agreement is fixed at 14% per annum.

The facility with Kirovskyi is for U.S.$12.6 million (UAH 100 million) maturing on 30 November 2010. As of 30 June 2010, the indebtedness under this facility was U.S.$12.6 million (UAH 100 million). The interest rate under the credit facility agreement is fixed at 14% per annum.

The facility with Volnovaska is for U.S.$10.1 million (UAH 80 million) maturing on 5 September 2011. As of 30 June 2010, the indebtedness under this facility was U.S.$10.1 million (UAH 80 million). The interest rate under the credit facility agreement is fixed at 17% per annum.

On 6 September 2010 LLC Pershe Travnya entered into U.S.$26.5 million (UAH 210 million) facility agreement with PJSC Commercial Bank "Finansova Initsiatyva" maturing on 5 September 2011. The interest rate under the credit facility agreement is fixed at 18% per annum.

On 1 September 2010 Rohatyn-Korm entered into U.S.$25.3 million (UAH 200 million) facility agreement with PJSC Commercial Bank "Finansova Initsiatyva" maturing on 30 August 2011. The interest rate under the credit facility agreement is fixed at 18% per annum.

On 7 September 2010 Volnovaskyi KHP entered into U.S.$22.3 million (UAH 176 million) facility agreement with PJSC Commercial Bank "Finansova Initsiatyva" maturing on 5 September 2011. The interest rate under the credit facility agreement is fixed at 18% per annum.

On 3 September 2010 Kamyanets-Podilsky entered into U.S.$25.9 million (UAH 205 million) facility agreement with PJSC Commercial Bank "Finansova Initsiatyva" maturing on 1 September 2011. The interest rate under the credit facility agreement is fixed at 18% per annum.

To secure their obligations under the credit facility agreements, each of Avis, Chervonyi Prapor, Chornobaivske, Kirovskyi, Volnovaska, LLC Pershe Travnya, Rohatyn-Korm, Volnovaskyi KHP and Kamyanets-Podilsky has granted a pledge over certain movable property in favour of PJSC Commercial Bank "Finansova Initsiatyva".

The credit facility agreements contain certain covenants that restrict, amongst other things, Avis', Chervonyi Prapor's, Chornobaivske's, Kirovskyi's, Volnovaska's, LLC Pershe Travnya's, Rohatyn-Korm's, Volnovaskyi KHP's and Kamyanets-Podilsky's ability to reorganise. The credit facility agreements contain certain events of default relating to the non-payment of principal and/or interest due under the credit facility agreements, mandatory reorganisation or liquidation and breach of certain covenants.

OJSC "State Savings Bank of Ukraine"

In April 2008, Chornobaivske entered into a secured credit facility agreement with OJSC "State Savings Bank of Ukraine" for U.S.$39.7 million (UAH 314 million) maturing on 5 April 2013. As of 30 June 2010, the indebtedness under this facility was U.S.$33.9 million (UAH 268 million). The interest rate under the credit facility agreement is fixed at 16% per annum.

LLC "Chornobaivske", LLC "Stanislavska Torgovaya Kompaniya" and Nataliya Vasylyuk are sureties in respect of Chornobaivske's obligations under the facility agreement. In addition, the Issuer has pledged 4.1% of its shares in Chornobaivske to secure Chornobaivske's obligations under the facility agreement. Chornobaivske has granted a mortgage over certain of its immovable property and pledged certain of its movable property to secure its obligations under the facility agreement.

The credit facility agreement contains certain covenants that restrict, amongst other things, Chornobaivke's ability to obtain loans, establish mortgages over its assets, act as surety in respect of the obligations of third parties, sell substantial fixed assets, reorganise or pay dividends. In connection with the issuing of surety under the Notes and/or contemplated obtaining of the loan facilities from the Issuer Chornobaivske will obtain consent from OJSC "State Savings Bank of Ukraine" in respect of the restriction on incurring additional debt and issuing surety under the Notes.

The credit facility agreement contains certain events of default relating to the non-payment of principal and/or interest due under the facility, misrepresentation, certain insolvency and bankruptcy events related to Chornobaivske or the sureties, certain adverse events and breach of certain covenants.

Description of Pledges and Mortgages

Pursuant to the Security Agreements, Pershe Travnya agreed to secure the fulfilment of obligations of Agromash, a related party of Avangard, under a loan agreement maturing on 3 July 2012 for the amount of U.S.$10 million entered into between VTB Bank and Agromash on 4 July 2007. See "Management's Discussion and analysis of consideration and results of operations—Liquidity and Capital Resources for the first half year ended 30 June 2009 and the first half year ended 30 June 2010—Assets pledged as security."

Pursuant to a pledge agreement dated 27 April 2009 entered into between Chornobaivske and the State Savings Bank of Ukraine, Chornobaivske agreed to secure the fulfilment of its obligations under a loan agreement in the amount of U.S.$39.7 million (UAH 314 million) entered into between the State Savings Bank of Ukraine and Chornobaivske on 14 April 2008. Chornobaivske has pledged some of its equipment in the amount of U.S.$14.6 million (UAH 116 million). See "Description of Other Indebtedness—OJSC "State Savings Bank of Ukraine."

Pursuant to a mortgage agreement dated 20 February 2009 entered into between Kirovske and the National Bank of Ukraine, Kirovske agreed to secure the fulfilment of the obligations of PJSC "Commercial Bank "Finansova Initsiatyva", a related party of the Group, under a loan agreement dated 20 February 2009 in the amount of U.S.$25.3 million (UAH 200 million) maturing on 30 November 2012 entered into between the National Bank of Ukraine and PJSC "Commercial Bank "Finansova Initsiatyva". Kirovske pledged its assets in the amount of U.S.$25 million (UAH 197 million).

Pursuant to a mortgage agreement dated 4 March 2009 entered into between Volnovaska and the National Bank of Ukraine, Volnovaska agreed to secure the fulfilment of the obligations of PJSC "Commercial Bank "Finansova Initsiatyva" under a loan agreement dated 4 March 2009 in the amount of U.S.$14.5 million (UAH 115 million) maturing on 31 October 2011 entered into between the National Bank of Ukraine and PJSC "Commercial Bank "Finansova Initsiatyva" on 4 March 2009. Volonovaska pledged its assets in the amount of U.S.$22.3 million (UAH 176 million).

Pursuant to a deposit accounts general pledge agreement, dated 25 December 2008, entered into between PJSC "Commercial Bank "Finansova Initsiatyva", as pledgee, and CJSC Avangard, Avangard-Agro, Areal-Snigurivka, Avis, Bohodukhivska, Chernivetska, Chervonyi Prapor, Chornobaivske, Donetska, Gorodenkivska, Interbusiness, Kamyanets-Podilsky, Kirovskyi, Makarivska, Pershe Travnya, Rohatynska, Rohatyn-Korm, SC Chervonyi Prapor, SC Chornobaivske, SC PF Lozuvatska, SC Yuzhnaya-Holding, Yuzhnaya-Holding, SC Zorya, Volnovaska, Volnovaskyi KHP, Vuhlehirskyi, Zorya, as pledgors, the pledgors agreed to secure the fulfilment of their obligations under the current and future loan agreements entered into between the pledgee and pledgors. As of 30 June 2010, the amount of pledged assets constituted U.S.$197 million (UAH 1,560 million). See "Description of Other Indebtedness—PJSC Commercial Bank "Finansova Initsiatyva"".

On 7 September 2010, Rohatyn-Korm, LLC Pershe Travnya, Kamyanets-Podilsky and Volnovaskyi KHP as pledgors, and PJSC "Commercial Bank "Finansova Initsiatyva", as pledgee, entered into a pledge agreement in relation to the monetary rights under certain agreements where the above companies act as creditors. This pledge agreement secures the fulfilment of the obligations of each of Rohatyn-Korm, LLC Pershe Travnya, Kamyanets-Podilsky and Volnovaskyi KHP under the loan agreements entered into between the above named companies and PJSC "Commercial Bank "Finansova Initsiatyva" in September 2010. See "Description of Other Indebtedness—PJSC Commercial Bank "Finansova Initsiatyva"".

Existing CJSC Avangard Bonds

In May 2008, CJSC Avangard issued UAH200 million (U.S.$25.3 million) CJSC Avangard Bonds due May 2013. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources for the years ended 31 December 2007, 2008 and 2009—Capital Resources."

Vendor Financing and Capital Leases

In June 2008, the Issuer purchased the cage equipment for laying hens for Chervonyi Prapor, Volnovaska, Areal-Snigurivka, Donetska and SC PF Lozuvatska pursuant to a finance lease arrangement with Agromash as a vendor and LLC "Hypo Alpe-Adria-Leasing" as a leasing company. As of 30 June 2010, the aggregate amount outstanding under such finance leases constituted approximately U.S.$7.2 million. The average interest rate under the above leasing agreements constitutes LIBOR 1Y + 8% (the interest rate is revised each year depending on the LIBOR rate). All payments under such finance leases are made in hryvnia.

CONDITIONS OF THE NOTES

The following is the text of the Conditions of the Notes which (subject to modification and except for the paragraphs in italics) will be endorsed on the Certificates issued in respect of the Notes:

The USD 200,000,000 10 per cent. Notes due 29 October 2015 (the **Notes**, which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 19 (*Further Issues*) and forming a single series with the Notes) of Avangardco Investments Public Limited (the **Issuer**) are constituted by a Trust Deed dated 29 October 2010 (the **Trust Deed**) made between the Issuer, LLC "Areal-Snigurivka", CJSC Agrofirma "Avis", LLC "Torgivelniy Budynok "Bohodukhivska Ptakhofabryka", CJSC Chernivetska Ptakhofabryka, OJSC "Ptakhohospodarstvo "Chervonyi Prapor", APP CJSC "Chornobaivske", CJSC "Avangard", ALLC "Donetska Ptakhofabryka", SC "Gorodenkivska Ptakhofabryka" of CJSC "Avangard", LLC "Imperovo Foods", PSPC "Interbusiness", SC "Rohatynska Ptakhofabryka" of CJSC "Avangard", SC Ptakhofabryka "Lozuvatska" of Private Joint Stock Company with Limited Liability "Avangardco Investments Public Limited", LLC PF "Volnovaska" and PJSC "Cross-P/F "Zorya" (the **Original Surety Providers**) as surety providers and BNY Corporate Trustee Services Limited (the **Trustee**, which expression shall include its successor(s)) as trustee for the holders of the Notes (the **Noteholders**). The Notes have the benefit of an unconditional and irrevocable suretyship provided by each of the Original Surety Providers under the Surety Agreement dated 29 October 2010 (the **Surety Agreement**) made between the Issuer, the Original Surety Providers and the Trustee, to the maximum extent permitted by law.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed, the Surety Agreement and the Agency Agreement dated 29 October 2010 (the **Agency Agreement**) made between the Issuer, the Surety Providers, the Principal Paying Agent the Registrar and other Agents and the Trustee are available for inspection during normal business hours by the Noteholders at the principal office for the time being of the Trustee, being at the date of issue of the Notes at One Canada Square, London E14 5AL, United Kingdom and at the specified office of each of the Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, and are deemed to have notice of those provisions of the Surety Agreement and the Agency Agreement applicable to them.

*The owners shown in the records of Euroclear Bank S.A./N.V. System (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) of book-entry interests in Notes are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Surety Agreement and the Agency Agreement applicable to them.*

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Notes are issued in registered form in amounts of USD 100,000 and integral multiples of USD 1,000 in excess thereof (referred to as the **principal amount** of a Note). A note certificate (each a **Certificate**) will be issued to each Noteholder in respect of its registered holding of Notes. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Noteholders which the Issuer will procure to be kept by the Registrar and at the registered office of the Issuer.

The Notes are not issuable in bearer form.

1.2 Title

Title to the Notes passes only by registration in the register of Noteholders. The holder of any Note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions **Noteholder** and in relation to a Note **holder,** means the person in whose name a Note is registered in the register of Noteholders.

2. TRANSFERS OF NOTES AND ISSUE OF CERTIFICATES

2.1 Transfers

A Note may be transferred by depositing the Certificate issued in respect of that Note, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar.

For a description of certain restrictions on transfers of interests in the Notes, see "Book Entry, Delivery and Form of the Global Certificate".

2.2 Delivery of new Certificates

Each new Certificate to be issued upon a transfer of Notes will, within five business days of receipt by the Registrar or the relevant Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Note to the address specified in the form of transfer. For the purposes of this Condition, **business day** shall mean a day on which banks are open for business in the city in which the specified office of the Registrar or (as the case may be) the Agent with whom a Certificate is deposited in connection with a transfer is located.

Except in the limited circumstances described herein (see "The Global Certificate—Registration of Title"), owners of interests in the Notes will not be entitled to receive physical delivery of Certificates. Issues of Certificates upon transfer of Notes are subject to compliance by the transferor and transferee with the certification procedures described above and in the Agency Agreement.

Where some but not all of the Notes in respect of which a Certificate is issued are to be transferred a new Certificate in respect of the Notes not so transferred will, within five business days of receipt by the Registrar or the relevant Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred to the address of such holder appearing on the register of Noteholders or as specified in the form of transfer.

2.3 Formalities free of charge

Registration of transfer of Notes will be effected without charge by or on behalf of the Issuer or any Agent but upon payment (or the giving of such indemnity as the Issuer or any Agent may reasonably require) in respect of any tax or other governmental charges or duties of whatsoever nature which may be imposed in relation to such transfer.

2.4 Closed Periods

No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on the due date for any payment of principal or interest on that Note or after any Note has been put for redemption pursuant to Condition 8.2.

2.5 Regulations

All transfers of Notes and entries on the register of Noteholders will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests one.

3. STATUS OF THE NOTES

The Notes are direct, unconditional and unsecured obligations of the Issuer and (subject as stated above) rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

4. SURETY

4.1 Suretyship

Each of the Surety Providers has provided an unconditional and irrevocable suretyship on a joint and several basis, pursuant to the Surety Agreement, to the maximum extent permitted by law, in relation to the due payment of all moneys payable by the Issuer under the Notes and the Trust Deed (the **Suretyship**). The Suretyship constitutes a suretyship (in Ukrainian: *Poruka*) for the purposes of Ukrainian law.

The obligations of the Surety Providers under the Surety Agreement create a secondary liability of each of the Surety Providers in relation to the underlying obligations of the Issuer in respect of the Notes and the Trust Deed and therefore, if those obligations of the Issuer are invalid, the suretyship under the Surety Agreement will also be invalid. The Surety Agreement shall not constitute a guarantee obligation (in Ukrainian: garantiya) as that term is interpreted under Ukrainian law.

4.2 Additional Surety Providers

The Issuer may from time to time, subject to the terms of Condition 5.7, cause a Restricted Subsidiary or Affiliate to become an additional Surety Provider in respect of the Notes (an **Additional Surety Provider**) by causing it to execute and deliver to the Trustee a supplemental Suretyship Agreement (and (an) opinion(s) of counsel addressed to the Trustee in a form satisfactory to the Trustee as to the enforceability of its Suretyship), pursuant to which such Restricted Subsidiary or Affiliate will become a Surety Provider.

In the event that the total assets or revenue of any Restricted Subsidiary that is not a Surety Provider, as at the end of any fiscal quarter, accounts for 10 per cent. or more of the Issuer's total assets or revenue on a consolidated basis, respectively, the Issuer shall, on the date it furnishes an annual report to Noteholders pursuant to Condition 5.12(a), cause the relevant Restricted Subsidiary to execute and deliver to the Trustee an Additional Suretyship and do such other things as set out in the Trust Deed, pursuant to which such Restricted Subsidiary will unconditionally and irrevocably and jointly and severally with each other Surety Provider ensure the payment of all moneys payable by the Issuer under the Notes and the Trust Deed. In the event that the total revenue of any Affiliate of the Issuer related to a Permitted Business which is entered into with the Issuer or any of its Subsidiaries, as at the end of any fiscal quarter, accounts for 10 per cent. or more of the Issuer's total revenue on a consolidated basis, the Affiliate shall, and the Issuer shall procure such Affiliate to, within 3 months of the end of such fiscal quarter, cause the relevant Affiliate to, execute and deliver to the Trustee an Additional Suretyship and do such other things as set out in the Trust Deed, pursuant to which such Affiliate will unconditionally and irrevocably and jointly and severally with each other Surety Provider ensure the payment of all moneys payable by the Issuer under the Notes and the Trust Deed. In the event that the total assets or revenue of all Surety Providers, accounts for less than 75 per cent. of the Issuer's total assets or revenue on a consolidated basis, respectively, the Issuer shall, on the date it furnishes an annual report to Noteholders pursuant to Condition 5.12(a), cause additional Restricted Subsidiaries to execute and deliver to the Trustee an Additional Suretyship and do such other things as set out in the Trust Deed, pursuant to which such additional Restricted Subsidiary will unconditionally and irrevocably and jointly and severally with each other Surety Provider ensure the due payment of all moneys payable by the Issuer under the Trust Deed and the Notes such that the total assets and revenue of all Surety Providers will then account for 75 per cent. or more of the Issuer's total assets and revenue on a consolidated basis, respectively.

Any Additional Suretyship shall be on substantially the same terms as the Suretyship. For the purposes of the Trust Deed and these Conditions and the Surety Agreement, references to the Suretyships include references to any Additional Suretyships and references to the Surety Providers include references to any Additional Surety Providers other than any that have been released pursuant to Condition 4.4 below and that are not for the time being Surety Providers. Each Surety Provider has in the Surety Agreement and the Trust Deed confirmed that it has consented to any such entity becoming a Surety Provider as aforesaid without any need for it to execute any supplemental Suretyship Agreement.

4.3 Status of the Suretyship

Each Suretyship constitutes a direct, unsecured, unsubordinated and unconditional obligation of each of the Surety Providers in relation to the Suretyship, and shall at all times rank *pari passu* and without any preference among themselves, with all outstanding unsecured and unsubordinated obligations of each Surety Provider, present and future.

4.4 Release of the Suretyship

The Surety Agreement provides that a Suretyship shall be released:

(a) in the event that such Surety Provider is disposed of in a manner which is permitted by these Conditions (provided that, in any event, the disposal is not made to the Issuer or a Restricted Subsidiary) and the proceeds of such disposal will be applied for a purpose permitted by these Conditions;

(b) when the Issuer designates a Surety Provider as an Unrestricted Subsidiary in compliance with the terms of the Surety Agreement and Condition 5.13; or

(c) upon repayment in full of the Notes and upon execution of a deed of release by the Trustee, the Issuer and the relevant Surety Provider.

The Trustee will at the expense of the Issuer execute a deed of release in the form similar to that set out in the Surety Agreement to effectuate any release in accordance with these provisions, subject to customary protections and indemnifications and/or security and/or prefunding upon receipt of an Officers' Certificate from the Issuer certifying that (a), (b) or (c) has occurred and no Event of Default has occurred or will result from the release of that Surety Provider and, in relation to any Suretyship provided under Condition 5.7, confirmation that none of the other Suretyships are due and unpaid.

4.5 Notice of change of Surety Providers

Notice of any release or addition of any Surety Provider pursuant to this Condition will be given by the Issuer to the Noteholders in accordance with Condition 14 as soon as reasonably practicable thereafter.

5. COVENANTS

5.1 Limitation on Incurrence of Indebtedness and Issuance of Preferred Stock

The Issuer will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee, provide suretyships in respect of, or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, **incur**) any Indebtedness (including Acquired Debt), and the Issuer will not issue any Disqualified Shares and will not permit any of its Restricted Subsidiaries to issue any Preferred Stock; *provided, however*, that the Issuer may incur Indebtedness (including Acquired Debt) or issue Disqualified Shares and any Surety Provider may incur Indebtedness (including Acquired Debt), if the Consolidated Leverage Ratio on the date of such incurrence or issue and after giving *pro forma* effect to such incurrence or issue (including *pro forma* application of the net proceeds therefrom) as if it had been incurred at the beginning of the most recent four consecutive fiscal quarters for which financial statements are publicly available (or are made available) would have been no more than 3.0 to 1.

The first paragraph of this Condition will not prohibit the incurrence of any of the following items of Indebtedness (collectively, **Permitted Debt**):

(a) the incurrence by the Issuer or any Surety Provider of Indebtedness for working capital purposes under or in the form of one or more Credit Facilities in an aggregate principal amount at any one time outstanding under this clause (a) (with Credit Facilities being deemed to have a principal amount equal to the maximum potential liability of the Issuer and its Restricted Subsidiaries thereunder) not to exceed U.S.$10.0 million *less* the aggregate amount of proceeds from any Asset Sales applied by the Issuer or any of its Restricted Subsidiaries since the Issue Date to repay any Indebtedness under a Credit Facility and effect a corresponding commitment reduction thereunder pursuant to Condition 5.3;

(b) the incurrence by the Issuer and its Restricted Subsidiaries of Existing Indebtedness (other than Indebtedness described in clauses (a) and (c) of this paragraph);

(c) the incurrence by the Issuer and the Surety Providers of Indebtedness represented by the Notes and the related Suretyships (for the avoidance of doubt, no Additional Notes may be issued in reliance on this clause (c));

(d) the incurrence by the Issuer or any Restricted Subsidiary of Indebtedness represented by Capital Lease Obligations, mortgage financings or purchase money obligations, in each case, incurred for the purpose of financing all or any part of the purchase price or cost of design, construction, installation or improvement of property, plant or equipment used in the business of the Issuer or any of its Restricted Subsidiaries in an aggregate principal amount, including all Permitted Refinancing Indebtedness incurred to refund, refinance, replace, defease or discharge any Indebtedness incurred pursuant to this clause (d), not to exceed U.S.$5.0 million at any time outstanding;

(e) the incurrence by the Issuer or any of its Restricted Subsidiaries of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to refund, refinance, replace, defease or discharge Indebtedness (other than intercompany Indebtedness) that was permitted to be incurred under the first paragraph of this Condition or clauses (b), (c), (e) or (m) of this paragraph;

(f) the incurrence by the Issuer or any of its Restricted Subsidiaries of Indebtedness between or among the Issuer and any of its Restricted Subsidiaries; *provided, however*, that:

  (i) if the Issuer or any Surety Provider is the obligor on such Indebtedness and the payee is not the Issuer or a Surety Provider, such Indebtedness must be expressly subordinated in right of payment to the prior payment in full in cash of all Obligations with respect to the Notes, in the case of the Issuer, or the Suretyships, in the case of a Surety Provider; and

  (ii) (A) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than the Issuer or a Restricted Subsidiary of the Issuer and (B) any sale or other transfer of any such Indebtedness to a Person that is neither the Issuer nor a Restricted Subsidiary of the Issuer will be deemed, in each case, to constitute an incurrence of such Indebtedness by the Issuer or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (f);

(g) the incurrence by the Issuer or any of its Restricted Subsidiaries of Hedging Obligations (i) for the purpose of fixing, managing or hedging interest rate risk with respect to or in connection with any Indebtedness that is permitted by these Conditions to be outstanding or (ii) for the purpose of fixing, managing or hedging currency exchange rate risk or changes in the prices of commodities and, in each case, not entered into for speculative purposes and including any such Hedging Obligations incurred in connection with the issuance of the Notes;

(h) the guarantee or provision of a suretyship by the Issuer or any of its Restricted Subsidiaries of Indebtedness of the Issuer or any of its Restricted Subsidiaries that was permitted to be incurred by another provision of this Condition 5.1; *provided* that if the Indebtedness being guaranteed or covered by a suretyship is subordinated in right of payment to the Notes or the Suretyships thereof, then such guarantee or suretyship shall be subordinated to the same extent as the Indebtedness guaranteed or covered by a suretyship, as the case may be;

(i) the incurrence by the Issuer or any of its Restricted Subsidiaries of Indebtedness in respect of workers' compensation claims, self-insurance obligations, bankers' acceptances, performance and surety bonds or similar obligations in the ordinary course of business (including guarantees, suretyships or indemnities related thereto);

(j) the incurrence by the Issuer or any of its Restricted Subsidiaries of Indebtedness arising from the honouring by a bank or other financial institution of a cheque, draft or similar instrument inadvertently drawn against insufficient funds, so long as such Indebtedness is covered within 5 Business Days;

(k) Indebtedness of the Issuer or any of its Restricted Subsidiaries or any Surety Provider in respect of customary cash management, cash pooling or netting or set off arrangements or advance or extended payment terms, all in the ordinary course of business;

(l) the incurrence by the Issuer or any of its Restricted Subsidiaries of Indebtedness arising from agreements of the Issuer or a Restricted Subsidiary providing for indemnification, adjustment of purchase price or similar obligations, in each case, incurred or assumed in connection with the disposition of any business, assets or Share Capital of a Subsidiary, other than guarantees of or suretyships in respect of Indebtedness of the Subsidiary disposed of, or incurred or assumed by any Person acquiring all or any portion of such business, assets or Share Capital for the purpose of financing such acquisition; *provided* that the maximum liability of the Issuer and its Restricted Subsidiaries in respect of all such Indebtedness shall at no time exceed the gross proceeds, including the Fair Market Value of non-cash proceeds (measured at the time received and without giving effect to any subsequent changes in value) actually received by the Issuer and its Restricted Subsidiaries in connection with such disposition;

(m) the incurrence or acquisition by the Issuer or any of its Restricted Subsidiaries of Indebtedness, Disqualified Shares or Preferred Stock of Persons that are acquired by the Issuer or any of its Restricted Subsidiaries or merged, consolidated, amalgamated or otherwise combined with (including pursuant to any acquisition of assets and assumption of related liabilities) the Issuer or any of its Restricted Subsidiaries in accordance with the terms of these Conditions; *provided* that such Indebtedness, Disqualified Shares or preference shares are not incurred or issued in connection with such acquisition, merger, consolidation, amalgamation or other combination, and, after giving effect to such acquisition, merger, consolidation, amalgamation or other combination the Issuer or such Restricted Subsidiary would be permitted to incur at least U.S.$1.00 of additional Indebtedness pursuant to the Consolidated Leverage Ratio test set forth in the first paragraph of this Condition; and

(n) the incurrence by the Issuer and any Surety Provider of additional Indebtedness in an aggregate principal amount (or accreted value, as applicable) at any time outstanding, including all

Permitted Refinancing Indebtedness incurred to refund, refinance, replace, defease or discharge any Indebtedness incurred pursuant to this clause (n), not to exceed U.S.$10.0 million at any time outstanding.

The Issuer will not, and will not permit, any Surety Provider to incur any Indebtedness (including Permitted Debt) that is contractually subordinated in right of payment to any other indebtedness of the Issuer or such Surety Provider unless such Indebtedness is also contractually subordinated in right of payment to the Notes or the applicable Suretyship on substantially identical terms; *provided, however*, that no Indebtedness will be deemed to be contractually subordinated in right of payment to any other Indebtedness of the Issuer or any Surety Provider solely by virtue of being unsecured or by virtue of being secured on a junior Lien basis.

For purposes of determining compliance with this Condition, in the event that an item of proposed Indebtedness meets the criteria of more than one of the categories of Permitted Debt described in clauses (a) through (n) above, or is entitled to be incurred pursuant to the first paragraph of this Condition, the Issuer, in its sole discretion, will be permitted to classify, and from time to time to reclassify, such item of Indebtedness (or any portion thereof) in any manner that complies with this Condition. Notwithstanding the foregoing sentence, Indebtedness under Credit Facilities outstanding on the Issue Date used to fund working capital will be deemed to have been incurred on such date in reliance on the exception provided by clause (a) of the definition of Permitted Debt and shall not constitute "Existing Indebtedness" incurred in reliance on the exception provided by clause (b) of the definition of Permitted Debt and may not be reclassified pursuant to the first sentence of this paragraph. The accrual of interest, the accretion or amortisation of original issue discount, the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms, and the payment of dividends on Disqualified Shares in the form of additional shares of the same class of Disqualified Shares will not be deemed to be an incurrence of Indebtedness or an issuance of Disqualified Shares for purposes of this Condition 5.1; *provided*, in each such case, that the amount of such accrual, accretion or payment is included in Fixed Charges of the Issuer as accrued. Notwithstanding any other provision of this Condition, the maximum amount of Indebtedness that the Issuer or any Restricted Subsidiary may incur pursuant to this Condition shall not be deemed to be exceeded solely as a result of fluctuations in exchange rates or currency values.

The amount of any Indebtedness outstanding as of any date will be:

(a) the accreted value of the Indebtedness, in the case of any Indebtedness issued with original issue discount;

(b) in respect of Indebtedness of another Person secured by a Lien on the assets of the specified Person, the lesser of:

   (i) the Fair Market Value of such asset at the date of determination; and

   (ii) the amount of the Indebtedness of the other Person;

(c) the greater of the liquidation preference or the maximum fixed redemption or repurchase price of the Disqualified Shares, in the case of Disqualified Shares;

(d) the Attributable Debt related thereto, in the case of any lease that is part of a sale and leaseback transaction; and

(e) the principal amount of the Indebtedness, in the case of any other Indebtedness.

For purposes of the foregoing, the "maximum fixed repurchase price" of any Disqualified Shares that do not have a fixed redemption or repurchase price shall be calculated in accordance with the terms of such Disqualified Shares as if such Disqualified Shares were redeemed or repurchased on any date of determination.

5.2 Limitation on Restricted Payments

The Issuer will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly:

(a) declare or pay any dividend or make any other payment or distribution on account of the Issuer's or any of its Restricted Subsidiaries' Equity Interests (including, without limitation, any payment in connection with any merger, consolidation, amalgamation or other business combination involving the Issuer or any of its Restricted Subsidiaries) or to the direct or indirect holders of the Issuer's or any of its Restricted Subsidiaries' Equity Interests in their capacity as such (other than (i) dividends or distributions payable in Equity Interests (other than

Disqualified Shares) or in options, warrants or other right to acquire Equity Interests (other than Disqualified Shares), (ii) dividends or distributions payable solely to the Issuer or a Wholly-Owned Restricted Subsidiary and (iii) *pro rata* dividends or other distributions made by a Subsidiary that is not a Wholly-Owned Restricted Subsidiary to minority shareholders (or owners of an equivalent interest in the case of a Subsidiary that is an entity other than a corporation) or such dividends or distributions on a basis that results in the Issuer or a Restricted Subsidiary receiving dividends or other distributions of greater value than would result on a pro rata basis);

(b) purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger, consolidation, amalgamation or other business combination involving the Issuer) any Equity Interests of the Issuer or any direct or indirect parent of the Issuer, in each case held by Persons other than the Issuer;

(c) make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Indebtedness of the Issuer or any Restricted Subsidiary that is contractually subordinated to the Notes or any Suretyship (excluding any intercompany Indebtedness between or among the Issuer and any of its Restricted Subsidiaries or between Restricted Subsidiaries), except (i) a payment of interest or principal at the original Stated Maturity thereof or (ii) the purchase, redemption, defeasance, acquisition or retirement of subordinated obligations purchased in anticipation of satisfying a sinking-fund obligation, principal instalment or final maturity of such subordinated obligations, in each case due within 360 days of the date of such purchase, redemption, defeasance, acquisition or retirement; or

(d) make any Restricted Investment;

(all such payments and other actions set forth in these clauses (a) through (d) above being collectively referred to as **Restricted Payments**), unless, at the time of and after giving effect to such Restricted Payment:

(i) no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Payment;

(ii) the Issuer would, at the time of such Restricted Payment and after giving *pro forma* effect thereto as if such Restricted Payment had been made at the beginning of the applicable four-quarter period, have been permitted to incur at least U.S.$1.00 of additional Indebtedness pursuant to the Consolidated Leverage Ratio test set forth in the first paragraph of Condition 5.1; and

(iii) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by the Issuer and its Restricted Subsidiaries (excluding Restricted Payments permitted by clauses (a), (b), (c), (e), (h) and (j) of the next succeeding paragraph) since the Issue Date does not exceed the sum, without duplication, of:

(A) 50% of the Consolidated Net Income of the Issuer for the period (taken as one accounting period) from the beginning of the first fiscal quarter commencing after the Issue Date to the end of the Issuer's most recently ended fiscal quarter for which publicly available financial statements are available at the time of such Restricted Payment (or, if such Consolidated Net Income for such period is a deficit, less 100% of such deficit); *plus*

(B) 100% of the aggregate net cash proceeds received by the Issuer since the Issue Date (i) as a contribution to its ordinary equity capital, (ii) from the issue or sale or exercise of Equity Interests of the Issuer (other than Disqualified Shares), (iii) from the issue or sale of convertible or exchangeable Disqualified Shares or convertible or exchangeable debt securities of the Issuer that have been converted into or exchanged for such Equity Interests (other than Equity Interests (or Disqualified Shares or debt securities) sold to a Subsidiary of the Issuer) or (iv) from the issue of Indebtedness of the Issuer or a Restricted Subsidiary for cash since the Issue Date that has been converted into or exchanged for such Equity Interests (other than Disqualified Shares); *plus*

(C) to the extent that Restricted Investments that were made after the date of the Trust Deed are sold for cash and/or Cash Equivalents or otherwise liquidated or repaid for cash and/or Cash Equivalents, the lesser of (A) the cash return of capital with respect to such Restricted Investments (less the cost of disposition, if any) and (B) the initial amount of such Restricted Investments; *plus*

(D) to the extent that any Unrestricted Subsidiary of the Issuer designated as such after the date of the Trust Deed is redesignated as a Restricted Subsidiary after the date of the Trust Deed, the lesser of (i) the Fair Market Value of the Issuer's Investment in such Subsidiary as of the date of such redesignation or (ii) the sum of (A) such Fair Market Value as of the date on which such Subsidiary was originally designated as an Unrestricted Subsidiary after the date of the Trust Deed and (B) the amount of any subsequent Investment by the Issuer and its Restricted Subsidiaries in such Unrestricted Subsidiary made (and treated as a Restricted Payment) after the date of the Trust Deed and the original date of designation.

The preceding provisions will not prohibit:

(a) the making of any Restricted Payment in exchange for, or out of the net cash proceeds of the substantially concurrent sale (other than to a Subsidiary of the Issuer) of, Equity Interests of the Issuer (other than Disqualified Shares) or from the substantially concurrent contribution of ordinary equity capital to the Issuer; *provided* that the amount of any such net cash proceeds that are utilised for any such Restricted Payment will be excluded from clause (iii)(B) of the preceding paragraph of this Condition;

(b) the defeasance, redemption, repurchase or other acquisition of Indebtedness of the Issuer or any Restricted Subsidiary that is contractually subordinated to the Notes or any Suretyship with the net cash proceeds from a substantially concurrent incurrence of Permitted Refinancing Indebtedness;

(c) the payment of any dividend (or, in the case of any partnership or limited liability company, any similar distribution) by a Restricted Subsidiary of the Issuer to the Holders of such Restricted Subsidiary's ordinary Equity Interests on a *pro rata* basis;

(d) cash payments in lieu of the issuance of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable for Equity Interests of the Issuer; *provided, however*, that any such cash payment shall not be for the purpose of evading the limitation of this Condition (as determined in good faith by the Board of Directors);

(e) the repurchase of Equity Interests deemed to occur upon the exercise of stock options or warrants to the extent such Equity Interests represent a portion of the exercise price of such stock options or warrants; or

(f) so long as no Default or Event of Default has occurred and is continuing, the purchase, redemption or other acquisition of Equity Interests of the Issuer or any of its Subsidiaries from employees, former employees, directors or former directors of the Issuer or any of its Subsidiaries (or any of their respective permitted transferees) pursuant to the terms of the agreements (including employment agreements) or plans (or amendments thereto) approved by the Board of Directors under which such individuals purchase or sell or are granted the option to purchase or sell such Equity Interests in an amount of up to U.S.$1.0 million in any fiscal year;

(g) the payment of any dividend or the consummation of any irrevocable redemption within 60 days after the date of declaration of the dividend or the giving of the redemption notice, as the case may be, if at the date of declaration of the dividend or notice, the dividend or redemption payment would have complied with the terms of these Conditions;

(h) so long as no Default or Event of Default has occurred and is continuing and no Default or Event of Default would be caused thereby, the declaration and payment of regularly scheduled or accrued dividends to holders of any class or series of Disqualified Shares of the Issuer issued on or after the Issue Date pursuant to the Consolidated Leverage Ratio test set forth in the first paragraph of Condition 5.1;

(i) payments or distributions to dissenting shareholders pursuant to applicable law in connection with or contemplation of a merger, consolidation or transfer of assets;

(j) the repurchase, redemption, or other acquisition for value of Share Capital of the Issuer or any Restricted Subsidiary of the Issuer representing fractional shares of such Share Capital in connection with a share dividend, distribution, share split, reverse share split, merger, consolidation, amalgamation or other business combination of the Issuer or such Restricted Subsidiary, in each case, permitted by the terms of these Conditions; or

(k) so long as no Event of Default or Default has occurred and is continuing and no Default or Event of Default would be caused thereby, other Restricted Payments in an aggregate amount not to exceed U.S.$10.0 million since the Issue Date.

The amount of all Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Issuer or such Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The Fair Market Value of any assets or securities that are required to be valued by this Condition 5.2 will be determined in good faith by the Board of Directors whose resolution with respect thereto will be delivered to the Trustee along with an Officers' Certificate setting forth the Fair Market Value. The Board of Directors' determination must be based upon an opinion or appraisal issued by a Qualified Expert if the estimated Fair Market Value thereof exceeds U.S.$7.5 million.

5.3 Limitation on Asset Sales

The Issuer will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless:

(a) the Issuer (or the Restricted Subsidiary, as the case may be) receives consideration at the time of the Asset Sale at least equal to the Fair Market Value of the assets or Equity Interests issued or sold or otherwise disposed of; and

(b) at least 75% of the consideration received in the Asset Sale by the Issuer or such Restricted Subsidiary is in the form of cash, Cash Equivalents or Additional Assets.

For purposes of this Condition, each of the following will be deemed to be cash:

(i) any liabilities, as shown on the most recent consolidated balance sheet, of the Issuer or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes or any Suretyship) that are assumed by the transferee of any such assets pursuant to a customary novation agreement that releases the Issuer or such Restricted Subsidiary from liability in respect of those liabilities; and

(ii) any securities, notes or other obligations received by the Issuer or any such Restricted Subsidiary from such transferee that are converted by the Issuer or such Restricted Subsidiary into cash or Cash Equivalents within 60 days, to the extent of the cash or Cash Equivalents received in that conversion.

Within 365 days after the receipt of any Net Proceeds from an Asset Sale to be applied as set out in this paragraph, the Issuer (or the applicable Restricted Subsidiary, as the case may be) may apply those Net Proceeds, at its option:

(a) to acquire or invest in all or substantially all of the assets of, or any Share Capital of, a Permitted Business if, after giving effect to any such acquisition of Share Capital, the Permitted Business is or becomes a Restricted Subsidiary of the Issuer;

(b) to permanently reduce Indebtedness under Credit Facilities that is not subordinated in right of payment to the Notes and/or the Suretyships or, to the extent that the assets or shares disposed of pursuant to such Asset Sale were subject to a Lien, to prepay, repay, redeem or repurchase Indebtedness of the Issuer or a Restricted Subsidiary that is secured by such assets or shares;

(c) to acquire other assets (other than Share Capital) that are not classified as current assets under IFRS and that are used or useful in a Permitted Business; or

(d) a combination of prepayment and investment permitted by the foregoing clauses (a) through (c).

Pending the final application of any Net Proceeds, the Issuer may temporarily reduce revolving credit borrowings or otherwise invest the Net Proceeds in any manner that is not prohibited by these Conditions.

Any Net Proceeds from Asset Sales that are not applied or invested as provided in the preceding paragraph will constitute **Excess Proceeds**. When the aggregate amount of Excess Proceeds exceeds U.S.$15.0 million, within ten Business Days thereof, the Issuer will make an offer to all Noteholders and all holders of other Indebtedness that is *pari passu* with the Notes containing provisions similar to those set forth in these Conditions with respect to offers to purchase or redeem with the proceeds of sales of assets to purchase the maximum principal amount of Notes and such other *pari passu* Indebtedness that may be purchased out of the Excess Proceeds (**Asset Sale Offer**). The offer price in any Asset Sale Offer will be equal to 100% of principal amount plus accrued and unpaid interest, to the date of purchase, and will be payable in cash. If any Excess Proceeds remain after consummation of an Asset Sale Offer, the Issuer and its Restricted Subsidiaries may use those Excess Proceeds for any purpose not otherwise prohibited by these Conditions. If the aggregate principal amount of Notes and other *pari passu* Indebtedness tendered into such Asset Sale Offer exceeds the amount of Excess Proceeds, Notes will be selected in accordance with the standard procedures of Euroclear and Clearstream or otherwise, in such place as the Trustee may approve and in such manner as the Trustee may deem appropriate and fair, and such other *pari passu* Indebtedness to be purchased on a *pro rata* basis; *provided* that Notes of U.S.$100,000 or less may only be purchased in whole and not in part. Upon completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset at zero.

The Issuer will comply with the requirements of Rule 14e-l under the Exchange Act and any other securities laws and regulations and stock exchange rules, to the extent those laws, regulations and rules are applicable in connection with each repurchase of Notes pursuant to an Asset Sale Offer. To the extent that the provisions of any securities laws or regulations or securities or investment exchange rules conflict with the Asset Sale provisions of these Conditions, the Issuer will comply with the applicable laws, regulations and rules and will not be deemed to have breached its obligations under the Asset Sale provisions of these Conditions by virtue of such conflict.

5.4 Limitation on Liens

The Issuer will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Lien (other than Permitted Liens) of any kind on any asset now owned or hereafter acquired, *provided, however*, that the Issuer or any Surety Provider may, directly or indirectly, create, incur, assume or suffer to exist any Lien:

(a) to secure Indebtedness that is *pari passu* with the Notes or a Surety Provider's Suretyship in respect of the Notes; *provided* that all Obligations under the Notes or the Suretyship, as the case may be, are secured on an equal and rateable basis with the Indebtedness so secured, and

(b) to secure Indebtedness that is expressly subordinated to the Notes or a Surety Provider's Suretyship in respect of the Notes, *provided* that all Obligations under the Notes or the Suretyship, as the case may be, are secured on a senior basis to the Indebtedness so secured.

Any such Lien in favour of the Trustee and the Noteholders will be automatically and unconditionally released and discharged concurrently with (i) the unconditional release of the Lien which gave rise to the Lien in favour of the Trustee and the Noteholders (other than as a consequence of an enforcement action with respect to the assets subject to such Lien) or (ii) upon the full and final payment of all amounts payable by the Issuer and the Surety Providers under the Notes, the Trust Deed and the Suretyships.

5.5 Limitation on Sale and Leaseback Transactions

The Issuer will not, and will not permit any of its Restricted Subsidiaries to, enter into any sale and leaseback transaction; *provided* that the Issuer or any other Surety Provider may enter into a sale and leaseback transaction if:

(a) the Issuer or that Surety Provider, as applicable, could have (i) incurred Indebtedness in an amount equal to the Attributable Debt relating to such sale and leaseback transaction under the Consolidated Leverage Ratio test in the first paragraph of Condition 5.1 and (ii) incurred a Lien to secure such Indebtedness pursuant to Condition 5.4;

(b) the gross cash proceeds of that sale and leaseback transaction are at least equal to the Fair Market Value of the property that is the subject of that sale and leaseback transaction; and

(c) the transfer of assets in that sale and leaseback transaction is permitted by, and the Issuer or that Surety Provider applies the net proceeds of such transaction in compliance with Condition 5.3.

5.6 Merger, Consolidation or Sale of Assets

The Issuer may not in a single transaction or through a series of transactions, directly or indirectly, (i) merge, consolidate, amalgamate or otherwise combine with or into another Person (whether or not the Issuer is the surviving corporation); or (ii) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of the Issuer and its Restricted Subsidiaries, taken as a whole, in one or more related transactions, to any other Person or Persons; unless:

(a) immediately after giving effect to any such consolidation, merger, transaction or series of related transactions, (i) the Issuer is the surviving corporation or (ii) the Person (if other than the Issuer) formed by or surviving any such merger, consolidation, amalgamation or other combination or to which such sale, assignment, transfer, conveyance or other disposition has been made is a corporation organised or existing under the laws of Ukraine or Cyprus;

(b) the Person formed by or surviving any such merger, consolidation, amalgamation or other combination (if other than the Issuer) or the Person to which such sale, assignment, transfer, conveyance or other disposition has been made assumes all the obligations of the Issuer under the Notes and the Trust Deed pursuant to a supplemental Trust Deed and any other documents to such effect, in form and substance, satisfactory to the Trustee; and the Notes, the Trust Deed and the Suretyship remain in full force and effect as so supplemented;

(c) immediately after giving effect to any such consolidation, merger, transaction or series of transactions on a *pro forma* basis (and treating any Obligation of the Issuer or any Restricted Subsidiary incurred in connection with or as a result of such transaction or series of transactions as having been incurred by the Issuer or any Restricted Subsidiary at the time of such transaction), the Issuer or such surviving Person certifies to the Trustee (in an Officers' Certificate) that no Default or Event of Default exists; and

(d) The Issuer or the Person (as applicable) formed by or surviving any such merger, consolidation, amalgamation or other combination (if other than the Issuer), or to which such sale, assignment, transfer, conveyance or other disposition has been made:

   (i) will, on the date of such transaction after giving *pro forma* effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period, be permitted to incur at least U.S.$1.00 of additional Indebtedness pursuant to the Consolidated Leverage Ratio test set forth in the first paragraph of Condition 5.1;

   (ii) will (either directly or through its Restricted Subsidiaries), on the date of such transaction after giving effect thereto, retain all licenses and other authorisations reasonably required to operate its business as it was conducted prior to such transaction; and

   (iii) delivers to the Trustee, in form and substance satisfactory to the Trustee, an Officers' Certificate (attaching the computation to demonstrate compliance with sub-clause (d)(i) above) and (an) opinion(s) of independent counsel in a form satisfactory to the Trustee, each stating that such consolidation, merger, sale, assignment, conveyance, transfer or other disposition, and if a supplemental Trust Deed is required in connection with such transaction, such supplemental Trust Deed will, comply with the requirements of these Conditions and has been duly authorised, executed and delivered by the applicable Issuer and/or the Person formed by or surviving any such merger, consolidation, amalgamation or other combination (if other than the Issuer) constitutes a legal, valid, binding and enforceable obligation of each such party thereto.

A Surety Provider may not:

(A) directly or indirectly consolidate or merge with or into another Person (whether or not such Surety Provider is the surviving corporation); or

(B) sell, assign, transfer, convey or otherwise dispose of all or substantially all of its assets, taken as a whole, in one or more related transactions, to another Person; unless

   (i) immediately after such transaction, the Issuer or such surviving Person certifies to the Trustee in an Officers' Certificate that no Default or Event of Default exists; and

   (ii) either:

      (A) (I) such Surety Provider is the surviving corporation; or (II) the Person formed by or surviving any such consolidation or merger (if other than such Surety Provider) or to which such sale, assignment, transfer, conveyance or other distribution has been made is a corporation organised or existing under the laws of any member state of the European Union, Ukraine, Switzerland or any state of the United States or the District of Columbia, and immediately after such transaction, the surviving corporation assumes all the obligations of that Surety Provider under the Trust Deed and the Surety Agreement and its Suretyship pursuant to the Surety Agreement to such effect delivered to the Trustee, along with (an) opinion(s) of counsel in a form satisfactory to the Trustee and an Officers' Certificate providing that the transaction complies with the Trust Deed and the Surety Agreement; or

(B) in the case of the sale or disposition of all or substantially all of the assets of such Surety Provider, the Net Proceeds of such sale or other disposition are applied in accordance with these Conditions.

In addition, neither the Issuer nor any Surety Provider will, directly or indirectly, lease all or substantially all of the properties and assets of it and its Restricted Subsidiaries taken as a whole, in one or more related transactions, to any other Person.

Clauses (c) and (d) (with the exception of (d)(iii)) of the first paragraph of this Condition will not apply to any sale or other disposition of all or substantially all of the assets or merger or consolidation of the Issuer or any Surety Provider with or into a Restricted Subsidiary or any other Surety Provider and clause (d) (with the exception of (d)(iii)) of the first paragraph of this Condition will not apply to any sale or other disposition or all of substantially all of the assets or merger or consolidation of the Issuer with or into an Affiliate solely for the purpose of reincorporating the Issuer in another jurisdiction for tax reasons.

5.7 Additional Suretyships

(a) The Issuer will not permit any Restricted Subsidiary that is not a Surety Provider to guarantee any or provide a suretyship in respect of any Indebtedness of the Issuer or any Restricted Subsidiary unless such Restricted Subsidiary simultaneously jointly and severally provides an Additional Suretyship, delivered to the Trustee, and does such other things as set out in the Surety Agreement;

(b) In the event that the total assets or revenue of any Restricted Subsidiary that is not a Surety Provider, determined on an unconsolidated basis in accordance with IFRS for or as at the end of any fiscal quarter, accounts for 10 per cent. or more of the Issuer's total assets or revenue, respectively, determined on a consolidated basis in accordance with IFRS for or as at the end of such fiscal quarter, the Issuer shall, on the date it furnishes an annual report to Noteholders pursuant to Condition 5.12(a), cause the relevant Restricted Subsidiary to execute and deliver to the Trustee an Additional Suretyship and do such other things as set out in the Surety Agreement, pursuant to which such Restricted Subsidiary will unconditionally and irrevocably and jointly and severally ensure the due payment of all moneys payable by the Issuer under the Trust Deed and the Notes;

(c) In the event that the total assets or revenue of all Surety Providers, determined on an unconsolidated basis in accordance with IFRS for or as at the end of any fiscal quarter, accounts for less than 75 per cent. of the Issuer's total assets or revenue, respectively, determined on a consolidated basis in accordance with IFRS for or as at the end of such fiscal quarter, the Issuer shall, on the date it furnishes an annual report to Noteholders pursuant to Condition 5.12(a), cause additional Restricted Subsidiaries to execute and deliver to the Trustee an Additional Suretyship and do such other things as set out in the Surety Agreement, pursuant to which such additional Restricted Subsidiary will jointly and severally with each other Surety Provider ensure the due payment of all moneys payable under the Notes such that each of the total assets and revenue of all Surety Providers will then account for 75 per cent. or more of the Issuer's total assets and revenue, respectively; and

(d) In the event that the total revenue of any Affiliate of the Issuer related to a Permitted Business which is entered into with the Issuer or any of its Subsidiaries, determined on an unconsolidated basis in accordance with IFRS for or as at the end of any fiscal quarter of the Issuer, is equal to or greater than 10 per cent. of the Issuer's total revenue, determined on a consolidated basis in accordance with IFRS for or as at the end of such fiscal quarter, the Affiliate shall, and the Issuer shall procure such Affiliate to, within 3 months of the end of such fiscal quarter, execute and deliver to the Trustee an Additional Suretyship and do such other things as set out in the Surety Agreement, pursuant to which such Affiliate will unconditionally and irrevocably and jointly and severally ensure the due payment of all moneys payable by the Issuer under the Trust Deed and the Notes.

provided, in the case of each of (a), (b) and (c) above, that (i) a Restricted Subsidiary's Suretyship may be limited to the extent required by law and (ii) for so long as it is not permissible under applicable law for a Restricted Subsidiary to become a Surety Provider, such Restricted Subsidiary need not become a Surety Provider (but, in such a case, each of the Issuer and its Restricted Subsidiaries will use their best efforts to overcome the relevant legal prohibition precluding the giving of the suretyship). At the time of execution of any Additional Suretyship, the Issuer shall deliver an opinion of counsel in a form satisfactory to the Trustee addressed to the Trustee as to the enforceability and the due authorisation, execution and delivery of the Suretyship and certain other matters set out in the Trust Deed and the Surety Agreement.

If the Indebtedness of the Issuer or the Surety Provider giving rise to the need to provide a Suretyship in respect of the Notes:

(a) ranks *pari passu* in right of payment to the Notes, or the Suretyships in respect of the Notes, any suretyship in respect of such Indebtedness will rank *pari passu* in right of payment to the Notes or the relevant Suretyship in respect of the Notes; or

(b) is contractually subordinated in right of payment to the Notes or the Suretyships in respect of the Notes, any suretyship in respect of such Indebtedness shall be contractually subordinated in right of payment to the Notes or the relevant Suretyship in respect of the Notes substantially to the same extent as such Indebtedness is subordinated in right of payment to the Notes or the Suretyships.

Until all amounts which may be or become payable by the Issuer and the Surety Providers under the Notes have been irrevocably paid in full and to the extent lawful, each such suretyship will provide that the Surety Provider waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Issuer or any Restricted Subsidiary of the Issuer as a result of any payment by such Surety Provider under its Suretyship.

Each such Suretyship will be released under the circumstances set out under Condition 4.4.

5.8 Limitation on Affiliate Transactions

The Issuer will not, and will not permit any of its Restricted Subsidiaries to, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance, guarantee or suretyship with, or for the benefit of, any Affiliate of the Issuer (each, an **Affiliate Transaction**), unless:

(a) the Affiliate Transaction is on terms that are no less favourable to the Issuer or the relevant Restricted Subsidiary than those that that could be obtained at the time of such transaction in arm's-length dealings in a comparable transaction with a Person that is not such an Affiliate; and

(b) the Issuer delivers to the Trustee:

    (i) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of U.S.$5.0 million, a resolution of the Issuer's Board of Directors set forth in an Officers' Certificate certifying that such Affiliate Transaction complies with this Condition 5.8 and that such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors (or, in the event there is only one disinterested member of the Board of Directors, approved by such disinterested member); and

    (ii) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of U.S.$10.0 million or where there are no Disinterested Directors, an opinion as to the fairness to the Issuer or such Subsidiary of such Affiliate Transaction from a financial point of view issued by a Qualified Expert.

The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of the prior paragraph:

(a) any employment agreement, employee benefit plan, officer or director indemnification agreement or any similar arrangement entered into by the Issuer or any of its Restricted Subsidiaries in the ordinary course of business and payments, compensation, benefits, indemnification arrangements, stock options and bonuses provided pursuant thereto;

(b) transactions between or among the Issuer and/or its Restricted Subsidiaries;

(c) transactions with a Person (other than an Unrestricted Subsidiary of the Issuer) that is an Affiliate of the Issuer solely because the Issuer owns, directly or through a Restricted Subsidiary, an Equity Interest in, or controls, such Person;

(d) any issuance of Equity Interests (other than Disqualified Shares) of the Issuer to Affiliates of the Issuer;

(e) Restricted Payments that do not violate the provisions of Condition 5.2;

(f) arrangements existing on the Issue Date pursuant to written agreements existing on the Issue Date or any amendment, modification or supplement thereto or replacement thereof, provided that following such amendment, modification, supplement or replacement the terms of any such arrangement so amended, modified, supplemented or replaced are not, taken as a whole, more disadvantageous to the holders of Notes and to the Issuer and the Restricted Subsidiaries, as applicable, than the original arrangement as in effect on the Issue Date; and

(g) loans or advances or guarantees of loans to employees in the ordinary course of business in accordance with the past practices of the Issuer or its Restricted Subsidiaries not to exceed U.S.$2.0 million in the aggregate at any one time outstanding.

5.9 Limitation on Dividends and other Payment Restrictions Affecting Restricted Subsidiaries

(a) The Issuer will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

(i) pay dividends or make any other distributions on its Equity Interests to the Issuer or any of its Restricted Subsidiaries, or with respect to any other interest or participation in, or measured by, its profits;

(ii) pay any indebtedness owed to the Issuer or any of its Restricted Subsidiaries;

(iii) make loans or advances to the Issuer or any of its Restricted Subsidiaries; or

(iv) sell, lease or transfer any of its properties or assets to the Issuer or any of its Restricted Subsidiaries.

(b) The provisions of clauses (a)(i) to (a)(iv) above will not apply to encumbrances or restrictions existing under or by reason of:

(i) the Trust Deed, the Notes (including any Additional Notes), and the Suretyships;

(ii) any applicable law, rule, regulation or order;

(iii) any encumbrance or restriction pursuant to an agreement in effect on or entered into on the Issue Date and any amendments, restatements, modifications, renewals, extensions, supplements, refundings, replacements or refinancings of those agreements; provided that the amendments, restatements, modifications, renewals, extensions, supplements, refundings, replacements or refinancings are not materially more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in those agreements on the Issue Date;

(iv) any instrument governing Indebtedness of a Person acquired by the Issuer or any of its Restricted Subsidiaries, as in effect at the time of such acquisition (except to the extent such Indebtedness was incurred in connection with or in contemplation of such acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired; *provided* that, in the case of Indebtedness, such Indebtedness was permitted by the terms of these Conditions to be incurred;

(v) customary non-assignment provisions in contracts and licenses entered into in the ordinary course of business;

(vi) purchase money obligations for property acquired in the ordinary course of business and Capital Lease Obligations that impose restrictions on the property purchased or leased of the nature described in sub-clause (iv) of clause (a) above;

(vii) Permitted Refinancing Indebtedness permitted to be incurred under clause (e) of the second paragraph of Condition 5.1; *provided* that the restrictions and encumbrances contained in the agreements governing such Permitted Refinancing Indebtedness are either (A) no more restrictive; or (B) not materially less favourable to the Noteholders taken as a whole and determined in good faith by the Board of Directors, than the dividend and other payment restrictions contained in the Indebtedness being refinanced;

(viii) customary provisions limiting the distribution or disposition of assets or property of a Restricted Subsidiary in joint venture agreements entered into in the ordinary course of business;

(ix) any agreement for the sale or other disposition of a Restricted Subsidiary that restricts distributions by that Restricted Subsidiary pending the sale or other disposition;

(x) Liens permitted to be incurred under Condition 5.4 that limit the right of the debtor to dispose of the assets subject to such Liens;

(xi) customary provisions limiting the disposition or distribution of Share Capital, assets or property in merger agreements, asset sale agreements, sale-leaseback agreements, share sale agreements and other similar agreements entered into with the approval of the Board of Directors, which limitation is applicable only to the Share Capital, assets or property that are the subject of such agreements;

(xii) restrictions on cash or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business; and

(xiii) any encumbrance or restriction applicable to a Restricted Subsidiary at the time it becomes a Restricted Subsidiary that is not created in contemplation thereof; *provided* that such restriction applies only to such Restricted Subsidiary and *provided further* that the exception provided by this clause (xiii) shall not apply to any encumbrance or restriction contained in any Indebtedness that refunds, refinances, replaces, defeases or discharges any Indebtedness which was in existence at the time such Restricted Subsidiary became a Restricted Subsidiary.

5.10 Limitation on Issuer Activities

The Issuer will not, and will not permit any of its Restricted Subsidiaries to, engage in any business other than a Permitted Business, except to such extent as would not be material to the Issuer and its Restricted Subsidiaries, taken as a whole.

5.11 Payments for Consent

The Issuer will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any Noteholder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Trust Deed or the Notes unless such consideration is offered to be paid and is paid to all Noteholders that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

5.12 Reports

As long as any Notes are outstanding, the Issuer will furnish to the Noteholders and the Trustee:

(a) within 120 days after the end of the Issuer's fiscal year, annual reports containing the following information with a level of detail that is substantially comparable and similar in scope to this offering memorandum: (i) audited consolidated balance sheet of the Issuer as of the end of the two most recent fiscal years and audited consolidated income statements and statements of cash flow of the Issuer for the three most recent fiscal years, including complete footnotes to such financial statements and the report of the independent auditors on the financial statements; (ii) *pro forma* income statement and balance sheet information, together with explanatory footnotes, for any material acquisitions or dispositions (including, without limitation, any acquisitions or disposition that, individually or in the aggregate when considered with all other acquisition or dispositions that have occurred since the beginning of the most recently completed fiscal year as to which such annual report relates, represent greater than 20% of the consolidated revenues, EBITDA, or assets of the Issuer on a *pro forma* basis) or recapitalisations that have occurred since the beginning of the most recently completed fiscal year as to which such annual report relates; (iii) an operating and financial review of the audited financial statements, including a discussion of the results of operations (including a discussion by business segment), financial condition and liquidity and capital resources, and a discussion of material commitments and contingencies and critical accounting policies; and (iv) a description of all material affiliate transactions, Indebtedness and material financing arrangements;

(b) within 60 days following the end of each of the first three fiscal quarters in each fiscal year of the Issuer, quarterly reports containing the following information: (i) an unaudited condensed consolidated balance sheet as of the end of such quarter and unaudited condensed statements of income and cash flow for the quarterly and year to date periods ending on the unaudited condensed balance sheet date, and the comparable prior year periods for the Issuer, together with condensed footnote disclosure; (ii) *pro forma* income statement and balance sheet information, together with explanatory footnotes, for any material acquisitions or dispositions (including, without limitation, any acquisition or disposition that, individually or in the aggregate when considered with all other acquisitions or dispositions that have occurred since the beginning of the most recently completed fiscal quarter as to which such quarterly report relates, represents greater than 20% of the consolidated revenues, EBITDA or assets of the Issuer on a *pro forma* basis) or recapitalisations that have occurred since the beginning of the most recently completed fiscal quarter as to which such quarterly report relates; and (iii) an operating and financial review of the unaudited financial statements (including a discussion by business segment), including a discussion of the consolidated financial condition and results of operations of the Issuer and any material change between the current quarterly period and the corresponding period of the prior year; and

(c) promptly after the occurrence of (i) a material acquisition, disposition or restructuring (including any acquisition or disposition that would require the delivery of *pro forma* financial information pursuant to clauses (a) or (b) above); (ii) any senior management change at the Issuer or the entry into a compensatory arrangement with a member of senior management; (iii) any change in the auditors of the Issuer or determination that investors should no longer rely upon previously issued financial statements, audited reports, or a completed interim review; (iv) any resignation or a member of the Board of Directors of the Issuer as a result of a disagreement with the Issuer; (v) the entering into an agreement that will result in a Change of Control; (vi) any bankruptcy or receivership or (vii) any material events that the Issuer announces publicly, in each case, a report containing a description of such events.

The Trustee shall have no obligation to read or analyse any information or report delivered to it under this Condition 5.12 and shall have no obligation to determine whether any such information or report complies with the provisions of this Condition 5.12 and shall not be deemed to have notice of anything disclosed therein and shall incur no liability by reason thereof.

All financial statements and pro forma financial information shall be prepared in accordance with IFRS on a consistent basis for the periods presented.

If the Issuer has designated any of its Subsidiaries as Unrestricted Subsidiaries and such Subsidiaries are Significant Subsidiaries, then the quarterly and annual financial information required by this Condition 5.12 will include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, of the financial condition and results of operations of the Issuer and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of the Issuer.

The Issuer will also make available copies of all reports required by this Condition 5.12 on its website.

In addition, so long as any of the Notes remain outstanding, the Issuer will provide to the Trustee (a) within 120 days after the close of each fiscal year, an Officers' Certificate stating as to each such Officer signing such certificate, that (other than with respect to an Officers' Certificate described in (b) below) to the best of his or her knowledge the Issuer and the Surety Providers have kept, observed, performed and fulfilled each and every covenant contained in the Trust Deed and these Conditions and is not in default in the performance or observance of any of the terms, provisions and conditions of the Trust Deed, these Conditions or the Security Agreement; and (b) as soon as possible and in any event within 30 days after the Issuer becomes aware of the occurrence of a Default or an Event of Default, an Officers' Certificate setting forth the details of the Default or Event of Default, and the action which the Issuer proposes to take with respect thereto.

5.13 Designation of Unrestricted and Restricted Subsidiaries

As of the Issue Date, all of the Issuer's Subsidiaries will be Restricted Subsidiaries. However, under the circumstances described in this Condition 5.13, the Issuer will be permitted to designate certain of its subsidiaries as "Unrestricted Subsidiaries". Unrestricted Subsidiaries will not be subject to any of the Conditions in the Trust Deed and will not guarantee or provide a suretyship in respect of the Notes.

The Board of Directors of the Issuer may designate any Restricted Subsidiary (including any newly acquired or newly formed Subsidiaries) to be an Unrestricted Subsidiary if that designation would not cause a Default. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate Fair Market Value of all outstanding Investments owned by the Issuer and its Restricted Subsidiaries in the Subsidiary designated as an Unrestricted Subsidiary will be deemed to be an Investment made as of the time of the designation and will reduce the amount available for Restricted Payments under Condition 5.2 or under one or more clauses of the definition of Permitted Investments, as determined by the Issuer. That designation will only be permitted if the Investment would be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary. The Board of Directors of the Issuer may redesignate any Unrestricted Subsidiary to be a Restricted Subsidiary if that redesignation would not cause a Default.

Any designation of a Subsidiary of the Issuer as an Unrestricted Subsidiary will be evidenced to the Trustee by filing with the Trustee on the effective date of such designation a certified copy of the Board Resolution giving effect to such designation and an Officers' Certificate certifying that such designation complied with the preceding conditions and was permitted by Condition 5.2. If, at any time, any Unrestricted Subsidiary would fail to meet the requirements of being an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of the Trust Deed and any Indebtedness of such Subsidiary will be deemed to be incurred by a Restricted Subsidiary of the Issuer as of such date and, if such Indebtedness is not permitted to be incurred as of such date under Condition 5.1, the Issuer will be in default of such Condition.

The Board of Directors of the Issuer may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that such designation will be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of the Issuer of any outstanding Indebtedness of such Unrestricted Subsidiary and such designation will only be permitted if (1) such Indebtedness is permitted under Condition 5.1, calculated on a *pro forma* basis as if such designation had occurred at the beginning of the four-quarter reference period and (2) no Default or Event of Default would be in existence following such designation.

5.14 Restriction on Payment of Proceeds

Other than pursuant to Condition 5.15 (Restriction on Use of Proceeds), the Issuer will not, and will not permit, any proceeds of the issue of the Notes to be paid, directly or indirectly, to Public Joint-Stock Company "Commercial Bank "Finansova Initsiatyva" (**PJSC Finansova Initsiatyva**).

5.15 Restriction on Use of Proceeds

The Issuer will use such amount of the net proceeds of the issue of the Notes as is required for the repayment of all Intragroup Indebtedness and the release of any related security interest existing as at the Issue Date, on or before 31 January 2011.

5.16 Deposits with PJSC Finansova Initsiatyva

The Issuer will, and will ensure that each Subsidiary will, withdraw all deposits held with PJSC Finansova Initsiatyva on or before 31 January 2011, and thereafter the Issuer will permit, and will procure each Subsidiary to permit, only such payments and settlement flows to be made into PJSC Finansova Initsiatyva as are essential in the ordinary course of business of the Issuer or a Group Company.

6. INTEREST

6.1 Interest Rate and Interest Payment Dates

The Notes bear interest on their outstanding principal amount from and including 29 October 2010 at the rate of 10 per cent. per annum, payable semi-annually in equal amounts in arrear on 29 April and 29 October in each year (each an **Interest Payment Date**). The first payment (for the period from and including 29 October 2010 to but excluding 29 April 2011 and amounting to USD 50 per USD 1,000 principal amount of Notes) shall be made on 29 April 2011.

6.2 Interest Accrual

Each Note will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment in which event interest will continue to accrue as provided in the Trust Deed.

6.3 Calculation of Broken Interest

When interest is required to be calculated in respect of a period of less than a full half year, it shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

7. PAYMENTS

7.1 Payments in respect of Notes

Payment of principal and interest will be made by transfer to the registered account of the Noteholder or by U.S. dollar cheque drawn on a bank that processes payments in U.S. dollars mailed to the registered address of the Noteholder if it does not have a registered account. Payments of principal and payments of interest due otherwise than on an Interest Payment Date will only be made against surrender of the relevant Certificate at the specified office of any of the Agents. Interest on Notes due on an Interest Payment Date will be paid to the holder shown on the register of Noteholders at the close of business on the date (the **record date**) being one day before the relevant Interest Payment Date.

For the purposes of this Condition, a Noteholder's registered account means the U.S. dollar account maintained by or on behalf of it with a bank that processes payments in U.S. dollars, details of which appear on the register of Noteholders at the close of business, in the case of principal and interest due otherwise than on an Interest Payment Date, on the second Business Day (as defined below) before the due date for payment and, in the case of interest due on an Interest Payment Date, on the relevant record date, and a Noteholder's registered address means its address appearing on the register of Noteholders at that time.

7.2 Payments subject to Applicable Laws

Payments in respect of principal and interest on Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 9.

7.3 No commissions

No commissions or expenses shall be charged to the Noteholders in respect of any payments made in accordance with this Condition.

7.4 Payment on Business Days

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Business Day (as defined below), for value the first following day which is a Business Day) will be initiated and, where payment is to be made by U.S. Dollar cheque, the cheque will be mailed, on the Business Day preceding the due date for payment or, in the case of a payment of principal or a payment of interest due otherwise than on an Interest Payment Date, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, if the Noteholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment or is lost in the mail.

In this Condition **Business Day** means a day (other than a Saturday or Sunday) on which commercial banks are open for business in London and New York City and, in the case of presentation of a Note Certificate, in the place in which the Note Certificate is presented.

7.5 Partial Payments

If the amount of principal or interest which is due on the Notes is not paid in full, the Registrar will annotate the register of Noteholders with a record of the amount of principal, premium (if any) or interest in fact paid.

7.6 Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Issuer and the Surety Providers reserve the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that:

(a) there will at all times be a Principal Paying Agent;

(b) there will at all times be an Agent (which may be the Principal Paying Agent) having a specified office in a European city which so long as the Notes are admitted to official listing on the London Stock Exchange, shall be London or such other place as the UK Listing Authority may approve;

(c) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive;

(d) there will at all times be a Paying Agent in a jurisdiction within Europe, other than the jurisdiction(s) in which the Issuer and any Surety Provider are incorporated; and

(e) there will at all times be a Registrar.

Notice of any termination or appointment and of any changes in specified offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 14.

8. REDEMPTION AND PURCHASE

8.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 29 October 2015.

8.2 Redemption at the Option of the Holders Upon a Change of Control

(a) Noteholders' Option

Upon the occurrence after the Issue Date of a Change of Control (as defined below), each Noteholder will have the right to require that the Issuer purchase all or any part of such Noteholder's Notes at a purchase price in cash equal to 101% of the principal amount thereof on the date of purchase plus accrued and unpaid interest and Additional Amounts, if any, to the date of purchase (subject to the right of Noteholders of record on the relevant record date to receive interest on the relevant interest payment date).

(b) Definition

For purposes of these Conditions, **Change of Control** means:

(i) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), other than one or more Permitted Holders, becomes the "Beneficial Owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 50% of the total voting power of the Voting Stock of the Issuer; or

(ii) (A) all or substantially all of the assets of the Issuer and its Restricted Subsidiaries, taken as a whole, are, directly or indirectly, sold, leased, transferred, conveyed or otherwise transferred to any Person in one or a series of related transaction other than to a Permitted Holder or (B) the Issuer consolidates or merges with or into another Person or any Person consolidates or merges with or into the Issuer, in either case under this clause (ii), in one transaction or a series of related transactions in which immediately after the consummation thereof any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), other than one or more Permitted Holders, is or becomes the "Beneficial Owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 50% of the total voting power of the Voting Stock of the Issuer or the surviving or transferee Person; or

(iii) the first day on which a majority of the members of the Board of Directors of the Issuer are not Continuing Directors; or

(iv) the Issuer shall adopt a plan of liquidation or dissolution or any such plan shall be approved by the stockholders of the Issuer other than a transaction that complies with Condition 5.6.

For the purposes of this definition, **control** when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise.

(c) Change of Control Offer

Within 30 days following any Change of Control, the Issuer will notify each Noteholder in accordance with Condition 14 with a copy to the Trustee (the **Change of Control Offer**) stating:

(i) that a Change of Control has occurred and that such Noteholder has the right to require the Issuer to purchase such Noteholder's Notes at a purchase price in cash equal to 101% of the principal amount thereof on the date of purchase, plus accrued and unpaid interest and Additional Amounts, if any, to the date of purchase (subject to the right of Noteholders of record on the relevant record date to receive interest on the relevant interest payment date);

(ii) the circumstances and relevant facts regarding such Change of Control (including information with respect to *pro forma* historical income, cash flow and capitalisation, in each case after giving effect to such Change of Control);

(iii) the purchase date (which shall be no earlier than 30 days nor later than 60 days from the date such notice is given); and

(iv) the instructions, as determined by the Issuer, consistent with this Condition 8, that a Noteholder must follow in order to have its Notes purchased.

(d) Circumstances in Which Change of Control Offer Not Required

The Issuer will not be required to make a Change of Control Offer following a Change of Control if (i) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in these Conditions applicable to a Change of Control Offer made by the Issuer and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

(e) Compliance with Applicable Laws

The Issuer will comply, to the extent applicable, with the requirements of applicable securities laws or regulations in connection with the purchase of Notes as a result of a Change of Control. To the extent that the provisions of any applicable securities laws or regulations conflict with the provisions of this Condition 8, the Issuer will comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under this Condition 8.2 by virtue of its compliance with such securities laws or regulations.

8.3 Redemption at the Option of the Holders Upon Failure to Redeem Intragroup Indebtedness

(a) Noteholders' Option

In the event that the requirements of Condition 5.15 are not met on or before 31 January 2011, each Noteholder will have the right to require that the Issuer purchase all or any part of such Noteholder's Notes at a purchase price in cash equal to 101% of the principal amount thereof on the date of purchase plus accrued and unpaid interest and Additional Amounts, if any, to the date of purchase (subject to the right of Noteholders of record on the relevant record date to receive interest on the relevant interest payment date).

(b) Failure to Redeem Offer

If the Issuer fails to meet the requirements of Condition 5.15, the Issuer will notify each Noteholder in accordance with Condition 14 with a copy to the Trustee (the **Failure to Redeem Offer**) stating:

(i) that it has failed to meet the requirements of Condition 5.15 and that such Noteholder has the right to require the Issuer to purchase all or any part of such Noteholder's Notes at a purchase price in cash equal to 101% of the principal amount thereof on the date of purchase, plus accrued and unpaid interest and Additional Amounts, if any, to the date of purchase (subject to the right of Noteholders of record on the relevant record date to receive interest on the relevant interest payment date);

(ii) the purchase date (which shall be no earlier than 30 days nor later than 60 days from the date such notice is given); and

(iii) the instructions, as determined by the Issuer, consistent with this Condition 8, that a Noteholder must follow in order to have its Notes purchased.

(c) Compliance with Applicable Laws

The Issuer will comply, to the extent applicable, with the requirements of applicable securities laws or regulations in connection with the purchase of Notes pursuant to this Condition 8.3. To the extent that the provisions of any applicable securities laws or regulations conflict with the provisions of this Condition 8, the Issuer will comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under this Condition 8.3 by virtue of its compliance with such securities laws or regulations.

8.4 Redemption for Taxation Reasons

The Notes may also be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 14 (which notice shall be irrevocable), at the principal amount thereof, together with interest accrued to (but excluding) the date fixed for redemption, if:

(a) the Issuer (or, if the Surety Agreement were called upon for payment, a Surety Provider) has satisfied the Trustee that it has been and/or would be obliged on the next payment due under the Notes to pay Additional Amounts as provided or referred to in Condition 9 (or in any undertakings given in addition to, or in substitution for, Condition 9 pursuant to the Trust Deed) as a result of any change in, or amendment to, the laws or regulations of Cyprus, Ukraine and/or any other jurisdiction in which the Issuer or the relevant Surety Provider is or would at the time of the relevant payment be generally subject to tax and/or, in each case, any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date; and

(b) such obligation cannot be avoided by the Issuer and/or the relevant Surety Provider, as the case may be, taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the relevant Surety Provider (as the case may be) would be obliged to pay such additional amounts were a payment in respect of the Notes then due and provided further that, for these purposes, references to the Issuer shall also be read as references to any entity substituted for it as contemplated in Condition 15.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee a legal opinion provided by lawyers of good standing and qualified to advise on the law of the jurisdiction subjecting such payments to tax and causing Additional Amounts to be paid under Condition 9 and an Officers' Certificate of the Issuer stating that the obligation referred to in (a) above cannot be avoided by the Issuer and/or the relevant Surety Provider, as the case may be, taking reasonable measures available to it or them and the Trustee shall be entitled to accept such opinion as sufficient evidence that the requirements set out in (a) are satisfied and such Officers' Certificate as sufficient evidence of the satisfaction of the condition precedent set out in (b) above in which event they shall be conclusive and binding on the Noteholders.

8.5 Purchases

The Issuer, each Surety Provider or any of their respective Subsidiaries may at any time purchase Notes in any manner and at any price.

8.6 Cancellations

All Notes which are (a) redeemed or (b) purchased by or on behalf of the Issuer, a Surety Provider or any of their respective Subsidiaries will forthwith be cancelled, and accordingly may not be reissued or resold.

8.7 Notices Final

Upon the expiry of any notice as is referred to in Condition 8.2 the Issuer shall be bound to redeem the Notes to which the notice refers in accordance with the terms of such paragraph.

9. TAXATION

9.1 Payment without Withholding

All payments of principal, premium and interest in respect of the Notes by or on behalf of the Issuer or a Surety Provider shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of any of the Relevant Jurisdictions, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer or, as the case may be, the Surety Provider will pay such additional amounts (**Additional Amounts**) as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note:

(a) presented for payment by or on behalf of a holder who is liable to the Taxes in respect of the Note by reason of his having some connection with any Relevant Jurisdiction other than the mere holding of the Note; or

(b) presented for payment in Cyprus or Ukraine; or

(c) where such withholding or deduction is imposed on a payment to or for an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union; or

(e) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to such additional amounts on presenting the same for payment on the last day of such period of 30 days assuming (whether or not such is in fact the case) that day to have been a Business Day (as defined in Condition 7); or

(f) presented for payment by, or on behalf of, a holder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority.

9.2 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in respect of such amounts under this Condition or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed.

10. PRESCRIPTION

Claims in respect of principal and interest will become prescribed unless made within 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date, as defined in Condition 9.

11. EVENTS OF DEFAULT

11.1 Events of Default

Each of the following is an Event of Default with respect to the Notes (each, an **Event of Default**):

(a) a default for fourteen days in the payment when due of interest on the Notes;

(b) a default in the payment of principal of, or premium, if any, on any Note when due at its Stated Maturity, upon optional redemption, a repurchase required by these Conditions, acceleration or otherwise;

(c) the failure by the Issuer to comply with its obligations under Condition 5.3 (after five Business Days of such failure to comply) or Condition 5.6 (upon such failure to comply);

(d) the failure by the Issuer or any of its Restricted Subsidiaries for forty-five days after written notice from the Trustee or the Holders of not less than 25% of the aggregate principal amount of the Notes then outstanding to comply with any of the obligations in the Trust Deed (other than a default in performance, or breach, or a covenant or agreement which is specifically dealt with in clauses (a), (b) or (c)), the Suretyship or the Surety Agreement;

(e) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Issuer or any of its Restricted Subsidiaries (or the payment of which is guaranteed by or covered by a suretyship of the Issuer or any of its Restricted Subsidiaries) whether such Indebtedness, guarantee or suretyship now exists, or is created after the Issue Date, if that default:

(i) is caused by a failure to pay principal, interest or premium, if any, on such Indebtedness prior to the expiration of the grace period provided in such Indebtedness on the date of such default (a **Payment Default**); or

(ii) results in the acceleration of such Indebtedness prior to its expressed maturity,

and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates to U.S.$10.0 million or more;

(f) the taking of any of the following actions by the Issuer or any Restricted Subsidiary pursuant to or within the meaning of any Bankruptcy Law: (A) the commencement of a voluntary case (including, the appointment of a voluntary administrator); (B) the consent to the entry of an order for relief against it in an involuntary case; (C) the consent to the appointment of a Custodian of it or for any substantial part of its property (unless such appointment is done on a solvent basis or is in connection with a transaction or series of related transactions permitted by Condition 5.6); or (D) the making of a general assignment for the benefit of its creditors, except that it shall not be an Event of Default under this clause (f) with respect to a Restricted Subsidiary if (i) the Capital Stock of such Restricted Subsidiary was acquired by the Issuer or another Restricted Subsidiary after the Issue Date; (ii) such Restricted Subsidiary is a Ukrainian company; and (iii) the taking of such actions shall have occurred prior to the date of such acquisition; provided that the taking of any such action has no effect on the Issuer or any other Restricted Subsidiaries;

(g) a court of competent jurisdiction enters an order, judgment or decree under any Bankruptcy Law that: (A) is for relief against the Issuer or any Restricted Subsidiary in an involuntary case; (B) appoints a Custodian of the Issuer or any Restricted Subsidiary or for any substantial part of any of their respective property; or (C) orders the winding-up or liquidation of the Issuer or any Restricted Subsidiary (unless such winding up or liquidation is done on a solvent basis or is in connection with a transaction or series of related transactions permitted by Condition 5.6); and in any of (A) through (C), the order or decree remains unstayed and in effect for 60 days, except that it shall not be an Event of Default under this clause (g) with respect to a Restricted Subsidiary if (i) the Capital Stock of such Restricted Subsidiary was acquired by the Issuer or another Restricted Subsidiary after the Issue Date; (ii) such Restricted Subsidiary is a Ukrainian company; and (iii) prior to the date of such acquisition, a court of competent jurisdiction had entered into such an order, judgment or decree under a Bankruptcy Law of Ukraine; provided that such order, judgement or decree has no effect on the Issuer or any other Restricted Subsidiaries;

(h) the rendering of any judgment or decree that is not subject to appeal for the payment of money in an amount in excess of U.S.$10.0 million or its equivalent in a currency other than U.S. Dollars against the Issuer or a Restricted Subsidiary, that is not discharged, or bonded or covered by indemnities or insurance pursuant to which the indemnifier or insurer acknowledges liability and makes payment with respect to such liability within 30 days of such liability becoming due, if such judgment or decree remains outstanding for a period of 60 days following such judgment or decree and is not discharged, waived or stayed; or

(i) except as permitted by the Trust Deed or the Surety Agreement, any Suretyship shall be held in any judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect or there shall be any breach of the Surety Agreement or any Surety Provider, or any Person acting on behalf of any Surety Provider, shall deny or disaffirm in writing its obligations under its Suretyship.

11.2 Consequences of Default

(a) If an Event of Default (other than an Event of Default specified in clause (f) or (g) of Condition 11.1) occurs and is continuing, the Trustee may, or if so directed or requested by the Holders of at least 25% in principal amount of the outstanding Notes shall, subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction, declare, by notice in writing to the Issuer and the Surety Providers, the Notes to be immediately due and repayable at their principal amount together with accrued interest and all other amounts due on the Notes; *provided*, *however*, that, after such acceleration, but before a judgment or decree based on acceleration, the Holders of a majority in aggregate principal amount of the outstanding Notes may rescind and annul such acceleration if all Events of Default, other than the non-payment of accelerated principal, interest and other amounts due, have been cured or waived. Upon such a declaration, such principal and interest and all other amounts due shall be due and payable immediately. If an Event of Default relating to Condition 11.1(f) or (g) occurs and is continuing, the Notes will automatically become and be immediately due and payable at such amount aforesaid without any declaration or other act on the part of the Trustee or any Noteholders.

(b) In the event of a declaration of acceleration of the Notes because an Event of Default in Condition 11.1(e) has occurred and is continuing, the declaration of acceleration of the Notes shall be automatically annulled if the event of default or payment default triggering such Event of Default pursuant to Condition 11.1(e) shall be remedied or cured by the Issuer or a Restricted Subsidiary or waived by the holders of the relevant Indebtedness within ten Business Days after the declaration of acceleration with respect thereto and if (i) the annulment of the acceleration of the Notes would not conflict with any judgment or decree of a court of competent jurisdiction and (ii) all existing Events of Default, except non-payment of principal, premium or interest on the Notes that became due solely because of the acceleration of the Notes, have been cured or waived.

12. ENFORCEMENT

12.1 The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer and/or the Surety Providers as it may think fit to enforce the provisions of the Trust Deed, the Surety Agreement and the Notes, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Surety Agreement or the Notes unless (a) it shall have been so directed by an Extraordinary Resolution of the Noteholders (which shall for these purposes be passed by a majority of the Noteholders consisting of more than 50% of the principal amount of the Notes for the time being outstanding) or so requested in writing by the holders of at least 25% of the principal amount of the Notes then outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

12.2 No Noteholder shall be entitled to proceed directly against the Issuer or the Surety Providers unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

13. REPLACEMENT OF CERTIFICATES

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

14. NOTICES

14.1 Notices to the Noteholders

All notices to the Noteholders will be valid if mailed to them at their respective addresses in the register of Noteholders maintained by the Registrar. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any notice shall be deemed to have been given on the second day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

14.2 Notices from the Noteholders

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together with the relative Certificate, with the Registrar or, if the Certificates are held in a clearing system, may be given through the clearing system in accordance with its standard rules and procedures.

15. SUBSTITUTION

Subject to Condition 5.6, the Trustee may, without the consent of the Noteholders, agree with the Issuer and the Surety Providers to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Notes and the Trust Deed of any other company being a Subsidiary of the Issuer subject to:

(a) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution; and

(b) certain other conditions set out in the Trust Deed being complied with.

16. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND AUTHORISATION

16.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution (as defined in the Trust Deed) of any of these Conditions or any of the provisions of the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution (or at any adjourned such meeting) will be one or more persons present holding or representing more than 50% of the principal amount of the Notes for the time being outstanding, except that, at any meeting the business of which includes a Basic Term Modification (as described below) (or at any adjourned such meeting), the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than 90% of the principal amount of the Notes for the time being outstanding. The Trust Deed provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Trust Deed by a majority of the Noteholders holding or representing more than 50% in principal amount of the Notes for the time being outstanding or, in relation to any meeting to consider a Basic Term Modification, by a majority of the Noteholders holding or representing not less than 90% of the principal amount of the Notes for the time being outstanding; (ii) a resolution in writing signed by or on behalf of the Noteholders holding or representing more than 50% of the principal amount of the Notes for the time being outstanding or, in relation to any resolution to consider a Basic Term Modification, by Noteholders holding or representing not less than 90% of the principal amount of the Notes for the time being outstanding; or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of Noteholders holding or representing more than 50% of the principal amount of the Notes for the time being outstanding or, in relation to any consent to consider a Basic Term Modification, by or on behalf of Noteholders holding or representing not less than 90% of the principal amount of the Notes for the time being outstanding, shall in each case, be effective as an Extraordinary Resolution of the Noteholders. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at any meeting and whether or not they voted on the resolution.

An Extraordinary Resolution may be passed by the holders of more than 50% of the principal amount of the Notes for the time being outstanding or, in relation to a Basic Terms Modification, by the holders of not less than 90% of the principal amount of the Notes for the time being outstanding.

16.2 Amendments and Waivers

(a) The matters that require a quorum of not less than 90% of the aggregate principal amount of the Notes for the time being outstanding (as described above) (each a **Basic Term Modification**) are:

1. reduce the principal amount of Notes whose Holders must consent to an amendment, supplement or waiver;

2. reduce the principal of or change the Stated Maturity of any Note or alter the provisions with respect to the redemption of the Notes;

3. reduce the rate of or change the Stated Maturity of any payment of interest, including default interest, on any Note;

4. waive a Default or Event of Default in the payment of principal, premium, interest or premium, if any, on the Notes (except a rescission of acceleration of the Notes by the Holders of at least a majority in aggregate principal amount of the Notes and a waiver of the payment default that resulted from such acceleration);

5. make any Note payable in money other than that stated in the Notes;

6. make any change in the provisions of the Trust Deed relating to waivers of past Defaults or the rights of Noteholders to receive payments of principal, premium, interest or premium, if any, on the Notes;

7. waive a redemption payment with respect to any Note;

8. release any Surety Provider from any of its obligations under its Suretyship, Trust Deed or the Surety Agreement, except in accordance with the terms of the Trust Deed; or

9. make any change in the preceding amendment and waiver provisions.

(b) Subject to the modification or abrogation of Basic Term Modifications set out in clause 16.2 (a) above, the Trustee may agree, without the consent of the Noteholders, to any modification (other than a Basic Term Modification) of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed, the Surety Agreement or the Agency Agreement, or determine, without any such consent as aforesaid, that any Default or Event of Default in respect of Condition 11.1(d) shall not be treated as such (provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders) or may agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error or an error which is, in the opinion of the Trustee, proven.

16.3 Trustee to have Regard to Interests of Noteholders as a Class

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, any of the Surety Providers, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 9 and/or any undertaking given in addition to, or in substitution for, Condition 9 pursuant to, or otherwise provided for in, the Trust Deed.

16.4 Notification to the Noteholders

Any modification, abrogation, waiver, authorisation, determination or substitution shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any modification or substitution shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 14.

17. CERTIFICATES OF THE ISSUER

The Trust Deed provides that any Officers' Certificate delivered to the Trustee pursuant to these Conditions may, in the absence of manifest error, be relied upon by the Trustee and, if so relied upon, shall be conclusive and binding on the Issuer, the Surety Providers and the Noteholders and the Trustee shall not be liable to the Noteholders, or any other person for such reliance. The Trustee shall not be bound in any case to call for further evidence in respect of any Officers' Certificate delivered to it pursuant to these Conditions.

18. INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER AND THE SURETY PROVIDERS

18.1 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification and/or securing and/or prefunding of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified to its satisfaction.

18.2 Trustee Contracting with the Issuer and the Surety Providers

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (i) to enter into business transactions with the Issuer and/or the Surety Providers and/or any of the Issuer's or the Surety Providers' other Subsidiaries and to act as trustee for the holders of any other securities issued, guaranteed by, for which there is a suretyship in respect of or relating to, the Issuer and/or the Surety Providers and/or any of the Issuer's or the Surety Providers' other Subsidiaries, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

19. FURTHER ISSUES

The Issuer is at liberty from time to time without the consent of the Noteholders to create and issue further notes or bonds (**Additional Notes**) (whether in bearer or registered form) either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding notes or bonds of any series (including the Notes) constituted by the Trust Deed or any supplemental deed or (b) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may determine at the time of the issue. Any further notes or bonds which are to form a single series with the outstanding notes or bonds of any series (including the Notes) constituted by the Trust Deed or any supplemental deed shall, and any other further notes or bonds may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the Noteholders or bonds of other series in certain circumstances where the Trustee so decides.

20. GOVERNING LAW, ARBITRATION AND JURISDICTION

20.1 Governing Law

The Trust Deed, the Notes and the Surety Agreement, and any non contractual obligations arising out of or in connection with them, are governed by, and will be construed in accordance with, English law.

20.2 Arbitration/Jurisdiction

Any dispute arising out of or connected with the Notes, the Trust Deed or the Surety Agreement, including a dispute as to the validity, existence or termination of the Notes, the Trust Deed or the Surety Agreement or the consequences of their nullity and/or this Condition 20.2 (a **Dispute**), shall be resolved:

(a) subject to Condition 20.2(b) below, by arbitration in London, England, conducted in the English language by three arbitrators, in accordance with the LCIA Rules, which rules are deemed to be incorporated by reference into this Condition, save that Article 5.6 of the LCIA Rules shall be amended as follows: "unless the parties agree otherwise, the third arbitrator, who shall act as chairman of the tribunal, shall be nominated by the two arbitrators nominated by or on behalf of the parties. If he is not so nominated within 30 days of the date of nomination of the later of the two party-nominated arbitrators to be nominated, he shall be chosen by the LCIA". The parties hereby agree that any restriction in the LCIA Rules upon the nomination or appointment of an arbitrator by reason of nationality shall not apply to any arbitration commenced pursuant to this Condition. Save as provided in Condition 20.2(b), the parties agree to exclude the jurisdiction of the English court under section 45 and 69 of the Arbitration Act 1996; or

(b) at the option of the Trustee (or where entitled to do so) any Noteholder, by proceedings brought in the courts of England, which courts are to have exclusive jurisdiction. The Issuer and each Surety Provider has in the Trust Deed and the Surety Agreement irrevocably submitted to the 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. If the Trustee or, as the case may be, a Noteholder, is in the position of a Respondent (as defined in the LCIA Rules) and the Trustee or Noteholder wishes to exercise this option, it must do so by notice to the other parties to the Dispute within 30 days of service on it of the Request for Arbitration (as defined in the LCIA Rules).

For the avoidance of doubt, Condition 20.2(b) is for the benefit of the Trustee and Noteholders alone and shall not limit the right of the Trustee or Noteholders to bring proceedings in any other court of competent jurisdiction.

20.3 Appointment of Process Agent

Each of the Issuer and the Surety Providers has, in the Trust Deed and the Surety Agreement, irrevocably and unconditionally appointed Law Debenture Corporate Services Limited as its agent for service of process in England in respect of any proceedings and have undertaken that in the event of such agent ceasing so to act it will appoint such other person as the Trustee may approve as its agent for that purpose.

20.4 Consent to enforcement etc.

The Issuer and the Surety Providers consent generally in respect of any proceedings to the giving of any relief or the issue of any process in connection with such proceedings, including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment or award which may be made or given in such proceedings.

21. RIGHTS OF THIRD PARTIES

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

22. DEFINITIONS

Acquired Debt means, with respect to any specified Person (i) Indebtedness of any other Person existing at the time such other Person is merged, consolidated, amalgamated or otherwise combined with or into or became a Restricted Subsidiary of such specified Person, whether or not such Indebtedness is incurred in connection with, or in contemplation of, such other Person merging, consolidating, amalgamating or otherwise combining with or into, or becoming a Restricted Subsidiary of, such specified Person.

Additional Amounts has the meaning set forth in Condition 9.2.

Additional Assets means:

(a) any property, plant or equipment used or useful in a Permitted Business;

(b) the Share Capital of a Person that becomes a Restricted Subsidiary as a result of the acquisition of such Share Capital by the Issuer or another Restricted Subsidiary; or

(c) Share Capital constituting a minority interest in any Person that at such time is a Restricted Subsidiary and a majority of whose Share Capital is owned by the Issuer or a Restricted Subsidiary.

Additional Surety Provider means any Restricted Subsidiary that provides a suretyship in respect of the Notes pursuant to the provisions of Condition 4.2.

Additional Suretyship means a suretyship in respect of the Notes pursuant to a supplemental Surety Agreement or other documentation to such effect.

Additional Notes has the meaning set forth in Condition 19.

Affiliate of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, **control** when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; provided that beneficial ownership of 10% or more of the Voting Stock of a Person will be deemed to be control. The terms **controlling** and **controlled** have meanings correlative to the foregoing.

Agent means any agent appointed pursuant to the Agency Agreement.

Asset Sale means:

(a) the sale, lease, conveyance or other disposition of any tangible or intangible assets or rights of the Issuer or a Restricted Subsidiary; *provided* that the sale, conveyance or other disposition of all or substantially all of the assets of the Issuer and its Restricted Subsidiaries taken as a whole will be governed by the provisions of these Conditions described above under the provisions described above under Condition 5.6 and not by the provisions of Condition 5.3; and

(b) the issuance of Equity Interests in any Restricted Subsidiary of the Issuer or the sale of Equity Interests in any of its Subsidiaries.

Notwithstanding the preceding, none of the following items will be deemed to be an Asset Sale:

(i) any single transaction or series of related transactions that involves assets having a Fair Market Value of less than U.S.$1.0 million;

(ii) a transfer of assets between or among the Issuer and its Restricted Subsidiaries;

(iii) an issuance of Equity Interests by a Restricted Subsidiary of the Issuer to the Issuer or to a Restricted Subsidiary of the Issuer;

(iv) the sale, lease, conveyance or disposition of inventory, or accounts receivable, stock-in-trade, goods, services and other current assets in the ordinary course of business and any sale or other disposition of damaged, worn-out or obsolete assets in the ordinary course of business (including, for the avoidance of doubt, products, inventory or accounts receivable or licensing of rights or intellectual property that are, in the reasonable judgment of the Issuer, no longer economically practicable to maintain or useful in the conduct of the business of the Issuer and its Restricted Subsidiaries taken as a whole);

(v) the sale or other disposition of cash or Cash Equivalents;

(vi) the granting of Liens not prohibited by Condition 5.4;

(vii) a Restricted Payment that does not violate Condition 5.2; and

(viii) the waiver, compromise, settlement, release or surrender of any right or claim in the ordinary course of business.

Attributable Debt in respect of a sale and leaseback transaction means, at the time of determination, the present value of the obligation of the lessee for net rental payments during the remaining term of the lease included in such sale and leaseback transaction (including any period for which such lease has been extended or may, at the option of the lessor, be extended) or the earliest date on which the lessee may terminate such lease without penalty or upon payment of a penalty (in which case the rental payments shall include such penalty). Such present value shall be calculated using a discount rate equal to the rate of interest implicit in such transaction, determined in accordance with IFRS; *provided however*, that if such sale and leaseback transaction results in a Capital Lease Obligation, the amount of Indebtedness represented thereby will be determined in accordance with the definition of "Capital Lease Obligation".

Bankruptcy Law means Title 11, U.S. Code, or any similar U.S. Federal, state or non-U.S. law for the relief of debtors, and any analogous procedures in the jurisdiction of organisation of any present or future Restricted Subsidiary.

Beneficial Owner has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular "person" (as that term is used in Section 13(d)(3) of the Exchange Act), such "person" will be deemed to have beneficial ownership of all securities that such "person" has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only after the passage of time. The terms **Beneficially Owns** and **Beneficially Owned** have a corresponding meaning.

Board of Directors means

(a) with respect to a corporation, the board of directors of the corporation or any committee thereof duly authorised to act on behalf of such board;

(b) with respect to a partnership, the board of directors of the general partner of the partnership;

(c) with respect to a limited liability company, the managing member or members or any controlling committee of managing members thereof; and

(d) with respect to any other Person, the board or committee of such Person serving a similar function.

Unless otherwise stated herein, all references to the "Board of Directors" shall be to the Board of Directors of the Issuer.

Board Resolution means a duly authorised resolution of the Board of Directors.

Business Day means a day other than a Saturday, Sunday or other day on which commercial banking institutions are authorised or required by law to close in London or Ukraine.

Capital Lease Obligation means an obligation that is required to be classified and accounted for as a capital or finance lease for financial reporting purposes in accordance with IFRS, and the amount of Indebtedness represented by such obligation shall be the capitalised amount of such obligation determined in accordance with IFRS; and the Stated Maturity thereof shall be the date of the last scheduled payment of rent or any other amount due under such lease without payment of a penalty.

Cash Equivalents means:

(a) securities (i) issued or directly and fully guaranteed or insured by the U.S. government or any agency or instrumentality of the U.S. government (provided that the full faith and credit of the United States is pledged in support of those securities), or (ii) which are denominated in U.S. dollars and are issued by, or directly and fully guaranteed or insured by, a member state of the European Union or Ukraine on the Issue Date, or any agency or instrumentality thereof, in each case having maturities of not more than six months from the date of acquisition;

(b) certificates of deposit, time deposits and other bank deposits in U.S. dollars or euro with maturities of six months or less from the date of acquisition, bankers' acceptances with maturities not exceeding six months and overnight bank deposits, in each case, with any commercial bank having capital and surplus in excess of U.S.$500.0 million (or the foreign currency equivalent thereof) and a rating of A l/P-1 (or such similar equivalent rating) or better from at least one internationally recognised statistical rating organisation;

(c) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clause (b) above entered into with any financial institution meeting the qualifications specified in clause (b) above;

(d) commercial paper having one of the two highest ratings obtainable from Moody's or S&P and in each case maturing within one year after the date of acquisition;

(e) investments in securities with maturities of six months or less from the date of acquisition issued or guaranteed by any state, commonwealth or territory of a member state of the European Union or the United States, or by any political subdivision or authority thereof; and

(f) money market funds at least 95% of the assets of which constitute Cash Equivalents of the kinds described in clauses (a) through (e) of this definition.

Change of Control has the meaning set forth in Condition 8.2(b).

Change of Control Offer has the meaning set forth in Condition 8.2(b).

Commodities Agreement means, in respect of any Person, any commodity futures contract, forward contract, option or similar agreement or arrangement (including derivative agreements or arrangements), as to which such Person is a party or beneficiary.

Consolidated EBITDA means, with respect to any specified Person for any period, the Consolidated Net Income of such Person for such period plus, without duplication:

(a) all expense or provision for taxes based on income or profits of such Person and its Restricted Subsidiaries for such period, to the extent that such expense or provision for taxes was deducted in computing such Consolidated Net Income; *plus*

(b) the Fixed Charges of such Person and its Restricted Subsidiaries for such period, to the extent that such Fixed Charges were deducted in computing such Consolidated Net Income; *plus*

(c) depreciation, amortisation and any other non-cash items for such period to the extent deducted in determining Consolidated Net Income for such period (other than any non-cash item which requires the accrual of, or a reserve for, cash charges for any future period) of the Issuer and the Restricted Subsidiaries (including amortisation of capitalised debt issuance costs for such period and any non-cash compensation expense, realised for grants of stock options or other rights to officers, directors and employees), all of the foregoing determined on a consolidated basis in accordance with IFRS; *minus*

(d) to the extent they increase Consolidated Net Income, net after-tax exceptional or non-recurring gains; *plus*

(e) to the extent they decrease Consolidated Net Income, net after-tax exceptional or non-recurring losses; *minus*

(f) to the extent they increase Consolidated Net Income, non-cash items (including the partial or entire reversal of reserves taken in prior periods, but excluding reversals of accruals or reserves for cash charges taken in prior periods and excluding the accrual of revenue in the ordinary course of business) for such period;

in each case, on a consolidated basis and determined in accordance with IFRS for such period.

Notwithstanding the preceding, the provision for taxes based on the income or profits of, and the depreciation and amortisation and other non-cash expenses of, a Restricted Subsidiary of the Issuer will be added to Consolidated Net Income to compute Consolidated EBITDA of the Issuer only in the same proportion as the relevant Person's Net Income was included in Consolidated Net Income.

Consolidated Leverage Ratio means with respect to any specified Person and as at any date of determination, the ratio of (1) the total Net Indebtedness of such Person at such date (provided however, that if such date of determination is on or after 1 January 2011, the amount in this clause (1) shall be the total Indebtedness of such Person at such date) to (2) the Consolidated EBITDA of such Person for the most recent four consecutive fiscal quarters for which financial statements are publicly available (or are made available), calculated in accordance with IFRS. The amount of Net Indebtedness in clause (1) shall include the Indebtedness, Disqualified Stock or Preferred Stock giving rise to the need to make such calculation and shall exclude any cash or Cash Equivalents received by the Issuer or its Restricted Subsidiaries in connection with such Indebtedness, Disqualified Stock or Preferred Stock.

In the event that the specified Person or any of its Subsidiaries incurs, assumes, guarantees, provides a suretyship in respect of, repays, repurchases or redeems any Indebtedness or issues, repurchases or redeems Preferred Stock subsequent to the commencement of the period for which Consolidated EBITDA is being calculated and on or prior to the date on which the event for which the calculation of the Consolidated Leverage Ratio is made (the **Calculation Date**), then the Consolidated Leverage Ratio will be calculated giving *pro forma* effect to such incurrence, assumption, guarantee, suretyship, repayment, repurchase or redemption of Indebtedness, or such issuance, repurchase or redemption of preference shares, and the use of the proceeds therefrom as if the same had occurred at the beginning of the applicable four-quarter reference period.

In addition, for purposes of calculating the Consolidated Leverage Ratio:

(a) acquisitions that have been made by the specified Person or any of its Restricted Subsidiaries, including through mergers, consolidations, amalgamations or other business combinations and including any related financing transactions, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date will be given *pro forma* effect as if they had occurred on the first day of the four-quarter reference period and Consolidated EBITDA and total Indebtedness for such reference period will be calculated on a *pro forma* basis in accordance with IFRS;

(b) the Consolidated EBITDA attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the Calculation Date, will be excluded; and

(c) the Indebtedness attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the Calculation Date, will be excluded, but only to the extent that such Indebtedness will not be obligations of the specified Person or any of its Restricted Subsidiaries following the Calculation Date.

For purposes of this definition, *pro forma* calculations shall be determined in good faith by a responsible financial or accounting officer of the Issuer.

Consolidated Net Income means, with respect to any specified Person for any period, the aggregate of the Net Income of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in accordance with IFRS; *provided* that:

(a) all extraordinary gains (but not losses) and all gains (but not losses) realised in connection with any Asset Sale or the disposition of securities or the early extinguishment of Indebtedness, together with any related provision for taxes on any such gain, will be excluded;

(b) the Net Income (but not loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting will be included only to the extent of the amount of dividends or similar distributions paid in cash to the specified Person or a Restricted Subsidiary of the Person;

(c) the Net Income of any Restricted Subsidiary will be excluded to the extent that the declaration or payment of dividends or similar distributions by that Restricted Subsidiary of that Net Income is not at the date of determination permitted without any prior governmental approval (that has not been obtained) or, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary or its stockholders, *provided* that such Net Income shall be included up to the amount of cash actually distributed to the Person or a Restricted Subsidiary of the Person during such period as a divided or distribution;

(d) the cumulative effect of a change in accounting principles will be excluded; and

(e) any unrealised gains or losses in respect of Hedging Obligations or any ineffectiveness recognised in earnings relating to qualifying hedging transactions or the fair values or changes therein recognised in earnings for derivatives that do not qualify as hedge transactions, in each case in respect of Hedging Obligations, will be excluded.

Continuing Directors means, for any period, any member of the Board of Directors of the Issuer who: (1) was a member of such Board of Directors at the beginning of such period; or (2) was nominated for election or elected to such Board of Directors with the approval of a majority of the members of the Board of Directors who were members of the Board of Directors at the beginning of such period or where nomination for election was previously so approved.

Credit Facilities means, one or more borrowing facilities or commercial paper facilities, in each case, with banks or other institutional lenders providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables) or letters of credit, in each case, as amended, restated, modified, renewed, refunded, replaced or refinanced in whole or in part from time to time.

Currency Agreement means, in respect of any Person, any foreign exchange contract, currency swap agreement or other similar agreement or arrangement (including derivative agreements or arrangements) as to which such Person is a party or beneficiary.

Custodian means any receiver, trustee, assignee, liquidator, custodian, voluntary administrator or similar official under any Bankruptcy Law.

Default means any event that is, or after notice or passage of time or both would be, an Event of Default.

Disinterested Directors means, with respect to any transaction or series of related transactions, a member of the Board of Directors of the Issuer, a Surety Provider or its relevant Subsidiary who does not have any material direct or indirect financial interest in or with respect to such transaction or series of related transactions. A Person shall not be ineligible to constitute a Disinterested Director solely as a result of such Person owning any equity interests of the Issuer, a Surety Provider or any of their respective Subsidiaries or acting as an officer, director or employee of the Issuer, a Surety Provider or any of their respective Subsidiaries.

Disqualified Shares means any Equity Interests that, by their terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder of the Equity Interests), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the option of the holder of the Equity Interests, in whole or in part, in each case on or prior to the date that is 91 days after the date on which the Notes mature. Notwithstanding the preceding sentence, any Equity Interests that would constitute Disqualified Shares solely because the Holders of the Share Capital have the right to require the Issuer to repurchase such Equity Interests upon the occurrence of a change of control or an asset sale will not constitute Disqualified Shares if the terms of such Equity Interests provide that the Issuer may not repurchase or redeem any such Equity Interests pursuant to such provisions unless such repurchase or redemption complies with Condition 5.2. The amount of Disqualified Shares deemed to be outstanding at any time for purposes of these Conditions will be the maximum amount that the Issuer and its Restricted Subsidiaries may become obligated to pay upon the maturity of, or pursuant to any mandatory redemption provisions of, such Disqualified Shares, exclusive of accrued dividends.

Equity Interests of any Person means Share Capital and all warrants, options, participations or other rights (however designated) to acquire Share Capital of such Person, including any Preferred Stock, but excluding any debt securities convertible into or exchangeable for Share Capital.

European Union means the European Union, including member states prior to the Issue Date but excluding any country that became or becomes a member of the European Union on or after the Issue Date.

Event of Default has the meaning set forth in Condition 11.1.

Exchange Act means the U.S. Securities Exchange Act of 1934, as amended.

Existing Indebtedness means Indebtedness of the Issuer and its Subsidiaries in existence on the Issue Date (other than Indebtedness under the Notes), until such amounts are repaid.

Fair Market Value means, with respect to any asset or property, the price which could be negotiated in an arm's length, free market transaction, for cash, between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction. Fair Market Value will be determined in good faith by the Board of Directors, whose determination will be evidenced by a resolution of such Board of Directors. For purposes of determining the Fair Market Value of Equity Interests, the value of the Equity Interests of a Person shall be based upon such Person's property and assets, exclusive of goodwill or any similar Intangible asset.

Fixed Charges means, with respect to any specified Person for any period, the sum, without duplication, of:

(a) the consolidated interest expense of such Person and its Restricted Subsidiaries for such period (net of any interest income), whether paid or accrued, including, without limitation, amortisation of debt issuance costs and original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, imputed interest with respect to Attributable Debt, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings, and net of the effect of all payments made or received pursuant to Hedging Obligations in respect of interest rates, but excluding debt issuance costs that are expensed; *plus*

(b) the consolidated interest of such Person and its Restricted Subsidiaries that was capitalised during such period; *plus*

(c) any interest accruing on Indebtedness of another Person that is guaranteed or where a suretyship is provided by such Person or one of its Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its Restricted Subsidiaries, whether or not such guarantee, suretyship or Lien is called upon; *plus*

(d) all dividends, whether paid or accrued and whether or not in cash, on any series of Preferred Stock of such Person or any of its Restricted Subsidiaries, other than dividends on Equity Interests payable solely in Equity Interests of the Issuer (other than Disqualified Shares) or to the Issuer or a Restricted Subsidiary of the Issuer, on a consolidated basis and in accordance with IFRS, which dividends are fixed under the terms of the preferred stock.

Group Company means the Issuer and any direct or indirect Subsidiary of the Issuer.

guarantee means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of surety or a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take or pay or to maintain financial statement conditions or otherwise). The term **guarantee** used as a verb has a corresponding meaning. The term **Guarantor** shall mean any Person guaranteeing any Obligation.

Hedging Obligations of any Person means the obligations of such Person pursuant to any Interest Rate Agreement, Commodities Agreement or Currency Agreement.

Holder or **Noteholder** means the Person in whose name a Note is registered in the register of Holders kept by the Registrar.

IFRS means International Financial Reporting Standards as in effect from time to time.

Indebtedness means, with respect to any specified Person, any indebtedness of such Person (excluding accrued expenses and trade payables), without duplication, whether or not contingent:

(a) in respect of borrowed money;

(b) evidenced by bonds, notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof);

(c) in respect of banker's acceptances;

(d) representing Capital Lease Obligations or Attributable Debt in respect of sale and leaseback transactions;

(e) representing the balance deferred and unpaid of the purchase price of any property or services due more than six months after such property is acquired or such services are completed; or

(f) representing any Hedging Obligations,

if and to the extent any of the preceding items (other than letters of credit, Attributable Debt and Hedging Obligations) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with IFRS. In addition, the term "Indebtedness" includes (i) all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person), the amount of such obligation being deemed to be the lesser of the Fair Market Value of such assets and the amount of the obligation secured; (ii) to the extent not otherwise included, the guarantee or provision of a suretyship by the specified Person of any Indebtedness of any other Person and (iii) the redemption, repayment, or the repurchase amount of the specified Person with respect to any Disqualified Shares of such specified Person.

Interest Rate Agreement means any interest rate swap agreement, interest rate cap agreement or other financial agreement or arrangement with respect to exposure to interest rates.

Intragroup Indebtedness means any Indebtedness entered into between PJSC Finansova Initsiatyva and a Group Company or between PJSC Finansova Initsiatyva and the Issuer, including, for the avoidance of doubt, any and all security entered into in relation to such Indebtedness.

Investments means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the forms of loans (including guarantees, suretyships or other obligations), advances or capital contributions (excluding advances to customers and commission, travel and similar advances to officers and employees made in the ordinary course of business), purchases or other acquisition for consideration of Indebtedness, Equity Interests or other securities, together with all items that are or would be classified as investments on a balance sheet prepared in accordance with IFRS. If the Issuer or any Subsidiary of the Issuer sells or otherwise disposes of any Equity Interests of any direct or indirect Subsidiary of the Issuer such that, after giving effect to any such sale or disposition, such Subsidiary is no longer a Restricted Subsidiary of the Issuer, the Issuer will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of the Issuer's Investments in such Subsidiary that were not sold or disposed of in an amount determined as provided in the final paragraph of Condition 5.2. The acquisition by the Issuer or any Subsidiary of the Issuer of a Person that holds an Investment in a third person will be deemed to be an Investment by the Issuer or such Subsidiary in such third Person in an amount equal to the Fair Market Value of the Investments held by the acquired Person in such third Person in an amount determined as provided in the final paragraph of Condition 5.2. Except as otherwise provided in these Conditions, the amount of an Investment will be determined at the time the Investment is made and without giving effect to subsequent changes in value.

Issue Date means 29 October 2010.

Lien means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell give a security interest in and any filing of or agreement to give any financing statement under the applicable law of any jurisdiction.

Moody's means Moody's Investors Service, Inc. and its successors.

Net Income means, with respect to any specified person, the net income (loss) of such Person, determined in accordance with IFRS and before any reduction in respect of preference shares dividends.

Net Indebtedness means, with respect to any specified Person and as at any date of determination, the total Indebtedness of such Person less any cash and Cash Equivalents, in each case, as at the date of such determination.

Net Proceeds means the aggregate cash proceeds received by the Issuer or any of its Restricted Subsidiaries in respect of any Asset Sale (including, without limitation, any cash received upon the sale or other disposition of any non-cash consideration received in any Asset Sale, but only as and when received), net of the direct costs relating to such Asset Sale, including, without limitation, legal, accounting and investment banking fees, sales commission and any relocation expenses incurred as a result of the Asset Sale, and taxes paid or payable as a result of the Asset Sale, in each case, after taking into account any available tax credits or deductions; any tax sharing arrangements and any amounts required to be applied to the repayment of Indebtedness secured by a Lien on the asset or assets that were the subject of such Asset Sale and any reserve for adjustment in respect of the sale price of such asset or assets established in accordance with IFRS.

Obligations means, with respect to any Indebtedness, all obligations for principal, premium, interest, penalties, fees, indemnifications, reimbursements, damages and other amounts or liabilities payable pursuant to the documentation governing such Indebtedness.

Officer means, with respect to any Person, the Chairman of the Board of Directors, the Chief Executive Officer, the President, the Chief Operating Officer, the Chief Financial Officer, the Treasurer, any Assistant Treasurer, the Controller, the Secretary, any Managing Director or any Vice-President of such Person.

Officers' Certificate means in respect of the relevant Person, a certificate signed on behalf of such Person by two Officers, one of whom must be the Chief Executive Officer or the Chief Financial Officer of such Person.

Outstanding or **outstanding** means in relation to the Notes all the Notes (including Additional Notes, if any) issued other than:

(a) those Notes which have been redeemed or purchased and cancelled;

(b) those Notes in respect of which the date for redemption in accordance with the Conditions has occurred and the redemption moneys (including premium (if any) and all interest payable thereon) have been duly paid to the Trustee or to the relevant Paying Agent in the manner provided in the Agency Agreement (and where appropriate notice to that effect has been given to the Noteholders in accordance with Condition 14) and remain available for payment (against presentation of the relevant Note, if required);

(c) those Notes which have become void under Condition 10;

(d) those mutilated or defaced Notes which have been surrendered and cancelled and in respect of which replacements have been issued pursuant to Condition 13;

(e) (for the purpose only of ascertaining the principal amount of the Notes outstanding and without prejudice to the status for any other purpose of the relevant Notes) those Notes which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 13; and

(f) any Global Certificate (within the meaning of the Trust Deed) to the extent that it shall have been exchanged for another Global Certificate in respect of the Notes or for Definitive Notes pursuant to its provisions;

provided, that for each of the following purposes, namely:

(i) the right to attend and vote at any meeting of the Noteholders or any of them, an extraordinary resolution or any written consent and any direction or request by the Noteholders;

(ii) the determination of how many and which Notes are for the time being outstanding for the purposes of Conditions 11 and 16.2;

(iii) any discretion, power or authority (whether contained in these presents or vested by operation of law) which the Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the Noteholders or any of them; and

(iv) the determination by the Trustee whether any event, circumstance, matter or thing is, in its opinion, materially prejudicial to the interests of the Noteholders or any of them,

those Notes (if any) which are for the time being held or beneficially owned by the Issuer, any Surety Provider or any other Subsidiary of the Issuer shall (unless and until ceasing to be so held) be deemed not to remain outstanding.

Permitted Business means (a) a business in the agro-industrial sector, including, without limitation, the production and processing of shell eggs and egg products and (b) any activity or business that is a reasonable extension or expansion of, or reasonably related to, the business described in the preceding clause (a), including food-service and sales outlets.

Permitted Holder means Oleg Bakhmatyuk and any Related Party.

Permitted Investments means:

(a) any Investment in the Issuer or in a Restricted Subsidiary of the Issuer;

(b) any Investment in cash or Cash Equivalents;

(c) any Investment by the Issuer or any Restricted Subsidiary of the Issuer in a person, if as a result of such Investment:

(i) such person becomes a Restricted Subsidiary of the Issuer in one or more series of transactions; or

(ii) such person is merged, consolidated, amalgamated or otherwise combined with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, the Issuer or a Restricted Subsidiary of the Issuer;

(d) any Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with Condition 5.3;

(e) any acquisition of assets or Share Capital solely in exchange for the issuance of Equity Interests (other than Disqualified Shares) of the Issuer;

(f) any Investments received in compromise or resolution of obligations of trade creditors or customers that were incurred in the ordinary course of business of the Issuer or any of its Restricted Subsidiaries, including pursuant to any plan of reorganisation or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer or pursuant to foreclosure of Liens or in satisfaction of judgments or administrative or judicial decisions;

(g) Investments represented by Hedging Obligations;

(h) loans or advances to employees, officers or directors made in the ordinary course of business of the Issuer or a Restricted Subsidiary in an aggregate principal amount not to exceed U.S.$5.0 million at any one time outstanding;

(i) repurchases or redemptions of the Notes;

(j) Investments in receivables owing to the Issuer or any Restricted Subsidiary if created or acquired in the ordinary course of business;

(k) any guarantee of Indebtedness permitted to be incurred by Condition 5.1;

(l) advances, loans or extensions of credit to suppliers arising in the ordinary course of business; and

(m) other Investments in any person having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (m) that are at the time outstanding of no more than U.S.$1.0 million.

Permitted Liens means:

(a) Liens on inventory purchased with Indebtedness incurred under Credit Facilities permitted under clause (a) of the second paragraph of Condition 5.1;

(b) Liens in favour of the Issuer or the Surety Providers to secure obligations which are not pledged to secure Indebtedness owing to third parties;

(c) Liens on property of a person existing at the time such person is merged, consolidated, amalgamated or otherwise combined with or into the Issuer or any Subsidiary of the Issuer; *provided* that such Liens were in existence prior to the contemplation of such merger, consolidation, amalgamation or other combination and do not extend to any assets other than those of the person merged, consolidated, amalgamated or combined with the Issuer or the Subsidiary;

(d) Liens on property (including Share Capital) existing at the time of acquisition of the property or of the Restricted Subsidiary which owns the property by the Issuer or any Subsidiary of the Issuer, *provided* that such Liens were in existence prior to, such acquisition, and not incurred in contemplation of, such acquisition;

(e) Liens to secure the performance of statutory obligations, surety or appeal bonds, performance bonds or other obligations of a like nature incurred in the ordinary course of business;

(f) Liens on pledges of Equity Interests of any Unrestricted Subsidiary securing any Indebtedness of such Unrestricted Subsidiary;

(g) Liens to secure Indebtedness (including Capital Lease Obligations) permitted by clause (d) of the second paragraph of Condition 5.1 covering only the assets acquired with or financed by such Indebtedness;

(h) Liens existing on the Issue Date;

(i) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings instituted within a reasonable period of time and diligently pursued, *provided* that any reserve or other appropriate provision as is required in conformity with IFRS has been made therefor;

(j) Liens imposed by law, such as carriers', warehousemen's, landlord's and mechanics' Liens or other similar Liens, in each case, incurred in the ordinary course of business;

(k) survey exceptions, easements or reservations of, or rights of others for, licenses, rights-of-way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real property that were not incurred in connection with Indebtedness and that do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person;

(l) Liens created for the benefit of (or to secure) the Notes (or the Suretyships);

(m) Liens securing Hedging Obligations permitted by clause 5.1(g) of Condition 5.1 and any Lien the principle purpose of which is to allow the setting off or netting of obligations under or in connection with any Hedging Obligation, in either case, so long as such Lien is over only (i) the assets that secure the Indebtedness that is the subject of the relevant Hedging Obligations or (ii) cash or Cash Equivalents securing such Hedging Obligations;

(n) Liens incurred or deposits made in connection with workers' compensation, unemployment insurance, other types of social security and other types of related statutory obligations;

(o) rights of set-off under contracts that do not relate to Indebtedness for borrowed money;

(p) Liens in favour of customs or revenue authorities to secure payment of customs duties in connection with the importation of goods in the ordinary course of business;

(q) Liens resulting from escrow arrangements unrelated to Indebtedness for borrowed money entered into in connection with a disposition of assets;

(r) any retention of title reserved by any seller of goods or any Lien imposed, reserved or granted over goods supplied by such seller;

(s) any right of refusal, right of first offer, option or other agreement to sell or otherwise dispose of an asset of the Issuer or any Restricted Subsidiary;

(t) Liens to secure any Permitted Refinancing Indebtedness as a whole, or in part, in respect of any Indebtedness secured by any Lien referred to in the foregoing clauses (d), (e), (h) and (i); *provided, however*, that:

  (i) such new Lien shall be limited to all or part of the same property and assets that secured or, under the written agreements pursuant to which the original Lien arose, could secure the original Lien (plus improvements and accessions to, such property or proceeds or distributions thereof); and

  (ii) the Indebtedness secured by such Lien at such time is not increased to any amount greater than the sum of (x) the outstanding principal amount or, if greater, committed amount of the Indebtedness described under clauses (d), (e), (h) and (i) at the time the original Lien became a Permitted Lien and (y) an amount necessary to pay any fees and expenses, including premiums, related to such refinancing, refunding, extension, renewal or replacement;

(u) any extension, renewal or replacement, in whole or in part, of any Lien described in the foregoing clauses (a) through (t); provided that any such extension, renewal or replacement shall be no more restrictive in any material respect than the Lien so extended, renewed or replaced and shall not extend to any additional property or assets and that to the extent such Lien secures Indebtedness, the principal amount of the Indebtedness so secured is not increased; and

(v) Liens incurred in the ordinary course of business of the Issuer or any of its Restricted Subsidiaries with respect to obligations that do not exceed U.S.$10.0 million at any one time outstanding.

Permitted Refinancing Indebtedness means any Indebtedness of the Issuer or any of its Restricted Subsidiaries issued in exchange for, or the net proceeds of which are used to refund, refinance, replace, defease or discharge other Indebtedness of the Issuer or any of its Restricted Subsidiaries (other than intercompany Indebtedness); *provided* that:

(a) the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness extended, refinanced, renewed, replaced, defeased or refunded (plus all accrued interest on the Indebtedness and the amount of all expenses and premiums incurred in connection therewith);

(b) such Permitted Refinancing Indebtedness has a final Stated Maturity no earlier than the final Stated Maturity of, and has a Weighted Average Life to Maturity equal to or greater than the Weighted Average Life to Maturity of the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded;

(c) if the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded is subordinated in right of payment to the Suretyships, such Permitted Refinancing Indebtedness has a final Stated Maturity later than the final Stated Maturity of, and is subordinated in right of payment to, the Notes and the Suretyships on terms at least as favourable to the Noteholders as those contained in the documentation governing the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded; and

(d) to the extent such Indebtedness is incurred by a Restricted Subsidiary that is not a Surety Provider, such Restricted Subsidiary was the obligor on the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded.

Person means any individual, corporation, company, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organisation, government or any agency or political subdivision thereof or any other entity.

Preferred Stock, as applied to the Equity Interests of any Person, means Equity Interests of any class or classes (however designated), that by its terms is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Equity Interests of any other class of such Person.

principal of a Note means the principal amount of the Note plus (unless the context requires otherwise) the premium, if any, payable on the Note that is due or overdue or is to become due at the relevant time.

Principal Paying Agent means The Bank of New York Mellon or any other principal paying agent appointed pursuant to the Agency Agreement.

Public Debt means any Indebtedness permitted to be incurred hereunder and consisting of bonds, debentures, notes or other similar debt securities (or any guarantees, suretyships or intercompany loans in respect thereof) or Preferred Stock issued in (a) a public offering registered under the Securities Act, (b) listed on a recognised stock exchange or (c) a private placement to institutional investors that is underwritten for resale in accordance with Rule 144A or Regulation S under the Securities Act, whether or not it includes registration rights entitling the holders of such debt securities or Preferred Stock to registration thereof with the SEC for public resale.

Qualified Expert means an accounting, appraisal, investment bank or other firm, in each case, of international standing, or another firm with specialist knowledge in valuing the property, assets or rights that are the subject of the relevant transaction.

Registrar means The Bank of New York Mellon (Luxembourg) S.A. or any other registrar appointed pursuant to the Agency Agreement.

Related Party means the spouse of or immediate family member of Oleg Bakhmatyuk or any trust, corporation, partnership or other entity, the only beneficiaries, stockholders, partners or owners of which, consist of Oleg Bakhmatyuk, his spouse and/or immediate family members of Oleg Bakhmatyuk.

Relevant Date means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by an Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 14 (*Notices*).

Relevant Jurisdiction means Cyprus or any political subdivision or any authority thereof or therein having power to tax (in the case of payments by, or on behalf of, the Issuer), Ukraine or any political subdivision or any authority thereof or therein having power to tax (in the case of payments by, or on behalf of, a relevant Surety Provider) or a jurisdiction in which an Additional Surety Provider is domiciled or any political subdivision or any authority thereof or therein having power to tax (in the case of payments by the such Additional Surety Provider) or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer, the relevant Surety Provider or relevant Additional Surety Provider, as the case may be, becomes subject in respect of payments made by it of principal and interest on the Notes.

Restricted Investment means an Investment other than a Permitted Investment.

Restricted Subsidiary of a Person means any Subsidiary of the referenced Person that is not an Unrestricted Subsidiary.

S&P means Standard & Poor's Ratings Group and its successors.

Share Capital means:

(a) in the case of a corporation, corporate stock;

(b) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;

(c) in the case of a partnership or limited liability company, partnership interests (whether general or limited) or membership interests; and

(d) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person, but excluding from all of the foregoing any debt securities convertible into Share Capital, whether or not such debt securities include any right of participation with Share Capital.

Significant Subsidiary means any subsidiary that would be a significant subsidiary as defined in Article 1, Rule 1-02 of Regulation S-X promulgated pursuant to the U.S. Securities Act, as such regulation is in effect on the date hereof.

Stated Maturity means, with respect to any instalment of interest or principal on any series of Indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the documentation governing such Indebtedness as of the Issue Date, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

Subsidiary means, with respect to any specified Person:

(a) any corporation, association or other business entity of which more than 50% of the total voting power of Share Capital entitled (without regard to the occurrence of any contingency and after giving effect to any voting agreement or stockholders' agreement that effectively transfers voting power) to vote in the election of directors, managers or trustees of the corporation, association or other business entity is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and

(b) any partnership (i) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (ii) the only general partners of which are that Person or one or more Subsidiaries of that Person (or any combination thereof).

Surety Providers means the Original Surety Providers, together with any Additional Surety Providers, other than any Surety Providers released in accordance with Condition 4.4.

Unrestricted Subsidiary means any Subsidiary of the Issuer that is designated by the Board of Directors of the Issuer as an Unrestricted Subsidiary in accordance with Condition 5.13 pursuant to a Board Resolution (and any Subsidiary of an Unrestricted Subsidiary), but only to the extent that:

(a) immediately after giving effect to such designation the Issuer could incur U.S.$1.00 of additional Indebtedness under the first paragraph of Condition 5.1;

(b) such designation and the Investment of the Issuer or a Restricted Subsidiary in such Unrestricted Subsidiary complies with Condition 5.2; and

(c) no Default shall have occurred and be occurring.

U.S. Dollar means the lawful currency of the United States of America.

Voting Stock of any Person as of any date means the Share Capital of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

Weighted Average Life to Maturity means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

(a) the sum of the products obtained by multiplying (a) the amount of each then remaining instalment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect of the Indebtedness, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by

(b) the then outstanding principal amount of such Indebtedness.

Wholly Owned Restricted Subsidiary of any specified Person means a Restricted Subsidiary of such Person all of the outstanding Share Capital or other ownership interests of which (other than directors' qualifying shares) or shares required by applicable law to be held by a Person other than the Issuer or a Restricted Subsidiary will at the time be owned by such Person or by one or more Wholly Owned Restricted Subsidiaries of such Person.

THE GLOBAL CERTIFICATE

The Global Certificate contain the following provisions which apply to the Notes in respect of which they are issued whilst they are represented by the Global Certificate, some of which modify the effect of the Conditions. Terms defined in the Conditions have the same meaning in paragraphs 1 to 6 below.

1. Accountholders

For so long as all of the Notes are represented by the Global Certificate and such Global Certificate is held on behalf of a clearing system, each person (other than another clearing system) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a particular aggregate principal amount of such Notes (each an **Accountholder**) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg (as the case may be) as to the aggregate principal amount of such Notes standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Notes (and the expression "**Noteholders**" and references to "**holding of Notes**" and to "**holder of Notes**" shall be construed accordingly) for all purposes other than with respect to payments on such Notes, the right to which shall be vested, as against the Issuer, the Surety Providers and the Trustee, solely in the nominee for the relevant clearing system (the **Relevant Nominee**) in accordance with and subject to the terms of the Global Certificate. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Relevant Nominee.

2. Cancellation

Cancellation of any Note following its redemption or purchase by the Issuer, the Surety Providers or any of their respective Subsidiaries will be effected by reduction in the aggregate principal amount of the Notes in the register of Noteholders and by the annotation of the schedule to the Global Certificate.

3. Payments

Payments of principal and interest in respect of Notes represented by the Global Certificate will be made upon presentation or, if no further payment falls to be made in respect of the Notes, against presentation and surrender of such Global Certificate to or to the order of the Registrar or such other Agent as shall have been notified to the holder of the Global Certificate for such purpose.

Distributions of amounts with respect to book entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Registrar, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

A record of each payment made will be endorsed on the schedule to the Global Certificate by or on behalf of the Registrar and shall be *prima facie* evidence that payment has been made.

4. Notices

So long as all the Notes are represented by the Global Certificate and such Global Certificate is held on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled Accountholders in substitution for notification as required by the Conditions.

Whilst any of the Notes held by a Noteholder are represented by the Global Certificate, notices to be given by such Noteholder may be given by such Noteholder (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Trustee and Euroclear and Clearstream, Luxembourg may approve for this purpose.

5. Registration of Title

Registration of title to Notes in a name other than that of the Relevant Nominee will not be permitted unless Euroclear or Clearstream, Luxembourg, as appropriate, notifies the Issuer and the Surety Providers that it is unwilling or unable to continue as a clearing system in connection with the Global Certificate, and in each case a successor clearing system approved by the Trustee is not appointed by the Issuer and the Surety Providers within 90 days after receiving such notice from Euroclear or Clearstream, Luxembourg, as the case may be. In these circumstances title to a Note may be transferred into the names of holders notified by the Relevant Nominee in accordance with the Conditions, except that Certificates in respect of Notes so transferred may not be available until 21 days after the request for transfer is duly made.

The Registrar will not register title to the Notes in a name other than that of the Relevant Nominee for a period of 15 calendar days preceding the due date for any payment of principal, or interest in respect of the Notes.

If the Global Certificate (the **Exchanged Global Certificate**) becomes exchangeable for a Certificate in accordance with the above paragraphs, transfers of Notes may not take place between, on the one hand, persons holding a Certificate issued in exchange for beneficial interests in the Exchanged Global Certificate and, on the other hand, persons wishing to purchase beneficial interests in the other Global Certificate.

6. Transfers

Transfers of book-entry interests in the Notes will be effected through the records of Euroclear and Clearstream, Luxembourg and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants, as more fully described under "*Clearing and settlement arrangements*".

BOOK ENTRY, DELIVERY AND FORM OF THE GLOBAL CERTIFICATE

The Notes will be evidenced on issue by the Global Certificate registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg. Beneficial interests in the Global Certificate may be held only through Euroclear or Clearstream, Luxembourg at any time. By acquisition of a beneficial interest in the Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person, that it is located outside the United States and that, if it determines to transfer such beneficial interest prior to the expiration of the "distribution compliance period" (as such term is defined in Rule 902 of Regulation S), it will transfer such interest only to a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S in accordance with any applicable securities laws of any state of the United States. See "Subscription and Sale".

Except in the limited circumstances described below, owners of a beneficial interest in the Global Certificate will not be entitled to receive physical delivery of definitive Certificates. The Notes are not issuable in bearer form. In addition, the Global Certificate will contain a provision which modifies the Conditions of the Notes as they apply to the Notes evidenced by the Global Certificate. The following is a summary of this provision:

Exchange and Registration of Title

Owners of interests in the Notes in respect of which the Global Certificate is issued will only be entitled to have title to the Notes registered in their names and to receive individual definitive Certificates if a Global Certificate is held by or on behalf of Euroclear or Clearstream, Luxembourg (or any other clearing system as shall have been designated by the Issuer and approved by the Trustee on behalf of which the Notes evidenced by the Global Certificate may be held), as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

In such circumstances, the Issuer will cause sufficient individual definitive Certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant Noteholders. A person with an interest in the Notes in respect of which the Global Certificate is issued must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such individual definitive Certificates.

Book-entry Procedures for the Global Certificate

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Euroclear and Clearstream, Luxembourg

The Global Certificate will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

The address of Euroclear is 1 Boulevard du Roi Albert 11, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855, Luxembourg.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a Note evidenced by a Global Certificate must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for their share of each payment made by the Issuer to the holder of such Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Certificate, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Certificate as shown on the records of the relevant clearing system or its nominee. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Certificate in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

General

Neither Euroclear or Clearstream, Luxembourg is under any obligation to perform or continue to perform the procedures referred to above, and such procedures may be discontinued at any time.

None of the Issuer, the Surety Providers, the Trustee or any of their 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 or the arrangements referred to above.

TAXATION

The following is a general description of certain Cyprus, Ukraine and United Kingdom tax considerations relating to the Notes. This summary is based upon the laws, regulations, decrees, rulings, income tax conventions (treaties), published administrative practice and judicial decisions in effect at the date hereof. 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 of ownership of the Notes by Noteholders. This summary does not purport to be a legal opinion or contain a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of the Notes should consult their tax advisers as to which countries' tax laws could be relevant to their acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries.

The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

Also, investors should note that an appointment by an investor in the Notes, or any person through whom an investor holds Notes, of a custodian, collection agent or similar person in relation to such Notes in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment.

Cyprus

The following is a general summary of certain tax aspects of the Notes under Cypriot law and practice in force and applied as at the date of this Prospectus and does not purport to be a comprehensive description of all tax aspects relating to the Notes. This summary does not analyse the tax position of the Issuer and it does not constitute nor should it be construed as, tax or legal advice. Prospective investors should consult their tax and other professional advisers as to the specific tax consequences of acquiring, holding and disposing of the Notes and of receiving interest on the Notes.

Introduction

In accordance with the provisions of the Income Tax Law, Law 118(I)/2002 (as amended) (the "**Income Tax Law**") a person (natural or legal) is liable to tax on its worldwide income on the basis of residency.

A person is resident in Cyprus for the purposes of the Income Tax Law where, in the case of a natural person, that person is present in Cyprus for a period (or periods in aggregate) exceeding 183 days in the tax year and in the case of a company, its management and control is exercised in Cyprus. The tax year for the purposes of the Income Tax Law coincides with the calendar year.

Cyprus tax residents (natural or legal persons) would also be liable to tax on interest received under the Special Defence Contribution Law, Law 117 (I) of 2002 (as amended) (the "**SCDF Law**") (as described below).

Non-Cyprus tax residents are taxed on income derived from sources in Cyprus or from a business activity which is carried out through a permanent establishment in Cyprus. A company is regarded as having a "permanent establishment" in Cyprus, if it has a fixed base of business through which the business is carried out fully or partially, including a management base, a branch or an office.

Interest Income

Non-Cyprus Tax Residents

Persons (individuals and legal) who are not residents for tax purposes pursuant to the provisions of the Income Tax Law will not be liable for any income tax or for the special contribution defence tax (as described below). Payments of interest made by the Issuer to such persons will not be subject to any Cyprus withholding taxes.

Cyprus tax resident individuals

Under the provisions of the Income Tax Law, an individual who is a tax resident in Cyprus and who receives or is credited with interest, is exempt from income tax in respect of that interest. However such interest income is subject to special contribution defence tax pursuant to the provisions of the SCDF Law at the rate of 10% tax, unless it can be established that such interest income is of an "active" nature (i.e. arises from the ordinary activities or is closely related to the ordinary activities of the individual), in which case it will be exempt from this special contribution defence tax. In practice, it is likely to be difficult to establish that any interest on the Notes is of an "active" nature in the hands of individual Noteholders.

Cyprus tax resident companies that pay interest in respect of which special contribution defence tax is due to Cyprus tax resident individuals are obliged to withhold the special contribution defence tax at source and remit the tax to the Cypriot tax authorities.

Cyprus tax resident companies

Any interest received that is deemed to be of an "active" nature (i.e. arising from the ordinary activities or closely related to the ordinary activities of the business) will be subject to income tax in Cyprus at a rate of 10% (after deduction of expenses wholly and exclusively incurred for the production of income) and will be exempt from the special contribution defence tax.

Any interest received that is deemed to be of a "passive" nature will not be subject to income tax as from 1 January 2009. Instead, passive interest income is subject to a 10% special contribution defence tax on the total amount (without deducting expenses).

Cyprus tax resident companies that pay interest in respect of which special contribution defence tax is due to other Cyprus tax resident companies are obliged to withhold the special contribution defence tax at source and remit the tax to the Cypriot tax authorities.

Profit from the Disposal of the Notes

Any gains derived from the disposal of the Notes by a Cyprus resident individual or company are exempt from income tax in Cyprus.

Any gains from the disposal of the Notes are not subject to Cyprus income tax, irrespective of the trading nature of the gain, the number of Notes held or the period for which the Notes were held. Any gain is also outside the scope of the application of the Capital Gains Tax Law 1980-2002 (as amended).

Interest income is, however, subject to the treatment set out above.

Savings Directive

See also the paragraph below entitled "—EU Savings Tax Directive", which describes obligations to provide reports of or withhold tax from payments of savings income under the EU Savings Tax Directive.

Ukraine

General

The following summary is included for general information only. Potential investors in and holders of the Notes should consult their own tax adviser as to the tax consequences under the laws of Ukraine of the acquisition, ownership and disposition of the Notes. This summary is based upon the Ukrainian tax laws and regulations as in effect on the date of this Prospectus. Such laws and regulations are subject to change or varying interpretations, possibly with retroactive effect. As with other areas of Ukrainian legislation, tax law and practice in Ukraine is not as clearly established as that of more developed jurisdictions. It is possible, therefore, that the current interpretation of the law or understanding of the practice may change or that the law may be amended with retroactive effect. Accordingly, it is possible that payments to be made to the holders of the Notes could become subject to taxation or that rates currently in effect with respect to such payments could be increased in ways that cannot be anticipated as at the date of this Prospectus.

Payments under the Surety Agreement

If any of the Surety Providers makes any payments in respect of interest on the Notes (or other amounts due in respect of the Notes), such payments could be viewed as Ukrainian source income of the recipient of such payments and, thereby, may be subject to 15% withholding tax.

Article 13.1 of the Law of Ukraine on Company Income Tax, dated 28 December 1994, as amended (the "**Ukrainian Income Tax Law**") does not specifically list payments made under a guarantee/suretyship as Ukrainian source income of the beneficiary of such payments. However, Article 13.1 of the Ukrainian Income Tax Law contains a catch-all clause, which considers any other income of a foreign resident received from carrying out business in Ukraine as Ukrainian source income.

Even if the payments under the Surety Agreement are viewed to be Ukrainian source income and, thereby, subject to 15% withholding tax in principle, the foreign beneficiary of such payments may, nevertheless, be exempt from withholding tax in Ukraine, provided such beneficiary is (i) a tax resident of a jurisdiction, which has a tax treaty with Ukraine, providing for exemption from withholding tax of such payments, (ii) entitled to the benefits of such tax treaty and (iii) deemed not to carry on business in Ukraine through its permanent establishment. In order to benefit from the tax treaty exemption, confirmation of the current tax residency status of the foreign beneficiary must be available on or prior to the date of payment of Ukrainian source income.

Gross-up Provisions

If any payments (including payments of premium and interest) under the Surety Agreement are subject to any withholding tax, the respective Surety Provider may, in certain circumstances specified in the Surety Agreement and the Conditions of the Notes and subject to certain exceptions, become obliged to pay such additional amounts as may be necessary so that the net payments received by the Trustee on behalf of the holders of the Notes will not be less than the amount the Trustee on behalf of the holders of the Notes would have received in the absence of such withholding. Notwithstanding the foregoing, the Ukrainian Income Tax Law prohibits contractual provisions under which residents undertake to pay taxes for non-residents on their income received from sources in Ukraine. According to a clarification of Ukraine's tax authorities, payment of additional amounts to a non-resident entity in order to compensate for tax deducted in Ukraine contradicts the above requirement of the Ukrainian Income Tax Law. Although the position of the tax authorities expressed in the clarification is not legally binding, if interpreted widely, the restriction would apply to the gross-up provisions in the Surety Agreement and the Conditions of the Notes and the obligations of the Surety Providers to pay additional amounts thereunder. As a result, the gross-up provisions set out in the Surety Agreement and the Conditions of the Notes could be found to be null and void and, therefore, unenforceable in Ukraine.

Tax on Issue of and Principal, Premium and Interest Payments under the Notes

No Ukrainian withholding tax will be applicable to the issue of the Notes or principal, premium or interest payments on the Notes by the Issuer because the Notes will not be issued in Ukraine and such principal, premium and interest payments on the Notes will not be made from Ukraine.

Tax on Redemption of Notes

Principal payments by the Issuer on redemption of the Notes will not be subject to Ukrainian tax because such payments will not be made by any of the Surety Providers.

Ukrainian Holders

A Ukrainian resident Noteholder, i.e., a qualifying physical person or a legal person organised under Ukrainian law, is subject to all applicable Ukrainian taxes.

Transfers of Notes by Non-Ukrainian Investors to Ukrainian Investors

Ukrainian source profits of non-resident legal persons derived from trading in securities are generally subject to 15% withholding tax (while Ukrainian source income of non-resident physical persons is, subject to certain exceptions, subject to 30% withholding tax), as may be reduced by an applicable treaty on the avoidance of double taxation.

Non-resident holders of the Notes are, therefore, likely to be subject to Ukrainian withholding tax on any gain on the disposal of Notes where the proceeds of such disposal are received from a source within Ukraine.

Ukrainian Stamp Duty

No Ukrainian stamp duty, transfer or similar tax will be payable by a holder of the Notes in respect of the subscription, issue, delivery or transfer of the Notes.

United Kingdom Taxation

*The following applies only to persons who are the beneficial owners of Notes and is a summary of the Issuer's understanding of current law and Her Majesty's Revenue and Customs ("**HMRC**") practice in the United Kingdom as at the date hereof relating to certain aspects of United Kingdom taxation. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Prospective Noteholders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should seek their own professional advice.*

Interest on the Notes

Payments of interest on the Notes may be made without withholding on account of United Kingdom tax.

However, Noteholders may wish to note that, in certain circumstances, HMRC have the power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom by or through whom interest is paid or credited to, or who receives interest on behalf of, a Noteholder (whether resident in the UK or elsewhere). "Interest" for this purpose includes any amount to which a person holding a deeply discounted security is entitled on redemption of the security. However, HMRC published practice indicates that HMRC will not exercise the power referred to above to require this information in respect of such amounts payable on redemption of Notes where such amounts are paid on or before 5 April 2011. Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Noteholder is resident for tax purposes.

See below "—EU Savings Tax Directive" for a description of obligations to provide reports of or withhold tax from payments of savings income under the EU Savings Tax Directive.

United Kingdom Corporation Taxpayers

In general, Noteholders which are within the charge to United Kingdom corporation tax (other than investment trusts, venture capital trusts, authorised unit trusts and open-ended investment companies) will be charged to tax as income on all returns, profits or gains on, and fluctuations in value of, the Notes (including fluctuations attributable to exchange rates) broadly in accordance with their statutory accounting treatment so long as the accounting treatment is in accordance with generally accepted accounting practice as that term is defined for tax purposes. Noteholders that are investment trusts, venture capital trusts, authorised unit trusts or open-ended investment companies will be subject to the same taxation treatment in respect of the Notes as other Noteholders that are within the charge to United Kingdom corporation tax, other than with respect to capital profits, gains or losses as defined.

Other United Kingdom Taxpayers

Taxation of Chargeable Gains

Save as described below, a disposal (including a redemption) of Notes by an individual Noteholder who is resident or ordinarily resident in the United Kingdom, or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Notes are attributable, and who is not subject to corporation tax in respect of the Notes, may give rise to a chargeable gain or an allowable loss for the purposes of United Kingdom taxation of chargeable gains.

Taxation of discount

Notwithstanding the paragraph entitled "Taxation of Chargeable Gains" above, if the Notes constitute "deeply discounted securities" for the purpose of Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 ("**ITTOIA**"), they will also constitute "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. If that is the case, a disposal of the Notes by a Noteholder will not give rise to a chargeable gain or an allowable loss for the purposes of United Kingdom taxation of chargeable gains.

If the Notes are treated as deeply discounted securities for the purpose of Chapter 8 of Part 4 of ITTOIA, any gain realised on redemption or transfer of the Notes by a Noteholder who is within the charge to United Kingdom income tax in respect of the Notes will generally be taxable as income but such Noteholder will not be able to claim relief from income tax in respect of costs incurred on the acquisition, transfer or redemption, or losses incurred on the transfer or redemption, of the Notes.

The Notes would generally be treated as deeply discounted securities for these purposes if, as at the Issue Date, the amount payable on maturity or other occasion of redemption, other than a Redemption for Changes in Withholding Taxes, ("**A**") exceeds, or may exceed, the issue price of the Notes by more than A x 0.5% x Y, where Y is the number of years between the Issue Date and redemption.

Accrued Income Scheme

On a disposal of Notes by a Noteholder, any interest which has accrued since the last interest payment date may be chargeable to tax as income under the rules of the accrued income scheme as set out in Part 12 of the Income Tax Act 2007, if that Noteholder is resident or ordinarily resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Notes are attributable. The accrued income scheme will not apply if the Notes are deeply discounted securities for the purpose of Chapter 8 of Part 4 of ITTOIA, as to which see above "—Taxation of Discount".

Stamp Duty and Stamp Duty Reserve Tax ("SDRT")

No United Kingdom stamp duty or SDRT is payable on the issue of the Notes or on a transfer of the Notes.

EU Savings Tax Directive

Under the EU Savings Tax Directive, EU member states are required to provide to the tax authorities of another EU member state details of payments of interest (or similar income) paid by a person within its jurisdiction to or for an individual resident in that other EU member state or to or for certain limited types of entities established in that other EU member state. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). No withholding will be required where the Noteholder authorises the person making the payment to report the payment or presents a certificate from the relevant tax authority establishing exemption therefrom. A number of non-EU countries and territories, including Switzerland, have adopted similar measures to the EU Savings Tax Directive (a withholding system in the case of Switzerland).

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the EU Savings Tax Directive, which included the Commission's advice on the need for changes to the EU Savings Tax Directive. On 13 November 2008 the European Commission published a more detailed proposal for amendments to the EU Savings Tax Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of the proposed changes are made in relation to the EU Savings Tax Directive, they may amend or broaden the scope of the requirements described above.

SUBSCRIPTION AND SALE

J.P. Morgan Securities Ltd. and TD Investments Limited (together, the "**Joint Lead Managers**") have, pursuant to a subscription agreement dated 27 October 2010 (the "**Subscription Agreement**"), jointly and severally agreed to use all reasonable endeavours to procure subscribers for the Notes at the issue price of 98.093% of the principal amount of Notes subject to the provisions of the Subscription Agreement.

United States

Each Joint Lead Manager has represented and agreed that the Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Each Joint Lead Manager has represented that it has offered and sold the Notes, and agrees that it will offer and sell the Notes (i) as part of their distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, only in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes, and it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each Joint Lead Manager has agreed that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or other person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

> "The Securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S."

Terms used in this paragraph have the meanings given to them by Regulation S.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

(a) it has 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 it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Surety Providers; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Cyprus

Each Joint Lead Manager has represented, warranted and agreed that (a) the Notes have not been offered, marketed or sold and will not be offered, marketed or sold, and (b) copies of this Prospectus or any offering material relating to the Notes will not be circulated or distributed or caused to be circulated or distributed, directly or indirectly, in Cyprus in contravention of the Public Offering and Prospectus Law (Law No. 114(I) of 2005) (the "**Cyprus Prospectus Law**").

Nothing in the Prospectus shall constitute an offer of or an invitation by or on behalf of the Issuer to the public to subscribe or purchase any of the Notes. In view of this and subscription of the Notes by the Joint Lead Managers pursuant to the Subscription Agreement, the Prospectus will not qualify as a "prospectus" within the meaning of the Cyprus Companies Law, and therefore will not be registered with the Registrar of Companies in Cyprus.

The Prospectus comprises a prospectus for the purposes of Directive 2003/71/EC of 4 November 2003 (the "**Prospectus Directive**"), which Cyprus implemented by transposing its provisions into the Cyprus Prospectus Law.

As the denomination of the Notes will be more than €50,000 and as the Notes will not be offered for sale in Cyprus, there is no obligation under the Prospectus Directive and the Cyprus Prospectus Law to file or register the Prospectus with any competent authority in Cyprus.

Each Joint Lead Manager has represented, warranted and agreed that it has not and will not provide any "*Investment Services*" or "*Ancillary Services*" or perform any "*Investment Activities*" (as such terms are defined in the Investment Services and Activities and Regulated Markets Law, L. 144(I) of 2007, (the "**ISARM Law**")) from or within Cyprus in relation to the Notes, and has not and will not provide any Investment Services or Ancillary Services to residents or persons domiciled in Cyprus, in each case in contravention of the ISARM Law and/or any applicable regulations adopted pursuant thereto or in relation thereto.

Ukraine

Each Joint Lead Manager has represented, warranted and undertaken that the Notes shall not be offered by any of them for circulation, distribution, placement, sale, purchase or other transfer in the territory of Ukraine. Accordingly, nothing in the Prospectus or any other documents, information or communications related to the Notes shall be interpreted as containing any offer or invitation to, or solicitation of, any such circulation, distribution, placement, sale, purchase or other transfer in the territory of Ukraine.

General

Each Joint Lead Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus (whether in preliminary or final form), form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales or Notes by it will be made on the same terms.

GENERAL INFORMATION

General

The Issuer

The Issuer 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 Issuer's original Memorandum and Articles of Association with the Cyprus Registrar of Companies. On 17 June 2009 the Issuer was converted into a public company limited by shares under the name Avangardco Investments Public Limited, by filing the prescribed documents, including a set of Articles of Association suitable for a public company, with the Cyprus Registrar of Companies. The Issuer adopted on 22 April 2010 new Articles of Association (the "**Articles**") suitable for a public quoted company or company whose securities are publicly traded. The Issuer is domiciled in Cyprus. The principal legislation under which the Issuer is established and operates (and under which the Issuer's shares are created) is the Cyprus Companies Law. The Issuer's registered number is HE 210868 and the Issuer's registered office is situated at 16-18 Zinas Kanther Street, 3035 Limassol, Cyprus. The telephone number of the Issuer's registered office is +357 25 362 233. No information posted on any website, including the Issuer's, constitutes a part of this Prospectus.

Avangard conducts its business in Ukraine through a number of wholly-owned subsidiaries, the most significant of which will act as Surety Providers, details of which are provided below.

Purpose

The Issuer's purpose is to carry on business as a commercial company, empowered to, amongst others, carry out investments and trade. The objects of the Issuer are set out in full in Clause 3 of its Memorandum of Association.

Share Capital

As at the date of this Prospectus, the Issuer's issued share capital consisted of 6,387,185 shares, which are fully paid, each with a par value of €0.10 and which were issued by the Issuer in accordance with the Articles and the Cyprus Companies Law ("**Ordinary Shares**"). The Issuer's authorised share capital consists of 6,500,000 Ordinary Shares. The Issuer'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 Issuer, the authorised share capital of the Issuer was subdivided into 20,000 Ordinary Shares of €0.10 each and, on l December 2008, the authorised share capital of the Issuer 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 Issuer are in registered form. Ownership of registered shares is established by an entry into a register of the shareholders of the Issuer, which is maintained at the registered office of the Issuer.

The Issuer does not have in issue any listed or unlisted securities not representing its share capital. Neither the Issuer nor any of its subsidiaries (nor any party on its behalf) holds any of its Ordinary Shares.

Neither the Issuer 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 Issuer's or any of the subsidiaries' authorised but unissued capital or undertakings to increase its issued share capital.

The Issuer's Articles and the Cyprus Companies Law 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 will apply to the Issuer's authorised but unissued share capital. Subject to certain limited exceptions, unless the approval of the Issuer's shareholders in a general meeting is obtained, the Issuer must offer shares to be issued for cash to holders of shares on a pro rata basis. None of the Issuer'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.

Authorisation

The issue of the Notes was duly authorised by a resolution of the Board of Directors of the Issuer dated 4 October 2010. The entry into the Transaction Documents (including the Surety Agreement) was duly authorised by: the General Meeting of Shareholders of Zorya pursuant to the minutes dated 15 October 2010; the Supervisory Councils of each of CJSC Avangard, Chernivetska, Chervonyi Prapor, Avis and Chornobaivske pursuant to the respective minutes of the Supervisory Council Meetings dated 28 September 2010, 29 September 2010, 22 September 2010 and 22 September 2010 and 27 September 2010, respectively; the Participants of each of Volnovaska, Imperovo, Donetska, Areal-Snigurivka and Bohodukhivska pursuant to the minutes of their Participants' Meetings dated 28 September 2010, 27 September 2010, 30 September 2010, 29 September 2010 and 27 September 2010, respectively; the Owner of Interbusiness pursuant to the resolution adopted on 28 September 2010; the Founder of SC PF Lozuvatska pursuant to the resolution adopted on 27 September 2010; and the Supervisory Councils of CJSC Avangard, with respect to the obligations undertaken by its subsidiaries Gorodenkivska and Rohatynska, pursuant to the resolutions adopted on 24 September 2010 and 21 September 2010, respectively. A Participants' Meeting of Bohodukhivska to ratify entry into the Transaction Documents will be held on the Closing Date.

See "Risk Factors—Risks Relating to Avangard—Certain of the surety providers, as well as certain of the Issuer's other subsidiaries, may be subject to additional shareholder approval requirements".

Listing

Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's regulated market.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for the Notes is XS0553088708. The Common Code for the Note is 055308870.

Admission to Trading

The total expenses related to the admission of the Notes to the Official List are approximately £2,975.

The admission of the Notes to the Official List will be expressed as a percentage of their principal amount (exclusive of accrued interest). It is expected that admission of the Notes to the Official List and to trading on the Market will be granted on or around 1 November 2010, subject only to the issue of the Global Certificate. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in U.S. Dollars and for delivery on the third working date after the day of the transaction.

Significant Change and Material Adverse Change

Save as disclosed in this Prospectus in "Managements Discussion and Analysis of Financial Condition and Results of Operations—Events after 30 June 2010" on page 76, there has been no significant change in the financial or trading position of the Group since 30 June 2010. There has been no material adverse change in the financial position or the prospects of the Group since 31 December 2009.

Litigation

Save as described on page 149 in "Description of the Issuer—Legal Proceedings", neither the Issuer, nor any of the Surety Providers, nor any member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or the Surety Providers are aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer, the Surety Providers or the Group.

Auditors

The Consolidated Financial Statements prepared in accordance with IFRS as adopted by the European Union, included on pages F-4 to F-86 of this Prospectus, have been audited in accordance with International Standards on Auditing by the Independent Reporting Auditors, 11 Bouboulinas Street, 1060 Nicosia, Cyprus. The Interim Consolidated Financial Statements for the six months ended 30 June 2010, included on pages F-89 to F-152 of this Prospectus, are unaudited but reviewed in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" by Baker Tilly Klitou and Partners Limited.

For the purpose of compliance with the Prospectus Rules, Baker Tilly Klitou and Partners Limited have given their written consent to the inclusion on pages F-7 to F-12 of this Prospectus of their independent auditors' report on the Consolidated Financial Statements.

The Independent Reporting Auditors are authorised and regulated by the Institute of Certified Public Accountants of Cyprus. The Independent Reporting Auditors have no material interest in the Issuer.

The statutory auditors of the Issuer are Baker Tilly Klitou and Partners Limited, 11 Bouboulinas Street, 1060 Nicosia, Cyprus.

Baker Tilly Klitou and Partners Limited, in their auditors' reports on the Consolidated Financial Statements for the years ended 31 December 2007, 31 December 2008 and 31 December 2009, drew attention to a concentration of the Group's transactions with related parties by way of an emphasis of matter statement.

Documents

Copies of the following documents will be available for inspection from the registered office of the Issuer and from the specified offices of the Trustee and the Principal Paying Agent for the time being in London:

(a) the constitutional documents (with an English translation thereof) of the Issuer and the constitutional documents (with an English translation thereof) of each of the Surety Providers;

(b) the consolidated audited financial statements of the Group in respect of each of the two financial years ended 31 December 2009 and 2008, in each case together with the audit reports in connection therewith. The Issuer currently prepares audited consolidated accounts on an annual basis;

(c) the most recently published unaudited consolidated interim financial statements (if any) of the Issuer together with the review reports prepared in connection therewith. The Issuer currently prepares unaudited consolidated interim accounts on a six monthly basis;

(d) the Trust Deed, the Agency Agreement and the Surety Agreement; and

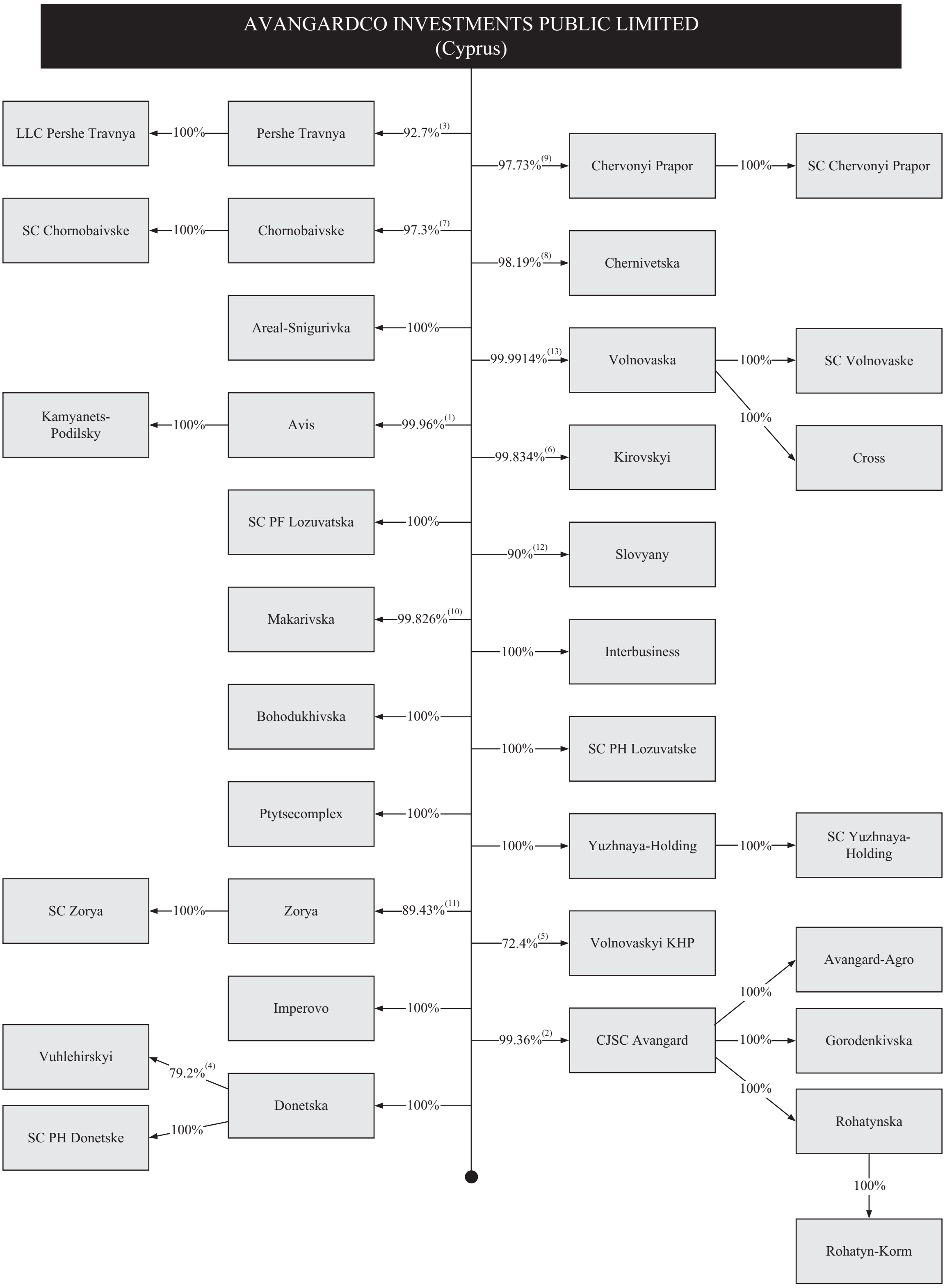
(e) the Pro-Consulting Report.

Joint Lead Managers transacting with the Issuer and the Surety Providers

The Joint Lead Managers and their affiliates may have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer, the Surety Providers and their affiliates in the ordinary course of business.

Information Relating to the Issuer's Subsidiaries

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 190 unaffiliated individuals, and one affiliated individual.

(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 approximately 1960 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.

The Issuer'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, 57300 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 , Trudova Str., village Valya-Kuzmina, Glybotskyi Region, Chernivtsi 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 Eksperementalnyi Kombikormovyi Zavod"	80%	23, Pobedy Str., village Novoluhanske, Artemivskyi 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%	23 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
PJSC "Cross-P/F "Zorya"	89%	25/2, Chervonoarmiyska Str. and Mykolaivska Str., village Khroly, 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 "Ptakhohospodarstvo "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
LLC "Makarivska Ptakhofabryka"	100%	68, Pershotravneva Str., bld. F, village of rural type Makariv, Makarivskiy Region, Kyiv Oblast, 08000, Ukraine
SC Ptakhofabryka "Lozuvatska" of Private Joint Stock Company with Limited Liability "Avangardco Investments Public Limited"	100%	29, Chkalova Str., village Lozuvatka, Kryvorizkiy Region, Dnipropetrovsk Oblast, 53020, Ukraine

Company	Effective Interest	Registered Office
SC "Ptakhohospodarstvo Lozuvatske"	100%	29, Chkalova Str., 8-th District, village Lozuvatka, Kryvorizkiy 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

Surety Providers

The following of the Issuer's significant subsidiaries will act as Surety Providers:

Areal-Snigurivka

Full legal and commercial name	LLC "Areal-Snigurivka"
Date and place of incorporation	2 October 2007, Snihurivska Region State Administration of Mykolayiv Oblast
Identification Code (EDRPOU No.) ...	31427847
Duration of existence	Unlimited
The domicile and legal address of the Surety Provider's registered office and legislation under which the Surety Provider operates	7, Pozamiska Str., Snihurivka, Snihurivskiy Region, Mykolayiv Oblast, 57300, Ukraine Telephone number: +380 5162 32 530 Areal-Snigurivka was incorporated in the form of a limited liability company under Ukrainian law
Statutory Auditors of the Surety Provider	"Baker Tilly Ukraine" LLP, 28 Fizkultury St., Kyiv, 03680, Ukraine
Directors	Yevhen Pelekh Business address: 7, Pozamiska Str., Snihurivka, Snihurivskiy Region, Mykolayiv Oblast, 57300, Ukraine
Principal Activities of the Surety Provider	Farm for laying hens
Description of the Surety Provider's position within the Group	Areal-Snigurivka has one participant, Avangardco Investments Public Limited, which owns 100% of the participary interest in Areal-Snigurivka. Areal-Snigurivka has no subsidiaries itself.

Areal-Snigurivka is not dependent on any other entities within the Group

Avis

Full legal and commercial name	CJSC Agrofirma "Avis"
Date and place of incorporation	22 September 1994, Kamyanets-Podilska Region State Administration of Khmelnytsk Oblast
Identification Code (EDRPOU No.) ...	21332083
Duration of existence	Unlimited

The domicile and legal address of the Surety Provider's registered office and legislation under which the Surety Provider operates	Village Gumentsi, Kamyanets-Podilsky Region, Khmelnytsk Oblast, 32325, Ukraine Telephone number: +380 3849 75 733 Avis was incorporated in the form of a closed joint stock company under Ukrainian law
Statutory Auditors of the Surety Provider	"Baker Tilly Ukraine" LLP, 28 Fizkultury St., Kyiv, 03680, Ukraine
Directors	Yuriy Tymofiyev Business address: Village Gumentsi, Kamyanets-Podilsky Region, Khmelnytsk Oblast, 32325, Ukraine
Principal Activities of the Surety Provider	Farm for laying hens, long-term egg storage facility
Description of the Surety Provider's position within the Group	Avis has one majority shareholder, Avangardco Investments Public Limited, which owns 99.96% of the shares of Avis. Avis has one subsidiary.

Avis is not dependent on any other entities within the Group.

Bohodukhivska

Full legal and commercial name	LLC "Torgivelniy Budynok "Bohodukhivska Ptakhofabryka"
Date and place of incorporation	18 September 2003, Kharkivska Region State Administration of Kharkiv Oblast
Identification Code (EDRPOU No.)	32611873
Duration of existence	Unlimited
The domicile and legal address of the Surety's registered office and legislation under which the Surety Provider operates	137, Sportyvna Str., village Sanzhary, Kharkivskiy Region, Kharkiv Oblast, 62447, Ukraine Telephone number: +380 5770 62 590 Bohodukhivska was incorporated in the form of a limited liability company under Ukrainian law.
Statutory Auditors of the Surety Provider	"Baker Tilly Ukraine" LLP, 28 Fizkultury St., Kyiv, 03680, Ukraine
Directors	Vasyl Bryzhan Business address: 137, Sportyvna Str., village Sanzhary, Kharkivskiy Region, Kharkiv Oblast, 62447, Ukraine
Principal Activities of the Surety Provider	Farm for laying hens
Description of the Surety Provider's position within the Group	Bohodukhivska has one participant, Avangardco Investments Public Limited, which owns 100% of the participatory interest in Bohodukhivska. Bohodukhivska has no subsidiaries itself.

Bohodukhivska is not dependent on any other entities within the Group.

Chernivetska

Full legal and commercial name	CJSC Chernivetska Ptakhofabryka
Date and place of incorporation	23 April 2002, Glybotska Region State Administration of Chernivtsi Oblast
Identification Code (EDRPOU No.) ...	31462059
Duration of existence	Unlimited
The domicile and legal address of the Surety Provider's registered office and legislation under which the Surety Provider operates	10, Trudova Str., village Valya-Kuzmina, Glybotskyi Region, Chernivtsi Oblast, 60411, Ukraine Telephone number: +380 5523 73 791 Chernivtsi was incorporated in the form of a closed joint stock company under Ukrainian law.
Statutory Auditors of the Surety Provider..............................	"Baker Tilly Ukraine" LLP, 28 Fizkultury St., Kyiv, 03680, Ukraine
Directors	Viktor Anikin Business address: 10, Trudova Str., village Valya-Kuzmina, Glybotskyi Region, Chernivtsi Oblast, 60411, Ukraine Farm for laying hens
Principal Activities of the Surety Provider	
Description of the Surety Provider's position within the Group	Chernivetska has one majority shareholder, Avangardco Investments Public Limited, which owns 98.19% of the shares of Chernivetska. Chernivetska has no subsidiaries itself.

Chernivetska is not dependent on any other entities within the Group.

Chervonyi Prapor

Full legal and commercial name	OJSC "Ptakhohospodarstvo "Chervonyi Prapor"
Date and place of incorporation	24 September 1996, Perevalska Region State Administration of Luhansk Oblast
Identification Code (EDRPOU No.) ...	00851519
Duration of existence	Unlimited
The domicile and legal address of the Surety Provider's registered office and legislation under which the Surety Provider operates	31, Fabrychna Str., village Chervonyi Prapor, Perevalskyi Region, Luhansk Oblast, 94320, Ukraine Telephone number: +380 6441 57 301 Chervonyi Prapor was incorporated in the form of an open joint stock company under Ukrainian law.
Statutory Auditors of the Surety Provider..............................	"Baker Tilly Ukraine" LLP, 28 Fizkultury St., Kyiv, 03680, Ukraine

Directors	Volodymyr Krasutskyi Business address: 31, Fabrychna Str., village Chervonyi Prapor, Perevalskyi Region, Luhansk Oblast, 94320, Ukraine
Principal Activities of the Surety Provider	Farm for Laying Hens, Operating Company
Description of the Surety Provider's position within the Group	Chervonyi Prapor has one majority shareholder, Avangardco Investments Public Limited, which owns 97.73% of the shares of Chervonyi Prapor. Chervonyi Prapor has one subsidiary.

Chervonyi Prapor is not dependent on any other entities within the Group.

Chornobaivske

Full legal and commercial name	APP CJSC "Chornobaivske"
Date and place of incorporation	9 February 1998, Bilozirska Region State Administration of Kherson Oblast
Identification Code (EDRPOU No.) ...	21307398
Duration of existence	Unlimited
The domicile and legal address of the Surety Provider's registered office and legislation under which the Surety Provider operates	Village Chornobaivka, Bilozirskyi Region, Kherson Oblast, 75024, Ukraine Telephone number: +380 5523 73 791 Chornobaivske was incorporated in the form of a closed joint stock company under Ukrainian law.
Statutory Auditors of the Surety Provider	"Baker Tilly Ukraine" LLP, 28 Fizkultury St., Kyiv, 03680, Ukraine
Directors	Andriy Chirkov Business address: Village Chornobaivka, Bilozirskyi Region, Kherson Oblast, 75024, Ukraine
Principal Activities of the Surety Provider	Farm for laying hens
Description of the Surety Provider's position within the Group	Chornobaivske has one major shareholder, Avangardco Investments Public Limited, which owns 97.3% of the shares of Chornobaivske. Chornobaivske has one subsidiary.

Chornobaivske is not dependent on any other entities within the Group.

CJSC Avangard

Full legal and commercial name	CJSC "Avangard"
Date and place of incorporation	17 November 2004, Tysmenytska Region State Administration of Ivano-Frankivsk Oblast
Identification Code (EDRPOU No.) ...	00853582
Duration of existence	Unlimited

The domicile and legal address of the Surety Provider's registered office and legislation under which the Surety Provider operates	Village Zagvizdya, Tysmenytskyi Region, Ivano-Frankivsk Oblast, 77450, Ukraine Telephone number: +380 3436 44 248 CJSC Avangard was incorporated in the form of a closed joint stock company under Ukrainian law.
Statutory Auditors of the Surety Provider	"Baker Tilly Ukraine" LLP, 28 Fizkultury St., Kyiv, 03680, Ukraine
Directors	Valeriy Kovalchuk Business address: Village Zagvizdya, Tysmenytskyi Region, Ivano-Frankivsk Oblast, 77450, Ukraine
Principal Activities of the Surety Provider	Farm for laying hens
Description of the Surety Provider's position within the Group	CJSC Avangard has one major shareholder, Avangardco Investments Public Limited, which owns 99.36% of the shares of CJSC Avangard. CJSC Avangard has three subsidiaries.

CJSC Avangard is not dependent on any other entities within the Group.

Donetska

Full legal and commercial name	ALLC "Donetska Ptakhofabryka"
Date and place of incorporation	6 February 2001, Volnovska Region State Administration of Donetsk Oblast
Identification Code (EDRPOU No.)	31187235
Duration of existence	Unlimited
The domicile and legal address of the Surety Provider's registered office and legislation under which the Surety Provider operates	4, Donetska Str., village Rivnopil, Volnovaskiy Region, Donetsk Oblast, 85760, Ukraine Telephone number: +380 6233 59 920 Donetska was incorporated in the form of a limited liability company under Ukrainian law.
Statutory Auditors of the Surety Provider	"Baker Tilly Ukraine" LLP, 28 Fizkultury St., Kyiv, 03680, Ukraine
Directors	Ihor Naumovych Business address: 4, Donetska Str., village Rivnopil, Volnovaskiy Region, Donetsk Oblast, 85760, Ukraine
Principal Activities of the Surety Provider	Farm for Laying Hens, Long-Term Egg Storage Facility

Description of the Surety Provider's position within the Group	Donetska has one participant, Avangardco Investments Public Limited, which owns 100% of the participatory interest in Donetska. Donetska has two subsidiaries.

Donetska is not dependent on any other entities within the Group.

Gorodenkivska

Full legal and commercial name.....	SC "Gorodenkivska Ptakhofabryka" of CJSC "Avangard"
Date and place of incorporation	25 September 2006, Gorodenkivska Region State Administration of Ivano-Frankivsk Oblast
Identification Code (EDRPOU No.) ...	34161115
Duration of existence	Unlimited
The domicile and legal address of the Surety Provider's registered office and legislation under which the Surety Provider operates	164 Vynnychenka Str., Gorodenka, Gorodenkivskyi Region, Ivano-Frankivsk Oblast, 78100, Ukraine Telephone number: +380 3430 22 343 Gorodenkivska was incorporated in the form of a subsidiary company under Ukrainian law.
Statutory Auditors of the Surety Provider..............................	"Baker Tilly Ukraine" LLP, 28 Fizkultury St., Kyiv, 03680, Ukraine
Directors	Yevhen Petrychka Business address: 164, Vynnychenka Str., Gorodenka, Gorodenkivskyi Region, Ivano-Frankivsk Oblast, 78100, Ukraine
Principal Activities of the Surety Provider..............................	Farm for laying hens
Description of the Surety Provider's position within the Group	Gorodenkivska has one owner CJSC Avangard, which owns 100% of the corporate rights in Gorodenkivska. Gorodenkivska Ptakhofabryka has no subsidiaries itself.

Gorodenkivska is a subsidiary company of CJSC Avangard.

Imperovo

Full legal and commercial name.....	LLC "Imperovo Foods"
Date and place of incorporation	7 March 2007, the Executive Committee of Ivano-Frankivsk City Council
Identification Code (EDRPOU No.) ...	34845075
Duration of existence	Unlimited
The domicile and legal address of the Surety Provider's registered office and legislation under which the Surety Provider operates	29, Promyslova Str., Ivano-Frankivsk, Ivano-Frankivsk Oblast, 76018, Ukraine Telephone number: +380 3422 25 212

	Imperovo was incorporated in the form of a limited liability company under Ukrainian law.
Statutory Auditors of the Surety Provider	"Baker Tilly Ukraine" LLP, 28 Fizkultury St., Kyiv, 03680, Ukraine
Directors	Vasyl Vityuk
	Business address: 29, Promyslova Str., Ivano-Frankivsk, Ivano-Frankivsk Oblast, 76018, Ukraine
Principal Activities of the Surety Provider	Long-Term Egg Storage Facility, Operating Company
Description of the Surety Provider's position within the Group	Imperovo has one participant, Avangardco Investments Public Limited, which owns 100% of the participatory interest in Imperovo. Imperovo has no subsidiaries itself.

Imperovo is not dependent on any other entities within the Group.

Interbusiness

Full legal and commercial name	PSPC "Interbusiness"
Date and place of incorporation	7 August 1992, the Executive Committee of Donetsk City Council
Identification Code (EDRPOU No.)	01200244
Duration of existence	Unlimited
The domicile and legal address of the Surety Provider's registered office and legislation under which the Surety Provider operates	2, Sechenova Str., Donetsk, 83059, Ukraine
	Telephone number: +380 62 334 0012
	Interbusiness was incorporated in the form of a private company under Ukrainian law.
Statutory Auditors of the Surety Provider	"Baker Tilly Ukraine" LLP, 28 Fizkultury St., Kyiv, 03680, Ukraine
Directors	Volodymyr Krasutskyi
	Business address: 2, Sechenova Str., Donetsk, 83059, Ukraine
Principal Activities of the Surety Provider	Farm for laying hens
Description of the Surety Provider's position within the Group	Interbusiness has one shareholder, Avangardco Investments Public Limited, which owns 100% of the corporate rights if Interbusiness. Interbusiness has no subsidiaries itself.

Interbusiness is not dependent on any other entities within the Group.

Rohatynska

Full legal and commercial name	SC "Rohatynska Ptakhofabryka" of CJSC "Avangard"
Date and place of incorporation	22 September 2006, Rogatynska Region State Admionistraiton of Ivano-Frankivsk Oblast
Identification Code (EDRPOU No.)	34158783
Duration of existence	Unlimited

The domicile and legal address of the Surety Provider's registered office and legislation under which the Surety Provider operates	Village Zaluzhzhya, Rogatynskyi Region, Ivano-Frankivsk Oblast, 77000, Ukraine Telephone number: +380 3435 21 467 Rohatynska was incorporated in the form of a subsidiary company under Ukrainian law.
Statutory Auditors of the Surety Provider	"Baker Tilly Ukraine" LLP, 28 Fizkultury St., Kyiv, 03680, Ukraine
Directors	Lyubov Zhenchyk Business address: Village Zaluzhzhya, Rogatynskyi Region, Ivano-Frankivsk Oblast, 77000, Ukraine
Principal Activities of the Surety Provider	Farm for laying hens
Description of the Surety Provider's position within the Group	Rohatynska has one owner, CJSC Avangard, which owns 100% of the corporate rights of Rohatynska. Rohatynska has one subsidiary.

Rohatynska is a subsidiary company of CJSC Avangard.

SC PF Lozuvatska

Full legal and commercial name	SC Ptakhofabryka "Lozuvatska" of Private Joint Stock Company with Limited Liability "Avangardco Investments Public Limited"
Date and place of incorporation	30 August 2002, Kryvorizka Region State Administration of Dnipropetrovsk Oblast
Identification Code (EDRPOU No.)	31789144
Duration of existence	Unlimited
The domicile and legal address of the Surety Provider's registered office and legislation under which the Surety Provider operates	29, Chkalova Str., village Lozuvatka, Kryvorizkiy Region, Dnipropetrovsk Oblast, 53020, Ukraine Telephone number: +380 5647 74 020 SC PF Lozuvatska was incorporated in the form of a subsidiary company under Ukrainian law.
Statutory Auditors of the Surety Provider	"Baker Tilly Ukraine" LLP, 28 Fizkultury St., Kyiv, 03680, Ukraine
Directors	Tamara Vlasenko Business address: 29, Chkalova Str., village Lozuvatka, Kryvorizkiy Region, Dnipropetrovsk Oblast, 53020, Ukraine
Principal Activities of the Surety Provider	Farm for Laying Hens, Long-Term Egg Storage Facility

Description of the Surety Provider's position within the Group	SC PF Lozuvatska has one owner, Avangardco Investments Public Limited, which owns 100% of the corporate rights of SC PF Lozuvatska. SC PF Lozuvatska has no subsidiaries itself.

SC PF Lozuvatska is not dependent on any other entities within the Group.

Volnovaska

Full legal and commercial name	LLC PF "Volnovaska"
Date and place of incorporation	3 April 2000, Volnovaska Region State Administration of Donetsk Oblast
Identification Code (EDRPOU No.)	30942418
Duration of existence	Unlimited
The domicile and legal address of the Surety Provider's registered office and legislation under which the Surety Provider operates	Office of LLC PF "Volnovaska", village Rybynske, Volnovaskyi Region, Donetsk Oblast, 85735, Ukraine Telephone number: +380 6234 01 647 Volnovaska was incorporated in the form of a limited liability company under Ukrainian law.
Statutory Auditors of the Surety Provider	"Baker Tilly Ukraine" LLP, 28 Fizkultury St., Kyiv, 03680, Ukraine
Directors	Vyacheslav Kotsan Business address: Office of LLC PF "Volnovaska", village Rybynske, Volnovaskyi Region, Donetsk Oblast, 85735, Ukraine
Principal Activities of the Surety Provider	Farm for laying hens, long-term egg storage facility
Description of the Surety Provider's position within the Group	Volnovaska has one major participant, Avangardco Investments Public Limited, which owns a 99.9914% of the participatory interest in Volnovaska. Volnovaska has two subsidiaries.

Volnovaska is not dependent on any other entities within the Group.

Zorya

Full legal and commercial name	PJSC "Cross-P/F "Zorya"
Date and place of incorporation	27 November 2000, Kharkivska Region State Administraiton of Kharkiv Oblast
Identification Code (EDRPOU No.)	31214525
Duration of existence	Unlimited
The domicile and legal address of the Surety Provider's registered office and legislation under which the Surety Provider operates	25/2, Chervonoarmiyska Str. and Mykolaivska Str., village Khroly, Kharkivskiy Region, Kharkiv Oblast, 62480, Ukraine

	Telephone number: +380 5774 09 574
	Zorya was incorporated in the form of a public joint stock company under Ukrainian law.
Statutory Auditors of the Surety Provider	"Baker Tilly Ukraine" LLP, 28 Fizkultury St., Kyiv, 03680, Ukraine
Directors	Nataliya Honcharenko
	Business address: 25/2, Chervonoarmiyska Str. and Mykolaivska Str., village Khroly, Kharkivskiy Region, Kharkiv Oblast, 62480, Ukraine
Principal Activities of the Surety Provider	Farm for laying hens
Description of the Surety Provider's position within the Group	Zorya has one majority shareholder, Avangardco Investments Public Limited, which owns 89.43% of the shares of Zorya. Zorya has one subsidiary.

Zorya is not dependent on any other entities within the Group.

INDEX TO FINANCIAL STATEMENTS

CONSOLIDATED AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2007, 2008 AND 2009

INTERIM UNAUDITED REVIEWED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Consolidated financial statements

For the years ended 31 December 2009, 2008 and 2007

AVANGARDCO INVESTMENTS PUBLIC LIMITED

CONTENTS

Board of Directors and other officers

BOARD OF DIRECTORS:

Kyriaki Georgiou (appointed 23 October 2007, resigned 19 November 2008)
Philippos Philippou (appointed 19 November 2008, resigned 22 March 2010)
Nataliya Vasylyuk (appointed 3 June 2009)
Oleg Bakhmatyuk (appointed 22 March 2010)
Iryna Marchenko (appointed 22 March 2010)
Oksana Prolenko (appointed 22 March 2010)

COMPANY SECRETARY:

Cyproliaison Limited (resigned 22 March 2010)
1 Kostaki Pantelidi Street
KOLOKASSIDES BUILDING, 3rd floor
CY- 1010 Nicosia
Cyprus

Confida Secretarial Limited (appointed 22 March 2010)
16 – 18 Zinas Kanther Street
Agia Triada
3035 Limassol
Cyprus

REGISTERED OFFICE:

16 –18 Zinas Kanther Street
Agia Triada
CY-3035 Limassol
Cyprus

The Board of Directors presents its report together with the audited consolidated financial statements of Avangardco Investments Public Limited (the "Company") and its subsidiaries for (hereinafter referred as "the Group") for the years ended 31 December 2009, 2008 and 2007.

Incorporation

The Company was incorporated on 23 October 2007 in Cyprus as a private limited company in accordance with the provisions of the Cyprus Companies Law, Cap. 113, under the name of Ultrainvest Limited.

On 8 July 2009, the Registrar of Companies in Cyprus issued a certificate to the effect that the Company was re-registered as a public limited company and changed its name to Avangardco Investments Public Limited.

Principal activities

The principal activities of the Group are:

- keeping of technical laying hen, production and selling of eggs;
- incubation (production and sale of day-old chick), farming of young poultry for sale, and poultry;
- production and selling of mixed fodder; and
- processing of eggs and selling of egg products.

Review of developments, position and performance of the Company's business

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 an agricultural 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 Group's financial position as at 31 December 2009 as presented in the consolidated statement of financial position in the consolidated financial statements is considered satisfactory. The net asset position of the Group has been substantially increased in year 2008 following the issue of new share capital and it was amounting to Euro 500 thousand.

The Group's financial performance for the period 1 January 2007 to 31 December 2009 as presented in the consolidated statement of comprehensive income of the consolidated financial statements is considered satisfactory. The Group recorded a profit of USD 133.669 thousand for the year ended 31 December 2009 compared to a profit of USD 77.283 thousand for the year ended 31 December 2008 and a profit of USD 30.234 thousand for the year ended 31 December 2007 primarily as a result of fluctuations of the cost of sales and revenue. The fluctuations in the cost of sales were primarily due to fluctuations of material costs and payroll of production personnel and related taxes.

Principal risks and uncertainties

The principal risks and uncertainties faced by the Group are disclosed in the consolidated financial statements for the years ended 31 December 2009, 2008 and 2007 in notes 41 and 42.

Future developments of the Group

The Board of Directors expects inflow of funds and expansion of activities as a result of Group's listing at London Stock Exchange Main Market.

Results

The Group's results for the years ended 31 December 2009, 2008 and 2007 are set out in the consolidated financial statements on page 12. The Board of Directors does not recommend the payment of dividends and the profits for the years ended 31 December 2009, 2008 and 2007 are retained.

Share capital

The changes to the share capital of the Company are set out in the consolidated financial statements within note 1.

Board of Directors

The members of the Board of Directors at 31 December 2009 and at the date of this report are shown on page 2. Ms Kyriaki Georgiou who was member of the Board at the date of incorporation resigned on 19 November 2008 and on the same day Mr. Philippos Philippou was appointed in her place. Mrs Nataliya Vasylyuk was appointed on 3 June 2009. Mr Philippos Philippou resigned on 22 March 2010 and Mr Oleg Bakhmatyuk, Ms Iryna Marchenko and Ms Oksana Prosolenko were appointed as Directors in his place

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

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

Events after the balance sheet date

In the first quarter of 2010 trade accounts receivables from related parties significantly changed as a result of their paying-off. There were no changes in bank loans or bank deposits portfolio.

On 30 March 2010 Companies of the Group concluded 2 supply contracts for females and males of parent stock of "Hy-Line W-36" and "Hy-Line Brown" for the amounts of EUR 3 130 000 and EUR 570 000. The term of these contracts is 3 years from signing.

Branches

The Group did not operate through any registered branches during the years ended 31 December 2009, 2008 and 2007.

Independent Auditors

The Independent Auditors, Baker Tilly Klitou, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By Order of the Board

Nataliya Vasylyuk
Director

Nicosia,
30 April 2010

ΣΕΛΚ

ICPAC
Quality Checked

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KLITOU

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Tel: +357 22 458500
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Email: info@bakertillyklitou.com
Website: www.bakertillyklitou.com

Independent Auditors' Report
To the Members of Avangardco Investments Public Limited

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Avangardco Investments Public Limited (the "Company") and its subsidiaries (the "Group") on pages 11 to 77, which comprise the consolidated statements of financial position as at 31 December 2009, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Audit Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial positions of the Group as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

Emphasis of Matter

We draw attention to Note 36 of the consolidated financial statements which indicates that a substantial portion of the Group's assets are due from related parties and a significant component of the Group's revenue is derived from activities with related parties. Related parties may enter into transactions which unrelated parties might not and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of the Cyprus Companies Law, Cap. 113, we report the following:

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

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 156 of the Cyprus Companies Law, Cap. 113, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Baker Tilly Klitou

Baker Tilly Klitou and Partners Limited
Nicosia, 30 April 2010

ΣΕΛΚ
ICPAC
Quality Checked

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Independent Auditors' Report
To the Members of Avangardco Investments Public Limited

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Avangardco Investments Public Limited (the "Company") and its subsidiaries (the "Group") on pages 11 to 77, which comprise the consolidated statements of financial position as at 31 December 2008, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

BAKER TILLY
KLITOU

Audit Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial positions of the Group as at 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

Emphasis of Matter

We draw attention to Note 36 of the consolidated financial statements which indicates that a substantial portion of the Group's assets are due from related parties and a significant component of the Group's revenue is derived from activities with related parties. Related parties may enter into transactions which unrelated parties might not and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of the Cyprus Companies Law, Cap. 113, we report the following:

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

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 156 of the Cyprus Companies Law, Cap. 113, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Baker Tilly Klitou

Baker Tilly Klitou and Partners Limited
Nicosia, 30 April 2010

an independent member of
BAKER TILLY
INTERNATIONAL

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Quality Checked

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Independent Auditors' Report
To the Members of Avangardco Investments Public Limited

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Avangardco Investments Public Limited (the "Company") and its subsidiaries (the "Group") on page 11 to 77, which comprise the consolidated statements of financial position as at 31 December 2007, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

We did not observe the counting of the physical inventories as of 31 December 2006, since that date was prior to the time we were initially engaged as auditors of the Company. Owing to the nature of the Group's records, we were unable to satisfy ourselves as to the inventory quantities by other audit procedures.

Qualified Audit Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to physical inventory quantities, the consolideated financial statements give a ure and fair view of the financial position of Avangardco Investments Public Limtied as of 31 December 2007, and of its financial, performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

Emphasis of Matter

Without further qualifying our audit report, we draw attention to Note 36 of the consolidated financial statements which indicates that a substantial portion of the Group's assets are due from related parties and a significant component of the Group's revenue is derived from activities with related parties. Related parties may enter into transactions which unrelated parties might not and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of the Cyprus Companies Law, Cap. 113, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required, except as explained in the Basis for Qualified Opinion paragraph.
- In our opinion, the information given in the report of the Board of Directors on pages 3 to 4 is consistent with the consolidated financial statements.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 156 of the Cyprus Companies Law, Cap. 113, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Baker Tilly Klitou

Baker Tilly Klitou and Partners Limited
Nicosia, 30 April 2010

an independent member of BAKER TILLY INTERNATIONAL

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Consolidated statement of financial position
AS AT 31 DECEMBER 2009, 2008 AND 2007
(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 financial assets	6	40	41	29 766
Non-current biological assets	7	21 546	9 185	21 343
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	—
Taxes recoverable and prepaid	9	28 708	54 058	41 226
Current biological assets	7	44 910	47 935	18 075
Prepayments and other current assets	11	58 626	133 111	38 744
Trade receivables	12	47 320	15 593	47 953
Short-term bank deposits	15	155 917	233 271	37 363
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:				
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:				
Long-term loans	16	85 975	192 518	189 340
Deferred income tax liabilities	20	1 173	650	1 201
Deferred income (non-current portion)	34, c)	5 963	6 499	10 136
Long-term finance leases	24	6 142	8 502	—
Total non-current liabilities		**99 253**	**208 169**	**200 677**
CURRENT LIABILITIES:				
Short-term bond liabilities	25	24 249	25 843	—
Current portion of non-current financial liabilities	19	3 445	3 415	10 816
Short-term loans	17	145 531	280 176	213 867
Trade payables	21	68 019	20 529	43 134
Current income tax liabilities		7	—	6
Accrued expenses	22	1 278	1 004	722
Other current liabilities and accrued expenses	23	142 039	362 327	122 048
Total current liabilities		**384 568**	**693 294**	**390 593**
TOTAL LIABILITIES AND EQUITY		**844 376**	**1 019 966**	**683 062**

On 30 April 2010 the Board of Directors of Avangardco Investments Public Limited authorized these consolidated financial statements for issue.

Nataliya Vasylyuk	**Iryna Marchenko.**
Director	Director

The notes on pages 16 to 77 form an integral part of this financial information.

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Consolidated statement of comprehensive income
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in USD thousand, unless otherwise stated)

	Note	31 December 2009	31 December 2008	31 December 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	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 cost	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		**133 669**	**77 283**	**30 234**
OTHER COMPREHENSIVE INCOME FOR THE YEAR:				
Effect of translation into presentation currency		(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)		26.73	177.66	1 511.70
Total comprehensive income per one share, USD		25.25	39.74	1 511.70

The notes on pages 16 to 77 form an integral part of this financial information.

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Consolidated statement of changes in equity
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in USD thousand, unless otherwise stated)

	Share capital	Capital contribution reserve	Retained earnings[1]	Foreign currency translation reserve	Non-controlling interests	Total
As at 1 January 2007	**3**	**—**	**26 173**	**—**	**7 284**	**33 460**
Businesses under common control	—	—	23 910	—	4 188	28 098
Profit for the year	—	—	24 026	—	6 208	30 234
As at 31 December 2007	**3**	**—**	**74 109**	**—**	**17 680**	**91 792**
Increase in share capital	641	—	—	—	—	641
Businesses under common control	—	—	19 294	—	(9 945)	9 349
Effect of acquisitions of non-controlling interest	—	—	—	—	(564)	(564)
Effect from translation into presentation currency	—	—	—	(56 698)	(3 300)	(59 998)
Profit for the year	—	—	74 748	—	2 535	77 283
As at 31 December 2008	**644**	**—**	**168 151**	**(56 698)**	**6 406**	**118 503**
Additional capital contribution	—	115 858	—	—	—	115 858
Effect of acquisitions of non-controlling interest	—	—	—	—	(34)	(34)
Effect from translation into presentation currency	—	—	—	(7 439)	(2)	(7 441)
Profit for the year	—	—	131 956	—	1 713	133 669
As at 31 December 2009	**644**	**115 858**	**300 107**	**(64 137)**	**8 083**	**360 555**

(1) Companies which do not distribute 70% of their profits after tax, as defined by the relevant tax law, within two years after the end of the relevant tax year, will be deemed to have distributed as dividends 70% of these profits. Special contribution for defence at 15% will be payable on such deemed dividends to the extent that the shareholders (companies and individuals) are Cyprus tax residents. The amount of deemed distribution is reduced by any actual dividends paid out of the profits of the relevant year at any time. This special contribution for defence is payable by the Company for the account of the shareholders.

The notes on pages 16 to 77 form an integral part of this financial information.

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Consolidated statement of cash flows
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(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 for:			
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 receivables	(14 517)	31 530	(33 335)
(Increase)/decrease in prepayments and other current assets	161 386	(94 317)	(24 949)
(Increase)/decrease in taxes recoverable and prepaid	24 957	(11 073)	(27 263)
(Increase)/decrease in inventories	(2 130)	(36 016)	(9 312)
Increase/(decrease) in deferred income	(847)	(4 259)	1 331
(Increase)/decrease in other non-current assets	13	(360)	(6)
Increase/(decrease) in trade payables	38 058	(24 066)	26 004
(Increase)/decrease in biological assets	(1 641)	(28 596)	(9 731)
Increase/(decrease) in advances received and other current liabilities	(109 100)	210 930	23 491
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 an 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)**

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Consolidated statement of cash flows (continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(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**
Effect from 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 16 to 77 form an integral part of this financial information.

1. General information

This consolidated financial information of Avangardco Investments Public Limited ("the Parent company" hereinafter) and subsidiaries ("the Group" or "Avangard" hereinafter jointly) for the years ended 31 December 2007, 31 December 2008 and 31 December 2009 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 Registrar of Companies in Cyprus issued a certificate to the effect that the Company was 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 agricultural 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 agricultural companies of the Group. The reorganisation did not affect the principal activities of the Group.

The history of "Avangard" began with the acquisition by the principal 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 concept of development of this business line was designed, as a result of which in 2005-2009 other major enterprises of agrarian industry in Ukraine joined the Group.

The Group's activities cover all the links of the value chain: from production of combined feed, maintenance and breeding of chickens to production and sale of eggs and egg products. As at 31 December 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 receive additional profit due to synergistic effect, the Group acquired a hen breeding concern. This ensures breeding of the required number of high quality daily chickens and their timely delivery to factories.

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

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%	—
PPB LLC Ptytsecompleks		Ukraine	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 1 December 2008, the issued share capital of the Parent company was Euro 2 000, which comprised 2 000 ordinary shares with nominal value of Euro 1 per share. On 1 December 2008 this was increased to Euro 500 000 by contemporaneous split of each Euro 1 share into 10 Euro 0,10 shares and the issue of 4 980 000 new shares of Euro 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 ("the beneficial owner" hereinafter) 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 USD 115 858 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 statements

2.1 Basis of preparation and accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as approved by the International Accounting Standards Board ("IASB"), and interpretations, issued by the IFRS Standing 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.

Subsidiaries of the Group keep accounting records in compliance with requirements of accounting and reporting in Ukraine. Ukrainian generally accepted accounting principles (GAAP) differ from IFRS. Accordingly, these consolidated financial statements, prepared based on accounting registers of the Group's Subsidiaries, contain adjustments, required to bring the financial statements in compliance with IFRS.

2. Basis of presentation of consolidated financial statements (continued)

2.1 Basis of preparation and accounting (continued)

The Parent company (Avangardco Investments Public Limited) keeps accounting records and prepares individual financial statements accordingly to the requirements of IFRS.

These financial statements were prepared in accordance with IFRS which became effective for years commencing on or after 1 January 2009.

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 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 the reporting in accordance with IFRS") in accordance with requirements of IFRS 1 "First-time adoption of International Financial Reporting Standards"; "IFRS 1"). 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 requirements of each International Accounting Standard (IAS) and IFRS which are effective as at the date of first preparation of full financial statements package in compliance with IFRS, subject to certain transitional arrangements within IFRS1. The first Group's full statutory 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 principle exposure of the parent undertaking is through its Ukrainian subsidiaries, and therefore the functional currency of the Company is also considered to be UAH. Transactions in currencies other than the functional currency of the Group are treated as transactions in foreign currencies. The Group's management used 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 award which is cancelled if vesting conditions are not met.

2. Basis of presentation of consolidated financial statements (continued)

2.4 Standards and interpretations (continued)

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.

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 early adopted this standard. 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 Presentation of Financial Statements 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 the revised IAS 27, affecting consolidated and separate financial statements. IAS 27 (as issued in 2008) 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.

2. Basis of presentation of consolidated financial statements (continued)

2.4 Standards and interpretations (continued)

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 effective 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 category.

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 a part of project implemented by 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, in particular, paragraph 15 (provide reliable information presentation) and paragraph 125 (sources of estimates) of IAS 1. The Group shall 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

2. Basis of presentation of consolidated financial statements (continued)

2.4 Standards and interpretations (continued)

IFRS1: 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

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

IFRIC 16: Hedges of net investment in a foreign operation: Improvement to Standard (endorsed)

IFRIC 17: Distributions of Non-cash Assets to Owners (endorsed)

IFRFIC 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 ("Subsidiaries") 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

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies of an organisation in order to receive benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of any potential voting rights currently or potentially exercisable or arising from potential conversion are taken into account when assessing control.

3. Significant accounting policies (continued)

3.1 Basis of consolidation (continued)

Combinations of businesses under common control

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

- The Group does not restate assets and liabilities to their fair values. Instead the Group incorporates the assets and liabilities at the amounts recorded in the books of the acquired company (the predecessor carrying values) adjusted only to achieve harmonisation of accounting policies.
- No goodwill arises in predecessor accounting. Predecessor accounting may lead to differences in consolidation, for example the consideration given may differ from the aggregate book value of the assets and liabilities (as of the date of the transaction) of the acquired entity. Such differences are included in equity in retained earnings.
- The consolidated financial statements incorporate the acquired entity's results as if both entities (acquirer and acquiree) had always been combined from the date that common control was achieved, Consequently, the consolidated financial statements reflect both entities' full year's results, even though the business combination may have occurred part of the way through the year. In addition, the corresponding amounts for the previous year also reflect the combined results of both entities, even though the transaction did not occur until the current year.

Combinations of businesses not under common control

The purchase method is applied to 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 noncontrolling 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.

If necessary, adjustments are entered into the financial statements of subsidiaries to bring the accounting policy used into compliance with the accounting policy 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 deconsolidated 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 interest is reported as a separate item in the consolidated statement of financial position.

3. Significant accounting policies (continued)

3.1 Basis of consolidation (continued)

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 acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

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

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

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

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

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

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

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, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration affected goodwill.

(in USD thousand, unless otherwise stated)

3. Significant accounting policies (continued)

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 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 on the territory of Ukraine at the exchange rate which is close to the exchange rate established by the National Bank of Ukraine. At the moment, the Ukrainian Hryvnia is not a freely convertible currency outside of Ukraine.

(b) Presentation currency

The financial results and position of each subsidiary are translated into the presentation currency as follows:

(1) At each date of financial statements all the assets and liabilities are translated at the exchange rate of the National Bank of Ukraine at 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 transaction);

(3) All exchange differences are recognised in other comprehensive income.

3.3 Property, plant and equipment

Initial recognition of property, plant and equipment ("PPE")

PPE is recognised by the Group as an asset only in a case, when:

- it is probable that the Group will receive certain future economic benefits;
- the historical cost can be assessed in a reliable way;
- it is intended for use during more than one operating cycle (usually more than 12 months).

After actual commissioning, PPE previously under contstruction is transferred to the relevant category of PPE.

Expenses after the initial recognition of property, plant and equipment

Any subsequent expenses, increasing the future economic benefits from the asset, are treated as additions. Otherwise, the Group recognises subsequent expenses as expenses of the period, in which they have been incurred. The Group divides all expenses, related to the property, plant and equipment, into the following types:

- current repairs and expenses for maintenance and technical service;
- capital refurbishment, including modernisation.

3. Significant accounting policies (continued)

3.3 Property, plant and equipment (continued)

Subsequent measurement of property, plant and equipment

After initial recognition as an asset, the Group applies the model of accounting for the property, plant and equipment at historical cost, net of accumulated depreciation and any accumulated losses from impairment, taking into account estimated residual values of such assets at the end of their useful lives. Such cost includes the cost of replacing significant parts of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced from time to time, the Group recognises such parts as individual assets with specific estimated useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying value of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statement as incurred.

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

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

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

Residual value and useful lives of assets are reviewed and adjusted at each balance sheet date as appropriate.

De-recognition

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use 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 property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Construction in progress is not depreciated. Depreciation of the construction in progress, on the same basis as for other property, plant and equipment items, commences when the assets are available for use, i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by the management.

3.4 Financial 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 purposes for which these securities were acquired. Management takes decision concerning the classification of securities at initial recognition and reviews such classification for reliability at each reporting date.

3. Significant accounting policies (continued)

3.4 Financial assets (continued)

(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.

Accounts receivables are recognised net of 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 into non-current assets unless the Group has an obvious intention to hold these assets for a period less than twelve months from the reporting date, if selling of these assets will not result from the need of increasing the working capital, in which case they will be included into current assets. Available for sale financial assets are recorded at fair value through equity.

Initial recognition

All financial assets and liabilities are recognised at fair value plus transaction costs. The best confirmation of fair value at initial recognition is selling 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 which is reflected at cost or amortized value 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.

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

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

Subsequent measurement

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

3. Significant accounting policies (continued)

3.4 Financial assets (continued)

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. Premium and discount, including initial transaction costs, are included in the carrying amount of the corresponding instrument and amortised using the effective interest method.

Impairment of financial assets

At each reporting 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 in the 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 reorganisation. In addition, such evidence includes other observable data indicating a decrease in expected cash flows from the financial asset which is subject to reliable measurement, for example, an overdue debt.

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 canceled.

3.5 Financial liabilities

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise financial liabilities held for trading and financial liabilities included into the category of liabilities at fair value through profit or loss at initial recognition.

(b) Loans and borrowings

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

3. Significant accounting policies (continued)

3.5 Financial liabilities (continued)

De-recognition

The financial liabilities are de-recognised if the term of contractual obligations expires, contractual obligations fulfilled or agreement cancelled.

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 corresponding part of production overheads.

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

Impairment of inventories

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

Raw and other materials in inventories are not written-off below cost, if finished goods, in which they will be included, will be sold at cost or above. However, when decrease in price for raw materials indicates that cost of finished goods will 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;
- commercial poultry;
- 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, issued letters of credit.

3. Significant accounting policies (continued)

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).

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, than 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 value added taxes: 20%—on import and sales of goods and services in the territory of Ukraine and 0%—on export of goods and rendering of services and works outside Ukraine.

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

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

The Group's entities apply the special VAT taxation treatment prescribed by the Law of Ukraine "About value-added tax" dated 03.04.1997 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 value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable;
- receivables and payables that are stated with the amount of value added tax included.

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

3. Significant accounting policies (continued)

3.11 Income tax and deferred income tax (continued)

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

Deferred 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;
- 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 directly in equity.

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

3. Significant accounting policies (continued)

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 value added tax, discounts and intragroup transactions.

The Group recognises revenue when its amount can be reliably measured, 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 contingent liabilities 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.

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 lesse 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. Significant accounting policies (continued)

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.

3.16 Government grants

Recognition of government grants

The Group recognises government grants when received.

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

- All grants, compensating the expenses of the preceding periods, shall be recognised by the Group in full in the period of their receipt as other operating income;
- All grants, related to assets not depreciated, such as a land site, shall be correlated by the Group with the expenses to fulfill the obligations. Where a grant in the form of provision of a land site is conditional on construction of a building on the site, the Group divides the recognition of the grant as other operating income over the whole useful life of the building;
- All grants, related to the amortisable assets, shall be recognised by the Group as a decrease in the expenses for amortisation during the periods, when the amortisation of these assets is accrued.

Accounting for government grants for agricultural activities

The Group recognises unconditional state grants related to biological activities as income only in cases when such government grant is receivable.

A contingent government grant, relating is 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;

3. Significant accounting policies (continued)

3.18 Accrued expenses and provisions (continued)

- accrued expenses for payments on tax penalties;
- accrued expenses for other expenses and payments.

The Group recognises accrued expenses in the following circumstances; when:

- there exists 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.

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:

- consideration risks and uncertainty;
- consideration 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 reserve in the course of time as the interest expense, 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.

4. Significant accounting judgements and estimates (continued)

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 Parent company belongs to the ultimate beneficial owner, these transactions are considered to be combinations of business under common control, which are outside the scope of IFRS3: "Business combinations".

4.2 Useful lives of property, plant and equipment

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

4.3 Impairment of non-financial assets

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

(in USD thousand, unless otherwise stated)

4. Significant accounting judgements and estimates (continued)

4.4 Impairments of receivables (continued)

reporting period, interest is applied to outstanding balance for the current period, less the amount of accounts receivable, provision for which is calculated on an individual basis.

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

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

4.5 Legal proceedings

The Group's management applies significant assumptions in the measurement and recognition of provisions for and risks of exposure to contingent liabilities, related to existing legal proceedings and other unsettled claims, and also other contingent liabilities. Management's judgment is required in estimating the probability of a successful claim against the Group or the crystallising of a material obligation, and in determining the probable amount of the final settlement or obigation. Due to uncertainty inherent to the process of estimation, actual expenses may differ from the initial estimates. Such preliminary estimates may alter as new information is received, from internal specialists within the Group, if any, or from third parties, such as lawyers. Revision of such estimates may have a significant effect on the future results of operating activity.

4.6 Impairment of obsolete and surplus inventory

The Group assesses the necessity to impair obsolete and surplus inventory and supplies. To estimate the amount of impairment against obsolete and surplus inventory and supplies, the following approach is used:

Inventory turnover (for each type) = Credit turnover on the accounts of inventories transferred to the production (for the reporting period) / Average carrying value on the accounts of inventories (for the reporting period).

Finished goods turnover = Credit turnover on the accounts of finished goods sold on the spot (for the reporting period)/ Average carrying value on the accounts of finished goods (for the reporting period).

Inventory storage period = Duration of reporting period/ Inventory turnover

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

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

4.7 Deferred tax assets

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the

4. Significant accounting judgements and estimates (continued)

4.7 Deferred tax assets (continued)

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 selling the whole number of or a part of deferred tax assets. Estimate of probability includes judgments, which are based on expected characteristics of activity. To estimate the probability of utilising deferred tax assets in future, various factors are used, including previous years' results, operating plans, expiry of tax losses recovery, strategies of tax planning. Should actual results differ from the estimates, and should such estimates need to be reviewed in future periods, this can negatively influence the financial position, financial results and cash flows. Should the estimated 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. Measurement of contingent liabilities is based on Management's judgments and estimates of the outcomes of such future events. In particular, the tax laws in Ukraine are complex and significant management judgement is required to interpret those laws in connection with the tax affairs of the Group, which is open to challenge by the tax authorities.

4.9 Impact of the global financial and economic crisis

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

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

(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-progress 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-progress 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	1 477	346	247 766	**314 886**
Replacement of components	—	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)	(1 982)	(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**	**3 840**	**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)	(8)	(10)	—	**(54)**
Effect from 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)

Initial value	Land	Buildings and structures	Machinery and equipment	Equipment for biological assets	Vehicles	Other equipment	Assets under construction-progress 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**
Replacement of components	—	1 766	257	102	16	24	—	**2 165**
under common control	—	—	1 501	—	—	18	—	**1 519**
Disposals	—	(64)	(3)	—	(27)	(6)	—	**(100)**
presentation currency	(129)	(4 274)	(904)	(2 417)	(138)	(229)	(6 339)	**(14 430)**
Internal transfers	—	8 807	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**
under common control		—	6	—	—	1	—	**7**
eliminated on disposal’	—	(3)	—	—	(7)	(3)	—	**(13)**
presentation currency	—	(199)	(74)	(368)	(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, net (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 constructionin-progress and uninstalled equipment	173 435	169 713	—
	368 171	**360 005**	**194 553**

In 2009 the Group received government grants "Partial compensation of complex agricultural equipment cost" in the amount of USD 312 thousand (in 2008—USD 469 thousand, in 2007—USD 460 thousand).

As at 31 December 2009, 2008 and 2007 net book value of property, plant and equipment which were acquired under finance leases amounted to USD 11 521 thousand, USD 12 241 thousand and USD 204 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 at 31 December 2009, 31 December 2008 and 31 December 2007.

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 USD 29 703 thousand. These certificates were used as collateral for long-term and short-term borrowings of the Group.

(in USD thousand, unless otherwise stated)

6. Available for sale financial assets (continued)

In 2008, these investment certificates were sold to LLC "Stanislavskaya Trade Company" (related party) 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**

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**

(in USD thousand, unless otherwise stated)

7. Biological assets (continued)

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)	6 467
Net change in fair value		
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	14 729	
Changes in value of biological assets as a result of agricultural produce harvesting	(2 039)	12 690
Net change in fair value		
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 (transferred to next page)		**56 571**
As at 31 December 2008 (from previous page)		**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)	7 695
Net change in fair value		
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**

Due to the absence of an active market for laying hen 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 USD 3 227 thousand, USD 5 169 thousand and USD 2 592 thousand respectively were a security for long-term and short-term loans.

(in USD thousand, unless otherwise stated)

8. Other non-current assets

Other non-current assets 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 for property, plant and equipment	16 273	54 998	110 278
Other non-current assets	357	370	10
	16 630	**55 368**	**110 288**

9. Taxes recoverable and prepaid

Taxes recoverable and prepaid 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
VAT settlements	a)	28 625	54 010	41 106
Other taxes prepaid		83	48	120
		28 708	**54 058**	**41 226**

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;
- by settlement of future tax liabilities of the entity under this tax within non-agricultural transactions.

10. Inventories

Inventories as at 31 December 2009, 31 December 2008 and 31 December 2007 were 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 writen-off as expenses and included into the item "Other operating income/(expenses)" is amounting to USD 1 571 thousand (31 December 2008—USD 1 630 thousand, 31 December 2007—USD 1 425 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 items respectively. The fair value produced shell eggs for the years ended 31 December 2009, 2008 and 2007 amounted to USD 125 148 thousand, USD 144 208 thousand and USD 67 595 thousand respectively.

10. Inventories (continued)

As at 31 December 2009, finished goods—inventory with a carrying value of 135 USD thousand, and also raw and basic materials with a carrying value of USD 196 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 USD 203 thousand were pledged as security for the Group's loans.

As at 31 December 2007, finished goods—inventory with a carrying value of USD 214 thousand, and also raw and basic materials with a carrying value of USD 310 thousand were pledged as security for the Group's loans.

11. Prepayments and other current assets

Prepayments and other current assets 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
Prepayments		11 584	90 703	10 125
Loans to related parties	a)	4 320	702	5 733
Commission receivable for acquisition of corporate rights	b)	—	12 987	19 802
Interest receivable on deposits		39 411	79	29
Accounts receivable for bonds	c)	—	25 496	—
Other non-trade accounts receivable		3 311	3 144	3 055
		58 626	**133 111**	**38 744**

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 USD 12 987 thousand and USD 19 802 thousand (equivalent to UAH 100 mln) respectively represented accounts receivable for acquisition of corporate rights of LLC "Slovyany" (90% of share capital) to "Invest Ptahoprodukt", LLC) in accordance with the agreement.

c) As at 31 December 2008 accounts receivable for bonds in the amount of USD 25 496 thousand (equivalent to UAH 196 319 thousand) represents accounts receivable from LLC "Stanislavskaya Torgovaya kompaniya", under securities contracts representing 193 544 items.

12. Trade accounts receivable

Trade accounts receivable, net 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 receivable		47 320	15 593	47 331
Accounts receivable under commission agreement		—	—	622
		47 320	**15 593**	**47 953**

(in USD thousand, unless otherwise stated)

12. Trade accounts receivable (continued)

As at 31 December 2009, USD 33 293 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)).

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 national currency of Ukraine.

Deposit interest rates 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)	—	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 USD 156 421 thousand, USD 282 622 thousand and USD 95 116 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 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 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**

As at 31 December 2008 interest free loans received in the amount of USD 198 369 thousand were reclassified into advances received.

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.

(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 constructionin-progress and uninstalled equipment	173 435	169 713	—
Property, plant and equipment, total	368 171	360 007	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 USD 2 176 thousand and shares of OJSC "Volnovahskiy Kombinat Khliboproduktiv", in the amount of 72,44% of share capital with collateral value of USD 3 300 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 USD 20 677 thousand, shares of OJSC "Ptakhohospodarstvo Chervonyi Prapor" in the amount of 13,98% of share capital with collateral value of USD 19 562 thousand, shares of CJSC "Chernivetska Ptakhofabryka" in the amount of 2,70% of share capital with collateral value of USD 4 952 thousand, shares of CJSC "Avangard", in the amount of 1,13% of share capital with collateral value of USD 32 264 thousand, CJSC "Chernobaevskoe", in the amount of 93,21% of share capital, corporate rights ALLC "Donetska Ptakhofabryka" in the amount of 99,9% of share capital with collateral value of USD 20 694 thousand, shares of LLC "Cross-PF Zorya" in the amount of 89,43% of share capital with collateral value of USD 13 582 thousand, and also corporate rights of SC "Ptakhofabryka Losuvatska" in the amount of 100% of share capital with collateral value of USD 10 260 thousand were used as security for loans to the Group.

19. Current portion of non-current financial liabilities

The current portion of non-current financial liabilities as at 31 December 2009, 31 December 2008 and 31 December 2007 was as follows:

		31 December 2009	31 December 2008	31 December 2007
Trade and other payables				
Deferred income (current portion)	34, c)	304	315	468
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
		3 445	**3 415**	**10 816**

(in USD thousand, unless otherwise stated)

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)**

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)**

(in USD thousand, unless otherwise stated)

20. Deferred tax assets and liabilities (continued)

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)	(79 475)	(35 831)
	8 590	3 606	4 343
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)
Profit / (loss) for 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 Eksperrementalnyi 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.

The income tax payers in 2007-2008 were the following companies: LLC "Rohatyn-Korm", OJSC "Vuhlelhirskyi Eksperrementalnyi Kombikrmovyi Zavod", OJSC "Volhovatskiy Kombinat Khliboproduktiv", LLC "Kamyanets-Podilsky Kombikormovyi Zavod". All other companies of the Group were payers of the 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.

(in USD thousand, unless otherwise stated)

21. Trade accounts payable

Trade accounts payable 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 payable	65 893	18 679	40 313
Financial liabilities			
Short-term notes issued	2 126	1 850	2 821
	68 019	**20 529**	**43 134**

As at 31 December 2009, 31 December 2008 and 31 December 2007, short-term notes issued were represented by promissory, noninterest-bearing, notes.

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 taxes 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
Interest payable	8 331	291	38
Accrued coupon on bonds	2 055	2 039	—
Other accounts payable	7 421	123 947	89 363
	142 039	**362 327**	**122 048**

As at 31 December 2008 and 31 December 2007 the item “Other accounts payable” in the amount of USD 120 642 thousand and USD 87 759 thousand respectively, comprised liabilities for settlement of consideration payable for subsidiaries.

(in USD thousand, unless otherwise stated)

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: financial 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

	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: financial 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 value of property, plant and equipment acquired via finance lease as at 31 December 2009, 31 December 2008 and 31 December 2007 was as follows:

	31 December 2009	31 December 2008	31 December 2007
Equipment for biological assets	9 677	10 307	—
Vehicles	71	68	—
Assets under constructionin-progress and uninstalled equipment	1 696	1 759	—
Other equipment	78	107	204
	11 522	**12 241**	**204**

Non-current assets under finance lease include equipment for biological assets, construction-in-progress and uninstalled equipment, and vehicles with finance lease term of 3-4 years. Interest rate under finance lease agreements is LIBOR+8% per annum for the 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 USD 25 974 thousand, which was equivalent to UAH 200 000 thousand, issued by CJSC "Avangard" 2 July 2008. Those bonds were issued in book-entry form in number of 200 000 items. The bonds issue was secured by SC "Zorya, LLC Cross-PF Zorya", LLC "Cross-PF Zorya", OJSC "Ptakhohospodarstvo Chervonyi Prapor", SC "Ptakhofabryka Lozuvatska", SC "Ptakhofabryka Chervonyi Prapor Poultry Farm, of OJSC Ptakhohospodarstvo Chervoniy Prapor", OJSC "Volnovaskyi Kombinat Khliboprodiktiv", OJSC "Vuhlehirskyi Eksperementalnyi Kombikormovyi Zavod", ALLC "Donetska Ptakhofabryka", LLC "PF Volnovaska", SC "Ptakhohospodarstvo Lozuvatskoe", SC "Gorodenkivska Ptakhofabryka of CJSC Avangard", SC "Rogatynska Ptakhofabryka of CJSC Avangard", SC "Avangard-Agro of CJSC Avangard", CJSC "Chernivetska Ptakhofabryka", CJSC "Agrofirma Avis", LLC "Kamyanets-Podilsky Kombikormoviy Zavod", OJSC "Kirovskiy", LLC "Slovyany", OJSC "Ptakhofabryka Pershe Travnya", SC "Ptakhohospodarstvo Yuzhnaya Holding of LLC Yuzhnaya Holding", LLC "Yuzhnaya Holding", LLC "Areal-Snigurivka". The Guarantors are fully responsible for the issuer's liabilities to bond holders.

Bond interest coupon is payable over 20 periods of 91 days each. The interest rate on the above mentioned bonds for the first-fourth coupon periods is set at 17% per annum. The procedure of interest rate determination for the fifth-eighth, ninth-twelfth, thirteenth-sixteenth and seventeenth-twentieth periods is set by the issuer board of directors based on market conditions, but not less than the National Bank of Ukraine bank rate on the date of the decision on setting interest rate. The bonds owner 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 bonds circulation period is from 2 July 2008 to 19 May 2013.

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**

(in USD thousand, unless otherwise stated)

26. Sales revenue (continued)

For the year ended 31 December 2009 USD 77 788 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		(175 804)	(233 968)	(88 006)
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)
Changes in balances of finished products, work-in progress, biological assets		977	51 420	1 535
Other expenses		(97)	(188)	(203)
		(215 883)	**(229 609)**	**(109 147)**

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 auditors' remuneration for the years 2009, 2008 and 2007 was USD 914 thousand. An amount of USD 824 thousand was paid by LLC "Agroholding Avangard", which is a related party by common ownership, on behalf of the Company. The related party has no demand from the Company to reimburse this amount and as a result this amount was not included into the Group's expenses.

(in USD thousand, unless otherwise stated)

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 net 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)
Income/(loss) from disposal of noncurrent assets		(90)	(376)	(242)
Impairment of current assets		(1 571)	(1 630)	(1 425)
Losses on exchange		(672)	(1 744)	(28)
Other expenses		(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 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

Finance costs 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	(31)	(25)	—
	(46 150)	**(52 986)**	**(22 540)**

(in USD thousand, unless otherwise stated)

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 USD 41 180 thousand (31 December 2008—USD 26 897 thousand, 31 December 2007—USD 20 868 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 ware 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 USD 6 261 thousand, USD 30 598 thousand and USD 12 582 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) 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 agriculture 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 in 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 basis.

All members of the Group that met the criteria for the use of these VAT benefits a except: (LLC Rohatyn-Korm, LLC Kamyanets-Podilsky Kombikormoviy Zavod, OJSC Vuhlehirskyi Eksperementalnyi Kombikormovyi Zavod, OJSC Volnovaskyi Kombinat Khliboprodiktiv, LLC Pershe Travnya Kombikormoviy Zavod, LLC Imperovo Foods).

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

(in USD thousand, unless otherwise stated)

34. Income from government grants and incentives (continued)

received for above mentioned period is UAH 60 608 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
Payroll of production personnel and related taxes	28	(14 953)	(21 447)	(11 985)
Salaries and wages of administrative personnel	29	(2 889)	(4 520)	(2 753)
Salaries and wages of 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

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;

(in USD thousand, unless otherwise stated)

36. Related party balances and transactions (continued)

C. Companies in which the Group's owners have an equity interest;

D. Companies which 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 top management personnel for the years ended 31 December 2009, 31 December 2008 and 31 December 2007 was as follows:

	2009	2008	2007
Number of top 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 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 which activities are significantly influenced by the Group's owners.	1 286	30 834	6 054
	1 286	**30 834**	**6 057**
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 which 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 which activities are significantly influenced by the Group's owners.	1 413	5 472	3 359
	1 413	**5 472**	**3 359**

(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
Deposits:			
D. Companies which activities are significantly influenced by the Group's owners.	155 917	272 991	110 340
	155 917	**272 991**	**110 340**
Long-term loans:			
D. Companies which 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 which activities are significantly influenced by the Group's owners.	138 967	205 432	74 388
	139 313	**249 283**	**74 393**
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 which 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 which 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 term of the lease until 1 December 2008, in—the agreement is to be continued on the same effective period and on 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).

(in USD thousand, unless otherwise stated)

36. Related party balances and transactions (continued)

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 which activities are significantly influenced by the Group's owners.	83 507	81 974	1 639
	97 920	**166 430**	**3 564**
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 which activities are significantly influenced by the Group's owners.	40 472	24 625	507
	40 472	**24 625**	**507**
Finance cost:			
D. Companies which 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 other than risks and income of those components that are peculiar to other business segments.

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

(in USD thousand, unless otherwise stated)

37. Business segments (continued)

- 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.

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
Available for sale financial assets	—	—	—	—	—	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	39 266	1 576	237	—	147	—	—	41 226
Current biological assets	17 899	176	—	—	—	—	—	18 075
Prepayments and other current assets	15 558	20 054	214	—	2 918	—	—	38 744
Trade accounts receivable	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 tran-sactions	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 (USD 29 766 thousand), as the assets management is carried out at the Group level.

Liabilities for advances from customers and other current liabilities (USD 87 759 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**	**13 764**	**(171)**	**(672)**	**(5 613)**	**—**	**—**	**33 160**
Finance income	20 585	111	172	—	—	—	—	20 868
Finance cost	(18 540)	(1 015)	(2 985)	—	—	—	—	(22 540)
including:								
Interest payable on loans	(18 540)	(1 015)	(2 985)	—	—	—	—	(22 540)
PROFIT BEFORE TAX	**27 897**	**12 860**	**(2 984)**	**(672)**	**(5 613)**	**—**	**10 731**	**31 488**
Income tax income/ (expenses)	—	—	(1 254)	—	—	—	—	(1 254)
PROFIT FOR THE YEAR	**27 897**	**12 860**	**(4 238)**	**(672)**	**(5 613)**	**—**	**10 731**	**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	Unal-located group balances	Adjust-ments and elimi-nation	Total
NON-CURRENT ASSETS								
Property, plant and equipment	336 100	23 879	8 285	—	—	—	—	368 264
Available for sale financial assets	—	—	—	—	—	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	46 519	3 336	4 125	—	78	—	—	54 058
Current biological assets	40 235	7 700	—	—	—	—	—	47 935
Prepayments and other current assets	93 234	18 155	30 385	—	3 241	—	(11 904)	133 111
Trade accounts receivable	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	Unal-located 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	Unal-located group tran-sactions	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 (USD 120 642 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 tran-sactions	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**
Finance income	26 831	43	23	—	—	—	—	26 897
Finance cost *including:*	(45 971)	(1 868)	(5 147)	—	—	—	—	(52 986)
Interest payable on loans	(41 618)	(1 854)	(5 142)	—	—	—	—	(48 614)
Financial 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 income/ (expenses)	—	—	1 414	—	—	—	—	1 414
PROFIT FOR THE YEAR	**76 139**	**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 balances	Adjust-ments and elimi-nation	Total
NON-CURRENT ASSETS								
Property, plant and equipment	355 672	14 217	4 095	1 442	—	—	—	375 426
Available for sale financial assets	—	—	—	—	—	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)	92 756
Income tax prepaid	—	—	9	26	—	—	—	35
Taxes recoverable and prepaid	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	52 894	4 197	7 554	703	2 605	—	(9 327)	58 626
Trade accounts receivable	38 074	13 321	10 761	4 425	—	—	(19 261)	47 320
Short-term deposits	125 783	8 845	21 290	—	—	—	—	155 918
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	Unal-located group tran-sactions	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 tran-sactions	Adjust-ments and elimi-nation	Total
Sales revenue	255 819	42 891	68 658	26 758	4 044	—	—	398 170
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**
Finance income	35 661	2 010	3 503	6	—	—	—	41 180
Finance cost	(32 368)	(3 050)	(10 732)	—	—	—	—	(46 150)
including:								
Interest payable on loans	(28 863)	(3 048)	(10 731)	—	—	—	—	(42 642)
Financial 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 income/ (expenses)	—	—	(1 225)	57	—	—	—	(1 168)
PROFIT FOR THE YEAR	**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**	

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 26 307 thousand and USD 195 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 134 097 thousand and earnings for the year per share would have been equal to USD 26, 82.

Control over the following entities was achieved in 2008:

Name	Ownership interest,%
LLC Areal-Snigurivka	100%
LLC Torgivenlniy budynok ohodukhivska 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 USD 9 349 thousand and was recognised in the consolidated statement of changes in equity for the year ended 31 December 2008.

(in USD thousand, unless otherwise stated)

38. Acquisitions of subsidiaries (continued)

The control over the following entities was achieved in 2007:

Name	Ownership interest,%
OJSC Ptakhohospodarstvo Chervonyi Prapor	98%
LLC PF Volnovaska	100%
LLC Cross-PF Zorya	89%
OJSC Ptakhofabryka Pershe Travnya	93%
SC Ptakhohospodarstvo Donetske of ALLC Donetska Ptakhofabryka	100%
SC Ptakhofabryka Lozuvatska	100%
SC Zorya of LLC Cross-PF Zoraya	89%
SC Ptakhofabryka Chervonyi Prapor Poultry Farm, of OJSC Ptakhohospodarstvo Chervoniy Prapor	98%
SC Ptakhohospodarstvo Yuzhnaya Holding of LLC Yuzhnaya Holding	100%
SC Ptakhogopodarstvo Volnovaske of LLC PF Volnovaska	100%
SC Ptakhohospodarstvo Chornobaivske of APP CJSC Chornobaivske	97%
OJSC Vuhlehirskyi Eksperementalnyi Kombikormovyi Zavod	80%
OJSC Volnovaskyi Kombinat Khliboprodiktiv	72%
LLC Kamyanets-Podilsky Kombikormoviy 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 so 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 in case of any unfavourable changes in political and economical environment.

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.

40. Contingent and contractual liabilities (continued)

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.

Pension and other liabilities

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

As at 31 December 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 working or former employees.

Legal matters

In the course of its economic activities the Group is involved in legal proceedings with third parties. In most cases, the Group is the initiator of 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 lease agreement #14/2 dated 1.12.2007. The term of the lease is until 1 December 2008, in the agreement is to be continued on the same period of validity and on 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

40. Contingent and contractual liabilities (continued)

validity term till 11 November 2009. The Group has a commitment to purchase minimum 200 000 Parent Female for 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 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.

The financial effect of changes in contingent and contractual liabilities is not possible to calculate as at the balance sheet date.

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, 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 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 investments held-to-maturity 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;
- information on significant conditions of 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, bank deposits.

(in USD thousand, unless otherwise stated)

41. Financial risk management (continued)

Exposure to credit risk

The carrying value of financial assets is a maximum value exposed to credit risk. Maximum level of credit risk as at 31 December 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**

The Group's credit risk is mainly related to long-term and short-term deposits. Credit risk is heightened in 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, there were no significant losses during 2009, 2008 and 2007 resulting from non-fulfilment of obligations by clients. Concentration of credit risk on trade accounts receivable is characterised by the following indicators:

For the year ended 31 December 2009 USD 77 788 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 USD 33 293 thousand or 69.9% of trade accounts receivable relates to one customer.

For the year ended 31 December 2008 USD 54 272 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 USD 14 427 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 USD 16 015 thousand or 34% of trade accounts receivable relates to one customer.

(in USD thousand, unless otherwise stated)

41. Financial risk management (continued)

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 plans of the Group, its working capital needs are satisfied by cash flows from operating activities, as well as by use of loans if cashflows from operating activities are insufficient for liabilities to be settled. The table below represents the expected maturity of components of working capital:

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	47 320	47 320	—	—	—
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)	**9 289**	**(28 877)**	**(90 502)**	**—**

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	15 593	15 593	—	—	—
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)	**(202 286)**	**(163 971)**	**(150 518)**	**—**

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	47 953	47 954	—	—	—
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 from 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)	—	—	—
	(319 694)	**(124 498)**	**(115 237)**	**(79 937)**	**(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 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 till 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	—	—	1 614
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	231 857	237 406

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	—	19 571	20 529
Accounts payable for property, plant and equipment	866	221	—	8 025	9 112
Net exposure to foreign currency risk	2 312	504	2 146	392 919	397 881

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
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)

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 in borrowings 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	156 421	233 271	144 990
Financial liabilities	(247 194)	(394 156)	(315 611)
Instruments with variable interest rate			
Financial assets	—	—	—
Financial liabilities	(8 199)	(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 below, since possible effect of changes in interest rate risk (discount rates) under these financial instruments is not material.

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

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

As at 31 December 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 for reflection of credit risk influence.

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

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 at the balance sheet date.

41. Financial risk management (continued)

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

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

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, because 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 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 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, so that in the Group's opinion, it reflects the approximate cash flows deriving from the Group's income in a more reliable way.

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

(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 made up 29.5%, 65.1% and 73.8% respectively.

	Note	Carrying value 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 borrowing costs		**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
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		**244 697**	**118 503**	**91 792**
Total amount of equity and net debt		**347 268**	**339 440**	**350 163**
Financial leverage coefficient		**29,5%**	**65,1%**	**73,8%**

For the years ended 31 December 2009, 31 December 2008 and 31 December 2007 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**	**101 958**	**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**

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 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.

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

In the first quarter of 2010 trade accounts receivables from related parties significantly changed as a result of their paying-off. There were no changes in bank loans or bank deposits portfolio.

On 30 March 2010 Companies of the Group concluded 2 supply contracts for females and males of parent stock of "Hy-Line W-36" and "Hy-Line Brown" for the amounts of EUR 3 130 000 and EUR 570 000. The term of these contracts is 3 years from signing.

Independent Auditors' Reports on pages 5 to 10.

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Consolidated interim financial information (Unaudited)

For the 6 months ended 30 June 2010

AND INDEPENDENT REVIEW REPORT

AVANGARDCO INVESTMENTS PUBLIC LIMITED

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Board of Directors and other officers

BOARD OF DIRECTORS:

Oleg Bakhmatyuk (appointed 22 March 2010)
Oksana Prolenko (appointed 22 March 2010)
Nataliya Vasylyuk
Iryna Marchenko (appointed 22 March 2010)
Philippos Philippou (resigned 22 March 2010)

COMPANY SECRETARY:

Confida Secretarial Limited
16 – 18 Zinas Kanther Street
Agia Triada
CY-3035 Limassol
Cyprus

REGISTERED OFFICE:

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Agia Triada
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ΣΕΛΚ

ICPAC
Quality Checked

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AVANGARDCO INVESTMENTS PUBLIC LIMITED

Independent Auditors' Review Report
To the Members of Avangardco Investments Public Limited

Independent Auditors' Review Report
Report on review of consolidated interim financial information to Avangardco Investments Public Limited.

Introduction

We have reviewed the consolidated interim financial information of Avangardco Investments Public Limited (the "Company") and its subsidiaries (the "Group") on pages 5 to 59, which comprise the statement of consolidated interim financial position as at 30 June 2010 and the statements of consolidated interim comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this consolidated interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information does not give a true and fair view of the financial position of the Group as at 30 June 2010, and of its financial performance and its cash flows for the six-month period then ended in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Baker Tilly Klitou

Baker Tilly Klitou
23 August 2010

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Consolidated interim statement of financial position
as at 30 June 2010
(in USD thousand, unless otherwise stated)

ASSETS	Note	30 June 2010	31 December 2009	30 June 2009
NON-CURRENT ASSETS:				
Property, plant and equipment	5	384 315	375 426	385 135
Available for sale financial assets		40	40	41
Non-current biological assets	6	42 538	21 546	40 289
Long-term bank deposits	13	28	504	4 229
Deferred income tax assets	18	6	230	479
Other non-current assets	7	20 106	16 630	36 220
Total non-current assets		**447 033**	**414 376**	**466 393**
CURRENT ASSETS:				
Inventories	9	99 216	92 757	70 381
Prepaid income tax		10	35	7
Taxes recoverable and prepaid	8	24 341	28 708	26 681
Current biological assets	6	34 785	44 910	30 678
Prepayments and other current assets	10	25 588	58 626	170 559
Trade receivables	11	88 868	47 320	84 721
Short-term bank deposits	13	297 223	155 917	238 089
Cash and cash equivalents	12	105 625	1 727	1 446
Total current assets		**675 656**	**430 000**	**622 562**
TOTAL ASSETS		**1 122 689**	**844 376**	**1 088 955**
EQUITY AND LIABILITIES				
EQUITY:				
Share capital	1	835	644	644
Capital contribution reserve	1	317 021	115 858	—
Retained earnings		360 688	300 107	201 098
Currency translation reserve		(60 199)	(64 137)	(55 343)
Total equity attributable to:				
Equity holders of the parent		**618 345**	**352 472**	**146 399**
Non-controlling interests		9 446	8 083	6 817
Total equity		**627 791**	**360 555**	**153 216**
NON-CURRENT LIABILITIES:				
Long-term loans	14	80 653	85 975	235 650
Deferred income tax liabilities	18	1 271	1 173	623
Deferred income (non-current portion)	32, c)	6 022	5 963	6 558
Long-term finance leases	22	5 167	6 142	7 503
Total non-current liabilities		**93 113**	**99 253**	**250 334**
CURRENT LIABILITIES:				
Short-term bond liabilities	23	24 488	24 249	25 376
Current portion of non-current financial liabilities	17	119 476	115 975	17 184
Short-term loans	15	43 425	33 001	463 233
Trade payables	19	86 016	68 019	76 958
Current income tax liabilities		6	7	6
Accrued expenses	20	958	1 278	556
Other current liabilities and accrued expenses	21	127 416	142 039	102 092
Total current liabilities		**401 785**	**384 568**	**685 405**
TOTAL LIABILITIES AND EQUITY		**1 122 689**	**844 376**	**1 088 955**
Carrying amount of equity attributable to shareholders of Avangardco Investments Public Limited		618 344	352 472	146 398
Average weighted number of shares, items		5 022 992	5 000 000	5 000 000
Carrying amount of a share, USD		123	70	29

On 23 August 2010 the Board of Directors of Avangardco Investments Public Limited authorized this interim consolidated financial information for issue.

Nataliya Vasylyuk	**Iryna Marchenko**
Director	Director

The notes on pages 10 to 59 form an integral part of this interim consolidated financial information.

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Consolidated interim statement of comprehensive income
for the 6 months ended 30 June 2010
(in USD thousand, unless otherwise stated)

	Note	6 months ended 30 June 2010	6 months ended 30 June 2009
Revenue	24	165 901	98 567
Net change in fair value of biological assets	6	14 735	14 729
Cost of sales	25	(125 275)	(72 981)
GROSS PROFIT		**55 361**	**40 315**
General administrative expenses	27	(2 505)	(2 596)
Distribution expenses	28	(2 436)	(1 433)
Income from government grants and incentives	32	466	6 786
Income/(expenses) from special VAT treatment	32, a)	9 060	(603)
Other operating expenses	29	(2 743)	(5 612)
OPERATING PROFIT		**57 203**	**36 857**
Finance income	31	15 590	19 643
Finance cost	30	(10 511)	(22 792)
PROFIT BEFORE TAX		**62 282**	**33 708**
Income tax expense	18	(339)	(341)
PROFIT FOR THE PERIOD		**61 943**	**33 367**
OTHER COMPREHENSIVE INCOME FOR THE PERIOD:			
Effect of translation into presentation currency		3 935	1 351
TOTAL OTHER COMPREHENSIVE INCOME FOR THE PERIOD		**3 935**	**1 351**
TOTAL COMPREHENSIVE INCOME		**65 878**	**34 718**
PROFIT FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the parent		60 580	32 949
Non-controlling interests		1 363	418
		61 943	**33 367**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent		64 515	34 302
Non-controlling interests		1 363	416
		65 878	**38 718**
Average weighted number of shares, items		5 022 992	5 000 000
Earnings for the period per share, USD (basic and diluted)		12	7
Total comprehensive income per one share, USD		13	7

The notes on pages 10 to 59 form an integral part of this interim consolidated financial information.

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Consolidated interim statement of changes in equity
for the 6 months ended 30 June 2010
(in USD thousand, unless otherwise stated)

	Share capital	Capital contribution reserve	Retained earnings	Foreign currency translation reserve	Non-controlling interests	Total
As at 31 December 2008	**644**	**—**	**168 151**	**(56 698)**	**6 406**	**118 503**
Effect of acquisitions of non-controlling interest	—	—	—	—	(5)	(5)
Effect from translation into presentation currency	—	—	—	1 353	(2)	1 351
Profit for the period	—	—	32 949	—	418	33 367
As at 30 June 2009	**644**	**—**	**201 100**	**(55 345)**	**6 817**	**153 216**
As at 1 January 2010	**644**	**115 858**	**300 107**	**(64 137)**	**8 083**	**360 555**
Additional issuance of shares	192	201 163	—	—	—	201 355
Effect from translation into presentation currency	—	—	—	3 935	—	3 935
Profit for the period	—	—	60 581	—	1 363	61 944
As at 30 June 2010	**836**	**317 021**	**360 688**	**(60 202)**	**9 446**	**627 789**

The notes on pages 10 to 59 form an integral part of this interim consolidated financial information.

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Consolidated interim statement of cash flows
for the 6 months ended 30 June 2010
(in USD thousand, unless otherwise stated)

	6 months ended 30 June 2010	6 months ended 30 June 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before income tax	62 282	33 708
Adjustments to reconcile profit before tax with net cash generated from / (used in) operating activities:		
Depreciation of property, plant and equipment	6 295	6 218
Change in allowance for irrecoverable amounts	114	(304)
Other provisions	(317)	(448)
Loss on disposal of property, plant and equipment	19	26
Cost of current assets written-off	258	181
Effect of fair value adjustments	(14 735)	(14 729)
Gains realised from accounts payable written-off	(18)	(136)
Partial compensation of complex agricultural equipment cost	(79)	(158)
Interest income	(15 590)	(19 643)
Interest payable on loans	10 511	22 792
Operating profit before working capital changes	**48 740**	**27 507**
Increase in trade receivables	(41 362)	(69 027)
Decrease/(increase) in prepayments and other current assets	8 894	(18 132)
Decrease in taxes recoverable and prepaid	4 208	27 209
Increase in inventories	(6 717)	(23 486)
(Decrease)/increase in deferred income	(13)	61
(Increase)/decrease in other non-current assets	(13)	148
Increase in trade payables	18 016	56 565
Decrease in biological assets	4 585	1 467
Decrease in advances received and other current liabilities	(8 575)	(36 230)
Cash generated from operations	**27 763**	**(33 918)**
Interest paid	(9 831)	(18 113)
Income tax paid	(1)	(11)
Net cash generated from/(used in) operating activities	**17 932**	**(52 042)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(20 819)	(948)
(Increase)/decrease in bank deposits	(101 418)	40 304
Interest received	—	532
Net cash generated (used in)/from investing activities	**(122 237)**	**39 888**

The notes on pages 10 to 59 form an integral part of this interim consolidated financial information.

Consolidated interim statement of cash flows
for the 6 months ended 30 June 2010
(in USD thousand, unless otherwise stated)

	6 months ended 30 June 2010	6 months ended 30 June 2009
CASH FLOWS FROM FINANCING ACTIVITIES:		
New loans received	9 150	10 341
Repayment of loans	(412)	(1 379)
Interest paid for bonds issued	(1 621)	(61)
Repayment of short-term bonds issued	—	(467)
Increase in share capital	191	—
Increase in share capital	201 164	—
Net cash generated by financing activities	**208 472**	**8 434**
Effect from translation into presentation currency	(270)	(647)
Net increase/(decrease) in cash	**103 897**	**(4 367)**
Cash at the beginning of the period	**1 701**	**5 786**
Cash at the end of the period	**105 598**	**1 419**

The notes on pages 10 to 59 form an integral part of this interim consolidated financial information.

1. General information

This consolidated interim financial information of Avangardco Investments Public Limited (the "Company") and subsidiaries (together hereafter refered as the "Group" or "Avangard") for the 6 months ended 30 June 2010 was approved by the Board of Directors on 23 August 2010.

The Company's registered office is located at 16-18 Zinas Kanther Street, CY-3035 Limassol, Cyprus.

The company was incorporated as a private limited liability company in October 2007 in accordance with the provisions of the Cyprus Companies Law, Cap 113 under the name of "Ultrainvest Limited". In July 2009, the Registrar of Companies in Cyprus issued a certificate to the effect that the Company was re-registered as a public company and changed its name to "Avangardco Investments Public Limited".

In 2009 the principal shareholder of the company reorganised the Group, as a result of which Avangardco Investments Public Limited became the holding company of an agricultural group of agricultural enterprises, which in the past were under the common ownership and control of this 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 agricultural companies of the Group. The reorganisation did not affect the principal activities of the Group.

The history of "Avangard" began with the acquisition by the principal 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 concept of development of this business line was designed, as a result of which in 2005-2009 other major enterprises of agrarian industry in Ukraine joined the Group.

The Group's activities cover all the links of the value chain: from production of combined feed, maintenance and breeding of chickens to production and sale of eggs and egg products. As at 30 June 2010 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 receive additional profit due to synergistic effect, the Group acquired a hen breeding concern. This ensures breeding of the required number of high quality daily chickens and their timely delivery to factories.

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

(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 30 June 2010	Ownership Interest 31 December 2009	Ownership Interest 30 June 2009
CJSC Avangard	Keeping of technical laying hen, production and selling of eggs	Ukraine	99%	99%	99%
APP CJSC Chornobaivske		Ukraine	97%	97%	97%
CJSC Agrofirma Avis		Ukraine	100%	100%	100%
OJSC Kirovskiy		Ukraine	100%	100%	100%
OJSC Ptakhohospodarstvo Chervonyi Prapor		Ukraine	98%	98%	98%
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%	98%
ALLC Donetska Ptakhofabryka		Ukraine	100%	100%	100%
LLC Areal-Snigurivka		Ukraine	100%	100%	100%
LLC Torgivenlniy Budynok Bohodukhivska Ptakhofabryka		Ukraine	100%	100%	100%
PPB LLC Ptytsecompleks		Ukraine	100%	100%	100%
PSPC Interbusiness		Ukraine	100%	100%	100%
SC Avangard-Agro of CJSC Avangard		Ukraine	99%	99%	99%
SC Gorodenkivska Ptakhofabryka of CJSC Avangard		Ukraine	99%	99%	99%
SC Rogatynska Ptakhofabryka of CJSC Avangard		Ukraine	99%	99%	99%
SC Ptakhohospodarstvo Donetske of ALLC Donetska Ptakhofabryka		Ukraine	100%	100%	100%
LLC Slovyany	Incubation (production and sale of day-old chick), farming of young poultry for sale, and poultry	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%	98%
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%	97%
LLC Rohatyn-Korm	Production and selling of animal feed	Ukraine	99%	99%	99%
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%	100%
LLC Pershe Travnya Kombikormoviy Zavod		Ukraine	93%	93%	93%
LLC Imperovo Foods	Processing of eggs and selling of egg products	Ukraine	100%	100%	100%
LLC Kross	Rendering services under guarantee agreements	Ukraine	100%	100%	100%

(in USD thousand, unless otherwise stated)

1. General information (continued)

The company hes an issued share capital of 6 387 185 ordinary shares as at 30 June 2010 with nominal value of Euro 0,10 per share.

The shares were distributed as follows:

	30 June 2010		31 December 2009		30 June 2009	
Shareholder	Number of shares	Ownership interest, %	Number of shares	Ownership interest, %	Number of shares	Ownership interest, %
Oleg Bakhmatyuk	20 000	0,3%	20 000	0,4%	20 000	0,4%
Quickcom Limited	1 074 684	16,8%	1 074 684	21,5%	1 074 684	21,5%
Omtron Limited	1 848 575	28,9%	1 848 575	37,0%	1 848 575	37,0%
Tanchem Limited	926 280	14,5%	926 280	18,5%	926 280	18,5%
Mobco Limited	1 080 143	16,9%	1 130 458	22,6%	1 130 458	22,6%
BNY (Nominees) Limited	1 437 500	22,5%	—	—	—	—
Other	3	—	3	—	3	—
	6 387 185	100,0%	5 000 000	100,0%	5 000 000	100,0%

As at 30 June 2010 the interests in Quickcom Limited, Omtron Limited, Tanchem Limited, Mobco Limited beneficially owned by Oleg Bakhmatyuk ("the beneficial owner" hereinafter) were as follows:

	Ownership interest as at 30 June 2010, %	Ownership interest as at 31 December 2009, %	Ownership interest as at 30 June 2009, %
Quickcom Limited	100%	100%	100%
Omtron Limited	100%	100%	100%
Tanchem Limited	100%	100%	100%
Mobco Limited	100%	100%	100%

In December 2009 the beneficial owner made an "Additional Capital Contribution" in the amount of USD 115 858 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.

On 5 May 2010, the Company issued 1 250 000 ordinary shares with nominal value 0,10 EUR per item.

On 2 June 2010 the Company issued 137 185 ordinary shares with nominal value 0,10 EUR per item.

For the 6 months ended 30 June 2010 the Company generated share premium amounting to USD 201 163 thousand (10 GDR are equal to 1 ordinary personal share) as a result of initial placement of 14 375 000 GDR on the main market of London Stock Exchange.

2. Basis of presentation of consolidated interim financial information

2.1 Basis of preparation and accounting

The consolidated interim financial information has been prepared in accordance with IAS 34 "Interim Financial Reporting".

This consolidated interim financial information was prepared in accordance with IFRS which became effective for years commencing on or after 30 June 2010.

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 principle exposure of the Group is through its Ukrainian

2. Basis of presentation of consolidated interim financial information (continued)

2.2 Functional and presentation currency (continued)

subsidiaries, and therefore the functional currency of the Company is considered to be the UAH. Transactions in currencies other than the functional currency of the Company are treated as transactions in foreign currencies. The Company's management used US dollar as the presentation currency in the consolidated interim financial information in compliance with IAS 21 "The effects of changes in foreign exchange rates".

2.3 Going concern basis

This consolidated interim financial information has 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

The following amended or revised standards and interpretations were applied by the Company in the process of preparing its consolidated interim financial information which resulted in some changes to accounting policies and other disclosures in the notes to the consolidated interim financial information.

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 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 Company 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.

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.

IAS 1 Presentation of Financial Statements (Revised)

The IASB issued revised IAS 1 "Presentation of Financial Statements" 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.

2. Basis of presentation of consolidated interim financial information (continued)

2.4 Standards and interpretations (continued)

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 the revised IAS 27, affecting consolidated and separate financial statements. IAS 27 (as issued in 2008) 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.

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 category.

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.

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.

2. Basis of presentation of consolidated interim financial information (continued)

2.4 Standards and interpretations (continued)

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 Company shall apply this IFRIC Interpretation 17 from 1 January 2010. No significant effect on the consolidated interim financial information is expected.

IFRS 5 Non-current assets held for sale and discontinued operations

The amendments are a part of project implemented by 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, in particular, paragraph 15 (provide reliable information presentation) and paragraph 125 (sources of estimates) of IAS 1.

In addition to those referred to above, other standards and improvements have been issued. The following have not been adopted in this consolidated interim 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

IFRS1: 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

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

IFRIC 16: Hedges of net investment in a foreign operation: Improvement to Standard (endorsed)

IFRIC 17: Distributions of Non-cash Assets to Owners (endorsed)

IFRFIC 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 consolidated financial information of the Group.

3. Significant accounting policies

3.1 Basis of consolidation

This consolidated interim financial information comprises the financial information of the companies controlled by the Company ("Subsidiaries").

Transactions under common control

Consolidation of companies including organisations and entities under common control, requires that all the organisations and enterprises being consolidated are controlled by one and the same party or parties, both before consolidation and after it, and this control is not transitory.

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Company 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 of the date of the transaction) of the acquired entity. Such differences are included in equity in retained earnings.
- The consolidated interim financial information incorporates 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 interim financial information reflect both entities' full results in the period under review, even though the business combination may have occurred part of the way through the period. In addition, the corresponding amounts for the previous period also reflect the combined results of both entities, even though the transaction did not occur until the current period.

Combinations of businesses not under common control

The purchase method is applied to 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 noncontrolling 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.

If necessary, adjustments are entered into the consolidated interim financial information of subsidiaries to bring the accounting policy used into compliance with the accounting policy used by the Company.

3. Significant accounting policies (continued)

3.1 Basis of consolidation (continued)

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 Company. Subsidiaries are deconsolidated 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 interest is reported as a separate item in the consolidated interim information of financial position.

Business combinations and goodwill

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

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

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

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

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

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

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

(in USD thousand, unless otherwise stated)

3. Significant accounting policies (continued)

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 period, are recognised profit or loss.

The exchange rates used in preparation of this consolidated interim financial information, are presented as follows:

Currency	30 June 2010	Weighted average for the 6 months ended 30 June 2010	31 December 2009	Weighted average for the 6 months ended 30 June 2009	30 June 2009
US dollar	7,907	7,955	7,985	7,678	7,630

The foreign currencies may be freely convertible on the territory of Ukraine at the exchange rate which is close to the exchange rate established by the National Bank of Ukraine. At the moment, the Ukrainian Hryvnia is not a freely convertible currency outside of Ukraine.

(b) Presentation currency

The financial results and position of each subsidiary are translated into the presentation currency as follows:

(1) At each date of financial position 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 transaction);

(3) All exchange differences are recognised in other comprehensive income.

3.3 Property, plant and equipment

Initial recognition of property, plant and equipment ("PPE")

PPE is recognised by the Group as an asset only in a case, when:

- it is probable that the Group will receive certain future economic benefits;
- the historical cost can be assessed in a reliable way;
- it is intended for use during more than one operating cycle (usually more than 12 months).

After actual commissioning, PPE previously under contstruction is transferred to the relevant category of PPE.

Expenses after the initial recognition of property, plant and equipment

Any subsequent expenses, increasing the future economic benefits from the asset, are treated as additions. Otherwise, the Group recognises subsequent expenses as expenses of the period, in which they have been incurred. The Group divides all expenses, related to the property, plant and equipment, into the following types:

- current repairs and expenses for maintenance and technical service;
- capital refurbishment, including modernisation.

3. Significant accounting policies (continued)

3.3 Property, plant and equipment (continued)

Subsequent measurement of property, plant and equipment

After initial recognition as an asset, the Group applies the model of accounting for the property, plant and equipment at historical cost, net of accumulated depreciation and any accumulated losses from impairment, taking into account estimated residual values of such assets at the end of their useful lives. Such cost includes the cost of replacing significant parts of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced from time to time, the Group recognises such parts as individual assets with specific estimated useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying value of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statement as incurred.

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

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

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

Residual value and useful lives of assets are reviewed and adjusted at each balance sheet date as appropriate.

De-recognition

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use 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 property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Construction in progress is not depreciated. Depreciation of the construction in progress, on the same basis as for other property, plant and equipment items, commences when the assets are available for use, i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by the management.

3.4 Financial 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 purposes for which these securities were acquired. Management takes decision concerning the classification of securities at initial recognition and reviews such classification for reliability at each reporting date.

3. Significant accounting policies (continued)

3.4 Financial assets (continued)

(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 into non-current assets unless the Group has an obvious intention to hold these assets for a period less than twelve months from the reporting date, if selling of these assets will not result from the need of increasing the working capital, in which case they will be included into current assets. Available for sale financial assets are recorded at fair value through equity.

Initial recognition

All financial assets and liabilities are recognised at fair value plus transaction costs. The best confirmation of fair value at initial recognition is selling 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 which is reflected at cost or amortized value 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.

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

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

Subsequent measurement

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

3. Significant accounting policies (continued)

3.4 Financial assets (continued)

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. Premium and discount, including initial transaction costs, are included in the carrying amount of the corresponding instrument and amortised using the effective interest method.

Impairment of financial assets

At each reporting 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 in the 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 reorganisation. In addition, such evidence includes other observable data indicating a decrease in expected cash flows from the financial asset which is subject to reliable measurement, for example, an overdue debt.

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 canceled.

3.5 Financial liabilities

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise financial liabilities held for trading and financial liabilities included into the category of liabilities at fair value through profit or loss at initial recognition.

(b) Loans and borrowings

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

3. Significant accounting policies (continued)

3.5 Financial liabilities (continued)

De-recognition

The financial liabilities are de-recognised if the term of contractual obligations expires, contractual obligations fulfilled or agreement cancelled.

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 corresponding part of production overheads.

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

Impairment of inventories

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

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

3.7 Biological assets

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

- replacement poultry;
- commercial poultry;
- 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. Significant accounting policies (continued)

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).

The expected recoverable amount of a cash-generating unit is 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, than 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 value added taxes: 20%—on import and sales of goods and services in the territory of Ukraine and 0%—on export of goods and rendering of services and works outside Ukraine.

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

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

The Group's entities apply the special VAT taxation treatment prescribed by the Law of Ukraine "About value-added tax" dated 3.4.1997 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 value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable;
- receivables and payables that are stated with the amount of value added tax included.

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

3. Significant accounting policies (continued)

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

Deferred 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;
- 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 directly in equity.

3. Significant accounting policies (continued)

3.11 Income tax and deferred income tax (continued)

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 value added tax, discounts and intragroup transactions.

The Group recognises revenue when its amount can be reliably measured, 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 contingent liabilities 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.

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 lesse 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.

3. Significant accounting policies (continued)

3.13 Leases (continued)

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 information 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.

3.16 Government grants

Recognition of government grants

The Group recognises government grants when received.

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

- All grants, compensating the expenses of the preceding periods, shall be recognised by the Group in full in the period of their receipt as other operating income;
- All grants, related to assets not depreciated, such as a land site, shall be correlated by the Group with the expenses to fulfill the obligations. Where a grant in the form of provision of a land site is conditional on construction of a building on the site, the Group divides the recognition of the grant as other operating income over the whole useful life of the building;
- All grants, related to the amortisable assets, shall be recognised by the Group as a decrease in the expenses for amortisation during the periods, when the amortisation of these assets is accrued.

Accounting for government grants for agricultural activities

The Group recognises unconditional state grants related to biological activities as income only in cases when such government grant is receivable.

A contingent government grant, relating is 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. Significant accounting policies (continued)

3.17 Contingent assets and liabilities

Contingent liabilities are not recognised in the financial information. Such liabilities are disclosed in the notes to financial information, 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 information, 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;
- accrued expenses for other expenses and payments.

The Group recognises accrued expenses in the following circumstances; when:

- there exists 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.

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:

- consideration risks and uncertainty;
- consideration 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 reserve in the course of time as the interest expense, 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 interim consolidated financial information 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 interim consolidated financial information:

4.1 Basis of consolidation (transactions under common control)

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

4.2 Useful lives of property, plant and equipment

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

4.3 Impairment of non-financial assets

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. 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 interim consolidated financial information 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 interest rate of debtor at the date of receivables incurrence.

(in USD thousand, unless otherwise stated)

4. Significant accounting judgements and estimates (continued)

4.4 Impairments of receivables (continued)

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 for the current period, less the amount of accounts receivable, provision for which is calculated on an individual basis.

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

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

4.5 Legal proceedings

The Group's management applies significant assumptions in the measurement and recognition of provisions for and risks of exposure to contingent liabilities, related to existing legal proceedings and other unsettled claims, and also other contingent liabilities. Management's judgment is required in estimating the probability of a successful claim against the Group or the crystallising of a material obligation, and in determining the probable amount of the final settlement or obigation. Due to uncertainty inherent to the process of estimation, actual expenses may differ from the initial estimates. Such preliminary estimates may alter as new information is received, from internal specialists within the Group, if any, or from third parties, such as lawyers. Revision of such estimates may have a significant effect on the future results of operating activity.

4.6 Impairment of obsolete and surplus inventory

The Group assesses the necessity to impair obsolete and surplus inventory and supplies. To estimate the amount of impairment against obsolete and surplus inventory and supplies, the following approach is used:

Inventory turnover (for each type) = Credit turnover on the accounts of inventories transferred to the production (for the reporting period) / Average carrying value on the accounts of inventories (for the reporting period).

Finished goods turnover = Credit turnover on the accounts of finished goods sold on the spot (for the reporting period)/ Average carrying value on the accounts of finished goods (for the reporting period).

Inventory storage period = Duration of reporting period/ Inventory turnover

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

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

4. Significant accounting judgements and estimates (continued)

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 selling the whole number of or a part of deferred tax assets. Estimate of probability includes judgments, which are based on expected characteristics of activity. To estimate the probability of utilising deferred tax assets in future, various factors are used, including previous years' results, operating plans, expiry of tax losses recovery, strategies of tax planning. Should actual results differ from the estimates, and should such estimates need to be reviewed in future periods, this can negatively influence the financial position, financial results and cash flows. Should the estimated 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. Measurement of contingent liabilities is based on Management's judgments and estimates of the outcomes of such future events. In particular, the tax laws in Ukraine are complex and significant management judgement is required to interpret those laws in connection with the tax affairs of the Group, which is open to challenge by the tax authorities.

4.9 Impact of the global financial and economic crisis

The ongoing global financial and economic liquidity crisis that emerged out of the severe reduction in global liquidity (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. 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.

4. Significant accounting judgements and estimates (continued)

4.9 Impact of the global financial and economic crisis (continued)

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.

(in USD thousand, unless otherwise stated)

5. Property, plant and equipment

As at 30 June 2010 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 -in-progress and uninstalled equipment	Total
As at 1 January 2010	**3 466**	**121 378**	**24 914**	**66 403**	**3 751**	**6 129**	**173 435**	**399 476**
Additions	—	189	102	2	103	31	11 042	11 469
Disposals	—	(10)	(5)	—	(4)	(5)	—	(24)
Effect from translation into presentation currency	35	1 194	163	745	38	58	1 779	4 012
Internal transfers	—	—	—	—	—	—	—	—
Reclassification	—	(703)	(14 077)	14 728	99	(47)	—	—
As at 30 June 2010	**3 501**	**122 048**	**11 097**	**81 878**	**3 987**	**6 166**	**186 256**	**414 933**
Accumulated depreciation								
As at 1 January 2010	**—**	**6 428**	**2 492**	**11 815**	**975**	**2 340**	**—**	**24 050**
Depreciation charge	—	1 808	796	2 997	243	451	—	6 295
Depreciation eliminated on disposal’	—	—	(1)	—	(2)	(2)	—	(5)
Effect from translation into presentation currency	—	74	19	146	12	27	—	278
Reclassification	—	(41)	(1 522)	1 563	22	(22)	—	—
As at 30 June 2010	—	8 269	1 784	16 521	1 250	2 794	—	30 618
Net carrying value as at:								
30 June 2010	**3 501**	**113 779**	**9 313**	**65 357**	**2 737**	**3 372**	**186 256**	**384 315**

(in USD thousand, unless otherwise stated)

5. Property, plant and equipment (continued)

As at 30 June 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-in-progress 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**
Additions	—	6 615	2 513	229	67	67	10 183	19 674
Disposals	—	—	(1)	—	(27)	(5)	—	(33)
Effect from translation into presentation currency	33	1 105	215	612	35	56	1 546	3 602
Internal transfers	—	3 104	(1)	1 950	(1)	80	(5 132)	—
As at 30 June 2009	**3 628**	**120 930**	**24 594**	**68 270**	**3 914**	**6 379**	**176 310**	**404 025**
Accumulated depreciation								
As at 1 January 2009	**—**	**3 189**	**1 014**	**6 285**	**513**	**1 517**	**—**	**12 518**
Depreciation charge	—	1 735	783	2 991	252	457	—	6 218
Depreciation eliminated on disposal'	—	—	—	—	(5)	(2)	—	(7)
Effect from translation into presentation currency	—	41	15	78	8	19	—	161
As at 30 June 2009	**—**	**4 965**	**1 812**	**9 354**	**768**	**1 991**	**—**	**18 890**
Net carrying value as at:								
30 June 2009	**3 628**	**115 965**	**22 782**	**58 916**	**3 146**	**4 388**	**176 310**	**385 135**

(in USD thousand, unless otherwise stated)

5. Property, plant and equipment (continued)

As at 30 June 2010 property, plant and equipment were used as security for long-term and short-term loans were as follows:

	Carrying value of security as at 30 June 2010	Carrying value of security as at 31 December 2009	Carrying value of security as at 30 June 2009
Buildings and structures	97 147	114 950	115 965
Machinery and equipment	8 025	22 422	22 782
Equipment for biological assets	46 520	54 588	58 916
Vehicles	2 028	2 776	3 146
Assets under construction-in-progress and uninstalled equipment	168 763	173 435	176 310
	322 483	**368 171**	**377 119**

For the 6 months ended 2010 the Group received government grants "Partial compensation of complex agricultural equipment cost" in the amount of USD 153 thousand (for the 6 months ended 30 June 2009—USD 158 thousand).

As at 30 June 2010 and 2009 net book value of property, plant and equipment which were acquired under finance leases amounted to USD 11 487 thousand and USD 12 164 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 30 June 2010 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 26,00% and 22,00% as at 30 June 2010 and 2009 respectively.

As a result, no impairment indicators were identified for the 6 months ended 2010 and 2009.

6. Biological assets

Biological assets as at 30 June 2010 were as follows:

Non-current biological assets

	Note	30 June 2010	31 December 2009	30 June 2009
Replacement poultry	a), b)	42 538	21 546	40 289
		42 538	**21 546**	**40 289**

Current biological assets

	Note	30 June 2010	31 December 2009	30 June 2009
Commercial poultry	a), b)	34 770	44 850	30 618
Other biological assets	c)	15	60	60
		34 785	**44 910**	**30 678**

(in USD thousand, unless otherwise stated)

6. Biological assets (continued)

a) Commercial poultry and replacement poultry as at 30 June 2010 were as follows:

	30 June 2010		31 December 2009		30 June 2009	
	Number, thousand head	Carrying value	Number, thousand head	Carrying value	Number, thousand head	Carrying value
Isa Brown	—	—	—	—	229	617
Loman	—	—	331	1 947	880	3 169
Hy-Line	17 078	70 177	14 795	61 572	13 458	62 432
Hisex	342	1 934	350	2 115	48	319
Other	1 250	5 197	645	762	1 369	4 370
	18 670	**77 308**	**16 121**	**66 396**	**15 984**	**70 907**

b) Reconciliation of commercial and replacement poultry carrying value for the 6 months ended 30 June 2010 was as follows:

As at 1 January 2009	**56 571**
Acquisitions	23 509
Increase in value as a result of increase in weight/number	15 478
Income from revaluation of biological assets at fair value	17 058
Changes in value of biological assets as a result of agricultural produce harvesting	(2 330)
Decrease in value resulting from assets disposal	(32 294)
Effect from translation into presentation currency	604
Other changes	(7 629)
As at 30 June 2009	**70 967**
As at 1 January 2010	**66 396**
Acquisitions	18 448
Increase in value as a result of increase in weight/number	16 193
Income from revaluation of biological assets at fair value	18 506
Changes in value of biological assets as a result of agricultural produce harvesting	(3 771)
Decrease in value resulting from assets disposal	(31 699)
Effect from translation into presentation currency	717
Other changes	(7 467)
As at 30 June 2010	**77 323**

Due to the absence of an active market for laying hen 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% prevailing as at 30 June 2010 was applied (as at 30 June 2009—30%).

The line item “Other changes” includes mortality, discarding and utilisation of poultry.

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

As at 30 June 2010 the biological assets with a carrying value of USD 6 098 thousand and USD 5 802 thousand respectively were a security for long-term and short-term loans.

As at 31 December 2009 the biological assets with a carrying value of USD 3 227 thousand were a security for long-term and short-term loans.

7. Other non-current assets

Other non-current assets as at 30 June 2010 were as follows:

	30 June 2010	31 December 2009	30 June 2009
Prepayments for property, plant and equipment	19 736	16 273	35 847
Other non-current assets	370	357	373
	20 106	**16 630**	**36 220**

8. Taxes recoverable and prepaid

Taxes recoverable and prepaid as at 30 June 2010 were as follows:

	Note	30 June 2010	31 December 2009	30 June 2009
VAT settlements	a)	23 936	28 625	26 449
Other taxes prepaid		405	83	232
		24 341	**28 708**	**26 681**

a) As at 30 June 2010 the item "VAT settlements" includes the amount of VAT, which is subject to:

- release of budgetary funds by the Government;
- by settlement of future tax liabilities of the entity under this tax within non-agricultural transactions.

As at 30 June 2010 VAT refund is amounting to USD 19 824 thousand. This amount comprises of USD 5 815 thousand because of which legal proceedings are carried out with the aim of determining legality and validity of this VAT refund amount. The Company's Management considers that judicial decisions will be made in favor of Group's companies and above mentioned refund amount will be received.

9. Inventories

Inventories as at 30 June 2010 were as follows:

	30 June 2010	31 December 2009	30 June 2009
Raw and basic materials	70 068	72 877	44 660
Work-in-progress	1 861	1 935	3 361
Agricultural produce	7 333	884	2 657
Finished goods	11 646	9 958	13 033
Package and packing materials	3 345	3 262	2 739
Goods for resale	2 933	2 640	2 600
Other inventories	2 030	1 201	1 331
	99 216	**92 757**	**70 381**

For the 6 months ended 30 June 2010 and 2009 the Group produced shell eggs in the quantity of 1 910 352 536 and 1 481 413 670 items respectively. The fair value produced shell eggs for the 6 months ended 30 June 2010 and 2009 amounted to USD 127 278 thousand and USD 55 796 thousand respectively.

As at 30 June 2010 agricultural produce and finished goods—shell eggs in the quantity of 7 577 430 items and process meat with a total carrying value of USD 137 thousand, and also raw and basic materials with a carrying value of USD 198 thousand were pledged as security for the Group's loans.

As at 31 December 2009, finished goods—inventory with a carrying value of 135 USD thousand, and also raw and basic materials with a carrying value of USD 196 thousand were pledged as security for the Group's loans.

(in USD thousand, unless otherwise stated)

9. Inventories (continued)

As at 30 June 2009 agricultural produce and finished goods—shell eggs in the quantity of 7 577 430 items and process meat with a total carrying value of USD 142 thousand, and also raw and basic materials with a carrying value of USD 205 thousand were pledged as security for the Group's loans.

10. Prepayments and other current assets

Prepayments and other current assets, net as at 30 June 2010 were as follows:

	Note	30 June 2010	31 December 2009	30 June 2009
Prepayments		5 619	11 584	14 636
Allowance for estimated irrecoverable amounts of prepayments and other current assets		(726)		(403)
Financial assistance	b)	2 717	4 320	108 451
Interest receivable on deposits		15 561	39 411	19 190
Accounts receivable for bonds	a)	—	—	25 937
Other non-trade accounts receivable		2 417	3 311	2 748
		25 588	**58 626**	**170 559**

a) As at 30 June 2009 accounts receivable for bonds in the amount of USD 25 937 thousand (equivalent to UAH 197 899 thousand) represents accounts receivable from LLC "Stanislavskaya Torgovaya kompaniya", under securities contracts representing 193 544 items.

b) The item "Financial assistance" uncludes free of interest borrowing issued to related parties. The term of duration is set "until complete performance of obligations by parties" in accordance with borrowing agreements.

11. Trade accounts receivable

Trade accounts receivable as at 30 June 2010 were as follows:

	30 June 2010	31 December 2009	30 June 2009
Trade accounts receivable	88 868	47 320	84 721
	88 868	**47 320**	**84 721**

As at 30 June 2010, USD 19 087 thousand or 22% of the total carrying value of trade accounts receivable is due from the single most significant debtor (as at 30 June 2009—see note 40, a)).

12. Cash and cash equivalents

Cash and cash equivalents as at 30 June 2010 were as follows:

	30 June 2010	31 December 2009	30 June 2009
Cash in banks	105 485	1 493	1 139
Cash on hand	112	103	186
Cash in transit	1	105	94
Letter of credit in national currency	27	26	27
	105 625	**1 727**	**1 446**
Less restricted cash:			
Letter of credit in national currency	(27)	(26)	(27)
Cash to be represented in statement of cash flows	**105 598**	**1 701**	**1 419**

(in USD thousand, unless otherwise stated)

13. Deposits

Deposits as at 30 June 2010 were as follows:

	30 June 2010	31 December 2009	30 June 2009
Bank deposits (with maturity under 3 months)	100 000	—	—
Bank deposits (with maturity from 3 to 12 months)	197 223	155 917	238 089
Bank deposits (with maturity above 12 months)	28	504	4 229
	297 251	**156 421**	**242 318**

As at 30 June 2010 all the bank deposits were made in national currency of Ukraine.

Deposit interest rates as at 30 June 2010 were as follows:

	30 June 2010	31 December 2009	30 June 2009
Bank deposits (with maturity under 3 months)	12.0%	—	—
Bank deposits (with maturity from 3 to 12 months)	16.0%	16.0%	15.0%-16.0%
Bank deposits (with maturity above 12 months)	12.0%	12.0%	12.0%

As at 30 June 2010 and 2009 bank deposits with carrying value of USD 197 250 thousand and USD 242 319 thousand were a security for long- and short-term loans of the Group's companies.

As at 31 December 2009 bank deposits with carrying value of USD 156 421 thousand were a security for long- and short-term loans of the Group's companies.

14. Long-term loans

Long-term loans as at 30 June 2010 were as follows:

	Note	30 June 2010	31 December 2009	30 June 2009
Long-term bank loans in national currency	a),b),c)	195 237	196 634	247 569
Long-term bank loans in foreign currency	a),b),c)	1 545	1 845	1 774
Total loans		**196 782**	**198 479**	**249 343**
Commodity credit	d)	1 121	1 110	1 162
		197 903	**199 589**	**250 505**
Current portion of bank loans in national currency		(115 770)	(112 652)	(14 461)
Current portion of bank loans in foreign currency		(1 480)	(962)	(394)
		80 653	**85 975**	**235 650**

a) As at 30 June 2010 long-term bank loans by maturities were as follows:

	30 June 2010	31 December 2009	30 June 2009
Under a year (current portion)	115 770	113 612	14 855
From 1 to 2 years	47 093	51 278	145 263
From 2 to 3 years	33 919	—	54 075
From 3 to 4 years	—	33 586	35 150
	196 782	**198 476**	**249 343**

(in USD thousand, unless otherwise stated)

14. Long-term loans (continued)

b) As at 30 June 2010 long-term bank loans by currencies were as follows:

	30 June 2010	31 December 2009	30 June 2009
Long-term bank loans in UAH	195 237	196 634	247 569
Long-term bank loans in CHF	1 545	1 845	1 774
	196 782	**198 479**	**249 343**

c) As at 30 June 2010 interest rates for long-term bank loans were as follows:

	30 June 2010	31 December 2009	30 June 2009
Long-term bank loans denominated in UAH	14.0%-23.0%	16.0%-23.0%	16.0%-23.0%
Long-term bank loans denominated in CHF	9.0%	9.0%	9.0%

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.

15. Short-term loans

Short-term loans as at 30 June 2010 were as follows:

	Note	30 June 2010	31 December 2009	30 June 2009
Short-term loans in national currency	a),b),c)	27 450	23 741	220 565
Short-term loans in foreign currency	a),b),c)	725	725	738
Interest free loans	d)	15 250	8 535	241 930
		43 425	**33 001**	**463 233**

a) As at 30 June 2010 short-term bank loans by maturity were as follows:

	30 June 2010	31 December 2009	30 June 2009
under 3 months	6 964	975	133
from 3 to 6 months	21 001	11 151	39 208
from 6 to 12 months	210	12 340	181 962
	28 175	**24 466**	**221 303**

b) As at 30 June 2010 short-term bank loans by currencies were as follows:

	30 June 2010	31 December 2009	30 June 2009
Short-term bank loans in UAH	27 450	23 741	220 564
Short-term bank loans in USD	725	725	739
	28 175	**24 466**	**221 303**

(in USD thousand, unless otherwise stated)

15. Short-term loans (continued)

c) Short-term bank loans and overdrafts by currencies as at 30 June 2010 were as follows:

	30 June 2010	31 December 2009	30 June 2009
Short-term bank loans denominated in UAH	14.0%-29.0%	10.25%-28.0%	10.25%-28.0%
Short-term bank loans denominated in USD	17.0%	17.0%	17.0%

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

d) As at 30 June 2010 and 2009 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.

As at 31 December 2009 the item “Short-term loans denominated in UAH” was reclassified into item “Current portion of bank loans in national currency” (Note 17) in the amount of USD 112 530 thousand for better understanding of financial information by users.

16. Security

Long-term and short-term loans as at 30 June 2010 were secured on assets as follows:

	30 June 2010	31 December 2009	30 June 2009
Buildings and structures	97 147	114 950	115 965
Machinery and equipment	8 025	22 422	22 782
Equipment for biological assets	46 520	54 588	58 916
Vehicles	2 208	2 776	3 146
Assets under constructionin-progress and uninstalled equipment	168 763	173 435	176 310
Property, plant and equipment, total	*322 663*	*368 171*	*377 119*
Inventories	335	331	347
Biological assets	6 098	3 227	5 802
Bank deposits	197 250	156 421	242 319
	526 346	**528 150**	**625 587**

As at 30 June 2010 shares of the following Group’s companies were pledged under short-term and long-term loan agreements: OJSC Kirovskiy (452 900 000 items) and APP CJSC Chornobaivske (4 906 890 items).

17. Current portion of non-current financial liabilities

The current portion of non-current financial liabilities as at 30 June 2010 was as follows:

	30 June 2010	31 December 2009	30 June 2009
Trade and other payables			
Deferred income (current portion)	152	304	159
Financial liabilities			
Current portion of finance lease liabilities	1 728	1 714	1 808
VAT included in current portion of finance lease liabilities	346	343	362
Current portion of bank loans in national currency	115 770	112 652	14 461
Current portion of bank loans in foreign currency	1 480	962	394
	119 476	**115 972**	**17 184**

(in USD thousand, unless otherwise stated)

18. Deferred tax assets and liabilities

The principal components of deferred tax assets and liabilities as at 30 June 2010 were as follows:
Influence of temporary differences on deferred tax assets

	30 June 2010	31 December 2009	30 June 2009
Advances received	—	321	166
Intangible assets	1	1	1
Provisions	33	37	16
Expenses charged and other temporary differences	3		440
Total deferred tax assets	**37**	**359**	**623**
Influence of temporary differences on deferred tax liabilities			
Advances issued to suppliers and deferred expenses	(27)	(527)	(4)
Property, plant and equipment, non-current assets	(786)	(775)	(719)
Inventories	(16)	—	(43)
Currency differences	(473)	—	—
Total deferred tax liabilities	**(1 302)**	**(1 302)**	**(766)**
Net deferred tax liabilities	**(1 265)**	**(943)**	**(143)**

Principal components of income tax expense

As at 30 June 2010 the rate of income tax in Ukraine was equal to 25%.

	30 June 2010	31 December 2009	30 June 2009
Current income tax	(20)	(19)	(17)
Deferred tax	(320)	(1 149)	(325)
Effect of translation into presentation currency	1	—	1
	(339)	**(1 168)**	**(341)**

Reconciliation of deferred tax liabilities

	30 June 2010	31 December 2009	30 June 2009
Balance as at 1 January	**(943)**	**180**	**180**
Deferred expenses for income tax for the reporting period	(320)	(1 168)	(325)
Effect from translation into presentation currency	(2)	45	2
Balance as at 30 June	**(1 265)**	**(943)**	**(143)**

(in USD thousand, unless otherwise stated)

18. Deferred tax assets and liabilities (continued)

Reconciliation between income tax expenses and accounting profit multiplied by the rate of income tax

	30 June 2010	31 December 2009	30 June 2009
Profit / (loss) before tax	62 477	134 837	33 708
Less profit / (loss) of the companies being fixed agricultural tax payers	59 265	(126 247)	34 813
Profit /(loss) of the companies being income tax payers at the rate 10%	26	93	—
Profit /(loss) of the companies being income tax payers at the rate 25%	3 186	8 497	(1 105)
	3 212	8 590	(1 105)
Loss taxable at the rate of 10%	(3)	(9)	—
Income / (loss) taxable at the rate of 25%	(796)	(2 124)	276
Income / (expenses) not included in gross expenses for income tax	460	965	(617)
Loss for income tax	**(339)**	**(1 168)**	**(341)**

As at 1 January 2009	**5**
Income tax accrued for the period	(17)
Income tax paid for the period	11
Currency differences	2
As at 30 June 2009	**1**
As at 1 January 2010	**34**
Income tax accrued for the period	(20)
Income tax paid for the period	1
Effect from translation into presentation currency	(11)
As at 30 June 2010	**4**

The income tax payers for the six months ended 30 June 2010 were the following companies: LLC "Rohatyn-Korm", OJSC "Vuhlelhirskyi Eksperrementalnyi Kombikrmovyi Zavod", OJSC "Volhovatskiy Kombinat Khliboproduktiv", LLC "Kamyanets-Podilsky Kombikormovyi Zavod", LLC "Pershe Travnya Kombikormovyi Zavod" and LLC "Imperovo Foods". All other companies of the Group were payers of the fixed agricultural tax.

The income tax payers for the six months ended 30 June 2009 were the following companies: LLC "Rohatyn-Korm", OJSC "Vuhlelhirskyi Eksperrementalnyi Kombikrmovyi Zavod", OJSC "Volhovatskiy Kombinat Khliboproduktiv", LLC "Kamyanets-Podilsky Kombikormovyi Zavod" and LLC "Pershe Travnya Kombikormovyi Zavod". All other companies of the Group were payers of the 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.

19. Trade accounts payable

Trade accounts payable as at 30 June 2010 were as follows:

	30 June 2010	31 December 2009	30 June 2009
Trade accounts payable	84 170	65 893	75 044
Financial liabilities			
Short-term notes issued	1 846	2 126	1 914
	86 016	**68 019**	**76 958**

As at 30 June 2010 short-term notes issued were represented by promissory, noninterest-bearing, notes.

(in USD thousand, unless otherwise stated)

20. Accrued expenses

Accrued expenses as at 30 June 2010 were as follows:

	30 June 2010	31 December 2009	30 June 2009
Accrued expenses for future employee benefits	631	1 139	518
Other accrued expenses	327	139	38
	958	**1 278**	**556**

21. Other current liabilities and accrued expenses

Other current liabilities and accrued expenses as at 30 June 2010 were as follows:

	30 June 2010	31 December 2009	30 June 2009
Wages and salaries and related taxes liabilities	3 346	2 858	2 233
Other taxes and compulsory payments liabilities	78	132	—
Accounts payable for property, plant and equipment	7 762	12 847	9 618
Advances received from customers	100 474	108 395	78 506
Interest payable	6 969	8 331	2 750
Accrued coupon on bonds	2 052	2 055	4 184
Other accounts payable	6 735	7 421	4 801
	127 416	**142 039**	**102 092**

As at 30 June 2010 the item "Other accounts payable" comprises of finance lease liabilities in the amount of USD 2 120 thousand, which are expired in accordance with agreement conditions. Lessor went to the law in order to recovery past-due payments and corresponding fines.

As at 30 June 2010 legal proceedings are depend, the Group recordered charging of provision amounting to USD 197 thousand for probable penalties because of untimely repayments (Note 38).

22. Finance lease liabilities

Finance lease liabilities as at 30 June 2010 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 30 June 2010:				
Within a year	2 551	346	1 728	346
From one to five years	5 279	861	4 306	861
Above 5 years	—	—	—	—
	7 830	**1 207**	**6 034**	**1 207**
Less: financial expenses of future period	(1 797)	—	—	—
Current value of lease liabilities	6 033	1 207	6 034	1 207
Less: amount to be paid within a year	—	—	(1 728)	(346)
Amount to be paid after a year	—	—	4 306	861

(in USD thousand, unless otherwise stated)

22. 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 30 June 2009:				
Within a year	2 920	362	1 808	362
From one to five years	8 114	1 250	6 252	1 250
	11 034	**1 612**	**8 060**	**1 612**
Less: financial expenses of future periods	(2 973)	—	—	—
Current value of lease liabilities	8 060	1 612	8 060	1 612
Less: amount to be paid within a year	—	—	(1 808)	(362)
Amount to be paid after a year	—	—	6 252	1 250

Net carrying value of property, plant and equipment acquired via finance lease as at 30 June 2010 was as follows:

	30 June 2010	31 December 2009	30 June 2009
Equipment for biological assets	9 642	9 677	10 216
Vehicles	67	71	78
Assets under constructionin-progress and uninstalled equipment	1 713	1 696	1 775
Other equipment	65	78	95
	11 487	**11 522**	**12 164**

Non-current assets under finance lease include equipment for biological assets, construction-in-progress and uninstalled equipment, and vehicles with finance lease term of 3-4 years. Interest rate under finance lease agreements is LIBOR+8% per annum for the six months 2010 and 2009. Finance lease agreements do not provide the possibility of changing the initial terms of agreements.

23. Current liabilities for bonds

Current liabilities for bonds as at 30 June 2010 were as follows:

	30 June 2010	31 December 2009	30 June 2009
Nominal value	24 488	24 249	25 376
	24 488	**24 249**	**25 376**

	30 June 2010	31 December 2009	30 June 2009
Bonds coupon payable	2 052	2 055	4 184

As at 30 June 2010 current liabilities for bonds were presented as liabilities for A-type bonds with nominal value of USD 25 294 thousand and USD 26 211 thousand respectively, which was equivalent to UAH 200 000 thousand, issued by CJSC “Avangard” on 2 July 2008. Those bonds were issued in book-entry form in number of 200 000 items. The bonds issue was secured by SC “Zorya, LLC Cross-PF Zorya”, LLC “Cross-PF Zorya”, OJSC “Ptakhohospodarstvo Chervonyi Prapor”, SC “Ptakhofabryka Lozuvatska”, SC “Ptakhofabryka Chervonyi Prapor Poultry Farm, of OJSC Ptakhohospodarstvo Chervoniy Prapor”, OJSC “Volnovaskyi Kombinat Khliboprodiktiv”,

(in USD thousand, unless otherwise stated)

23. Current liabilities for bonds (continued)

OJSC "Vuhlehirskyi Eksperementalnyi Kombikormovyi Zavod", ALLC "Donetska Ptakhofabryka", LLC "PF Volnovaska", SC "Ptakhohospodarstvo Lozuvatskoe", SC "Gorodenkivska Ptakhofabryka of CJSC Avangard", SC "Rogatynska Ptakhofabryka of CJSC Avangard", SC "Avangard-Agro of CJSC Avangard", CJSC "Chernivetska Ptakhofabryka", CJSC "Agrofirma Avis", LLC "Kamyanets-Podilsky Kombikormoviy Zavod", OJSC "Kirovskiy", LLC "Slovyany", OJSC "Ptakhofabryka Pershe Travnya", SC "Ptakhohospodarstvo Yuzhnaya Holding of LLC Yuzhnaya Holding", LLC "Yuzhnaya Holding", LLC "Areal-Snigurivka". The Guarantors are fully responsible for the issuer's liabilities to bond holders.

Bond interest coupon is payable over 20 periods of 91 days each. The interest rate on the above mentioned bonds for the first-fourth coupon periods is set at 17% per annum. The procedure of interest rate determination for the fifth-eighth, ninth-twelfth, thirteenth-sixteenth and seventeenth-twentieth periods is set by the issuer board of directors based on market conditions, but not less than the National Bank of Ukraine bank rate on the date of the decision on setting interest rate. The bonds owner 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 bonds circulation period is from 02 July 2008 to 19 May 2013.

On 25 May 2009 the bonds in the number of 5 370 items which are equal to USD 668 thousand were repaid by Avangard, CJSC.

24. Sales revenue

Sales revenue for the 6 months ended 30 June 2010 was as follows:

	6 months ended 30 June 2010	**6 months ended 30 June 2009**
Revenue from finished goods	166 585	98 387
Revenue from goods and services sold/rendered	333	292
Deduction from income	(1 017)	(112)
	165 901	**98 567**

For the 6 months ended 30 June 2010 17 547 thousand or 11% from the Group's revenue is referred to the sales transactions carried out with one of the Group's clients (for the 6 months ended 30 June 2009—Note 36, a)).

25. Cost of sales

Cost of sales for the 6 months ended 30 June 2010 was as follows:

	Note	**6 months ended 30 June 2010**	**6 months ended 30 June 2009**
Cost of finished goods sold	26	(124 389)	(72 014)
Cost of goods and services sold/rendered		(886)	(967)
		(125 275)	**(72 981)**

(in USD thousand, unless otherwise stated)

26. Cost of sales by elements

Cost of sales by elements for the 6 months ended 30 June 2010 was as follows:

	6 months ended 30 June 2010	6 months ended 30 June 2009
Raw materials	(104 248)	(55 216)
Payroll of production personnel and related taxes	(7 772)	(7 271)
Depreciation	(5 949)	(5 892)
Services provided by third parties	(6 193)	(3 632)
Other expenses	(227)	(3)
	(124 389)	**(72 014)**

27. General administrative expenses

General administrative expenses for the 6 months ended 30 June 2010 were as follows:

	6 months ended 30 June 2010	6 months ended 30 June 2009
Salaries and wages of administrative personnel	(1 598)	(1 379)
Services provided by third parties	(483)	(735)
Depreciation	(73)	(73)
Repairs and maintenance costs	(20)	(27)
Tax expenses, except for income tax	(136)	(180)
Material usage	(143)	(148)
Other expenses	(52)	(54)
	(2 505)	**(2 596)**

28. Distribution expenses

Distribution expenses for the 6 months ended 30 June 2010 were as follows:

	6 months ended 30 June 2010	6 months ended 30 June 2009
Salaries and wages of distribution personnel	(681)	(390)
Transport expenses	(1 244)	(410)
Depreciation	(247)	(252)
Services provided by third parties	(48)	(146)
Packing materials	(122)	(32)
Repairs and maintenance costs	(19)	(9)
Other expenses	(75)	(194)
	(2 436)	**(1 433)**

(in USD thousand, unless otherwise stated)

29. Other operating expenses, net

Other operating expenses, net for the 6 months ended 30 June 2010 were as follows:

	6 months ended 30 June 2010	6 months ended 30 June 2009
Loss from disposal of current assets	(170)	(464)
Loss from disposal of non-current assets	(19)	(26)
Impairment of current assets	(258)	(181)
Income from accounts payable written off	18	136
Losses on exchange	(14)	(537)
Provision for doubtful debts	(311)	(81)
Fines, penalties recognized	(575)	(729)
Other expenses	(1 414)	(3 730)
	(2 743)	**(5 612)**

For the 6 months ended 30 June 2009 the item "Other expenses" in the amount of USD 4 207 thousand comprised the amount of losses from unreceived tax invoices written off.

30. Finance costs

Finance costs for the 6 months ended 30 June 2010 were as follows:

	6 months ended 30 June 2010	6 months ended 30 June 2009
Interest payable on loans	(16 938)	(28 672)
Capitalised interest	8 970	8 736
Total financial expenses on loans	**(7 968)**	**(19 936)**
Financial expenses on finance lease	(502)	(648)
Financial expenses on bonds (interest)	(2 041)	(2 173)
Other financial expenses	—	(35)
	(10 511)	**(22 792)**

31. Finance income

Finance income for the 6 months ended 30 June 2010 represents the amount of interest income from placement of deposits, referred to in Note 15, in the amount of USD 15 590 thousand (30 June 2009: USD 19 643 thousand).

32. Income from government grants and incentives

Income from government grants and incentives received for the 6 months ended 30 June 2010 were as follows:

	Note	6 months ended 30 June 2010	6 months ended 30 June 2009
Partial compensation of interest for loans received by agro-industrial enterprises from financial institutions	a)	79	3 757
VAT for development of poultry keeping	b)	233	2 861
Partial compensation of complex agricultural equipment cost	c)	153	158
Other grants	d)	1	10
		466	**6 786**

32. Income from government grants and incentives (continued)

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 6 months ended 30 June 2010 and 2009 the Group received partial compensation of interest for loans received by agro-industrial enterprises from financial institutions in the amount of USD 79 thousand and USD 3 757 thousand respectively which is presented on a cash received basis in the condensed consolidated financial statements because of unstable financial position in Ukraine. Decreasing in partial compensation of interest for loans received by agro-industrial enterprises from financial institutions for the period from 1 January 2010 till 30 June 2010 due to that fact that the budget of Ukraine was approved in April 2010, consequently the Group is planning to receive such grants in the second half of 2010.

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) 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 agriculture 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 in 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 interim consolidated financial information on a net basis.

All members of the Group that met the criteria for the use of these VAT benefits a except: (LLC Rohatyn-Korm, LLC Kamyanets-Podilsky Kombikormoviy Zavod, OJSC Vuhlehirskyi Eksperementalnyi Kombikormovyi Zavod, OJSC Volnovaskyi Kombinat Khliboprodiktiv, LLC Pershe Travnya Kombikormoviy Zavod, LLC Imperovo Foods).

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 UAH 60 608 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.

33. Related party balances and transactions

The Company is controlled by Mr Oleg Bakhmatyuk, who directly or indirectly owns 77.5% of the Company's share capital as at the balance sheet date. The remaining 22.5% of the shares are widely held.

(in USD thousand, unless otherwise stated)

33. Related party balances and transactions (continued)

For the purposes of this interim consolidated financial information, 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 which activities are significantly influenced by the Group's owners.

Salary costs of key management for the 6 months ended 30 June 2010 were as follows:

	6 months ended 30 June 2010	**6 months ended 30 June 2009**
Salary	498	442
Contributions to pension funds	158	111
Other contributions	17	14
	673	**567**

(in USD thousand, unless otherwise stated)

33. Related party balances and transactions (continued)

Outstanding amounts of the Group for transactions with related parties as at 30 June 2010 were as follows:

	Outstanding balances with related parties		
	As at 30 June 2010	As at 31 December 2009	As at 30 June 2009
Other non-current assets:			
C. Companies in which the Group's owners have an equity interest;	—	—	20 687
D. Companies which activities are significantly influenced by the Group's owners.	—	1 286	—
	—	**1 286**	**20 687**
Other current asset:			
B. Companies having the same top management;	—	2	2
C. Companies in which the Group's owners have an equity interest;	926	1 957	27 251
D. Companies which activities are significantly influenced by the Group's owners.	20 959	46 475	105 509
	21 885	**48 434**	**132 762**
Trade accounts receivable:			
C. Companies in which the Group's owners have an equity interest;	13 447	8 181	4 618
D. Companies which activities are significantly influenced by the Group's owners.	775	33 319	78 501
	14 222	**41 500**	**83 119**
Cash and cash equivalents:			
D. Companies which activities are significantly influenced by the Group's owners.	18 250	1 413	869
	18 250	**1 413**	**869**
Deposits:			
D. Companies which activities are significantly influenced by the Group's owners.	197 222	155 917	237 877
	197 222	**155 917**	**237 877**
Long-term loans:			
D. Companies which activities are significantly influenced by the Group's owners.	177 769	50 354	209 720
	177 769	**50 354**	**209 720**

(in USD thousand, unless otherwise stated)

33. Related party balances and transactions (continued)

	Outstanding balances with related parties		
	As at 30 June 2010	As at 31 December 2009	As at 30 June 2009
Short-term loans:			
C. Companies in which the Group's owners have an equity interest;	18	346	18 040
D. Companies which activities are significantly influenced by the Group's owners.	23 515	138 967	197 097
	23 533	**139 313**	**215 137**
Trade accounts payable:			
B. Companies having the same top management;	—	7	16
C. Companies in which the Group's owners have an equity interest;	7 431	3 725	2 243
D. Companies which activities are significantly influenced by the Group's owners.	27 648	16 548	24 181
	35 079	**20 280**	**26 440**
Other current liabilities			
B. Companies having the same top management;	14	23	15
C. Companies in which the Group's owners have an equity interest;	16 136	10 404	3 034
D. Companies which activities are significantly influenced by the Group's owners.	71 236	98 785	74 055
	87 386	**109 212**	**77 104**
Current liabilities for bonds			
D. Companies which activities are significantly influenced by the Group's owners.	24 019	23 817	25 365
	24 019	**23 817**	**25 365**

(in USD thousand, unless otherwise stated)

33. Related party balances and transactions (continued)

The Group's transactions with related parties for the 6 months ended 30 June 2010 were as follows:

	Transactions with related parties for the 6 months ended 30 June 2010	Transactions with related parties for the 6 months ended 30 June 2009
Sales revenue:		
C. Companies in which the Group's owners have an equity interest;	11 876	7 748
D. Companies which activities are significantly influenced by the Group's owners.	17 593	40 072
	29 469	**47 820**
Cost of sales:		
D. Companies which activities are significantly influenced by the Group's owners.	(256)	—
	(256)	**—**
General administrative expenses:		
B. Companies having the same top management;	—	(66)
	—	**(66)**
Distribution expenses:		
D. Companies which activities are significantly influenced by the Group's owners.	(791)	—
	(791)	**—**
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;	40	15
D. Companies which activities are significantly influenced by the Group's owners.	—	4
	40	**1**
Finance income:		
D. Companies which activities are significantly influenced by the Group's owners.	15 467	19 137
	15 467	**19 137**
Finance cost:		
D. Companies which activities are significantly influenced by the Group's owners.	(7 555)	(18 028)
	(7 555)	**(18 028)**

34. 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 generates revenues other than risks and income of those components that are peculiar to other business segments.

For the purpose of management the Group is divided into the following business segments on the basis of produced goods and rendered services, and consists of the following 5 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 interim consolidated financial information. 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)

34. Business segments (continued)

Business segment information for the 6 months ended 30 June 2010 was as follows:

	Shell egg	Poultry	Animal feed	Egg products	Other activities	Un-allocated group balances	Adjust-ments and elimi-nation	Total
Sales revenue	116 998	21 183	12 828	32 542	3 834	—	—	187 385
Intra-group elimination	(11 556)	(925)	(7 989)	—	(1 014)	—	—	(21 484)
Revenue from external buyers	**105 442**	**20 258**	**4 839**	**32 542**	**2 820**	**—**	**—**	**165 901**
Income from revaluation of biological assets at fair value	2 383	12 352	—	—	—	—	—	14 735
Other operating income/(expenses)	(2 279)	(517)	(232)	281	199	—	—	(2 548)
Income from government grants and incentives	222	244	—	—	—	—	—	466
OPERATING PROFIT/(LOSS)	**55 098**	**1 249**	**(507)**	**363**	**1 195**	**—**	**—**	**57 398**
Finance income	12 712	863	1 961	—	54	—	—	15 590
Finance cost, *including:*	(10 343)	(154)	(15)	—	—	—	—	(10 512)
Interest payable on loans	(7 800)	(153)	(15)	—	—	—	—	(7 968)
Income tax expense	—	—	321	(660)	—	—	—	(339)
OPERATING PROFIT/(LOSS) FOR THE PERIOD	**57 272**	**1 958**	**1 760**	**(296)**	**1 249**	**—**	**—**	**61 943**
TOTAL ASSETS	**790 470**	**80 388**	**51 980**	**53 974**	**173 701**	**—**	**(27 824)**	**1 122 689**
Capitalised expenses	11 384	81	—	5	—	—	—	11 470
Depreciation	(5 640)	(539)	(60)	(30)	(27)	—	—	(6 296)
TOTAL LIABILITIES	**(389 486)**	**(30 495)**	**(56 568)**	**(40 852)**	**(4 847)**	**—**	**27 350**	**(494 898)**

(in USD thousand, unless otherwise stated)

34. Business segments (continued)

Business segment information for the 6 months ended 30 June 2009 was as follows:

	Shell egg	Poultry	Animal feed	Egg products	Other activities	Un-allocated group balances	Adjust-ments and elimi-nation	Total
Sales revenue	65 747	22 742	41 175	629	490	—	—	130 783
Intra-group elimination	—	—	(32 060)	—	(156)	—	—	(32 216)
Revenue from external buyers	**65 747**	**22 742**	**9 115**	**629**	**334**	**—**	**—**	**98 567**
Income from revaluation of biological assets at fair value	7 464	7 265	—	—	—	—	—	14 729
Other operating income/ (expenses)	(4 232)	(1 048)	(538)	—	206	—	—	(5 612)
Income from government grants and incentives	5 281	518	987	—	—	—	—	6 786
OPERATING PROFIT/ (LOSS)	**31 498**	**5 630**	**923**	**(678)**	**(516)**	**—**	**—**	**36 857**
Finance income	16 740	1 017	1 886	—	—	—	—	19 643
Finance cost, *including:*	(16 535)	(1 285)	(4 972)	—	—	—	—	—
Interest payable on loans	(13 682)	(1 284)	(4 971)	—	—	—	—	(19 937)
Income tax expense	—	—	(341)	—	—	—	—	(241)
OPERATING PROFIT/ (LOSS) FOR THE PERIOD	**31 701**	**5 362**	**(2 503)**	**(678)**	**(515)**	**—**	**—**	**33 367**
TOTAL ASSETS	**953 074**	**81 576**	**90 100**	**—**	**2 706**	**—**	**(38 501)**	**1 088 955**
Capitalised expenses	19 621	36	16	—	—	—	—	19 673
Depreciation	5 573	555	89	—	—	—	—	6 217
TOTAL LIABILITIES	**(700 005)**	**(55 548)**	**(92 840)**	**—**	**(125 847)**	**—**	**38 501**	**(935 739)**

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 balances	Adjust-ments and elimi-nation	Total
TOTAL ASSETS	**739 771**	**59 970**	**52 052**	**18 493**	**2 681**	**40**	**(28 631)**	**844 376**
TOTAL LIABILITIES	**417 346**	**29 906**	**58 337**	**5 610**	**939**	**—**	**(28 317)**	**483 821**

35. Contingent and contractual liabilities

Economic environment

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

Taxation

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 30 June 2010 and 31 December 2009.

Pension and other liabilities

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

As at 30 June 2010 the Group had no liabilities for any supplementary pension payments, health care, insurance or other benefits after retirement to their working or former employees.

Legal matters

In the course of its economic activities the Group is involved in legal proceedings with third parties. In most cases, the Group is the initiator of 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 at 30 June 2010 the company LLC Imperovo Foods leased property, plant and equipment for production purposes from a related party accordingly to lease agreement. The term of the lease is

35. Contingent and contractual liabilities (continued)

until 1 December 2008, in the agreement is to be continued on the same period of validity and on the same conditions subject to one month's notice from either party before the end of the next period.

For the 6 months ended 30 June 2010 lease payments were equal to USD 256 thousand (UAH 2 035 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 validity term till 11 November 2009. The Group has a commitment to purchase minimum 200 000 Parent Female for 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 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.

The financial effect of changes in contingent and contractual liabilities is not possible to calculate as at the balance sheet date.

36. 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, 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 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 interim consolidated financial information, including:

- information on finance income and expenses is disclosed in Notes 30, 31 (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 12;
- information on trade and other accounts receivable is disclosed in Notes 10, 11;
- information on trade and other accounts payable is disclosed in Notes 19, 21;
- information on significant terms of borrowings and loans granting is disclosed in Notes 14, 15;
- information on timing and terms of effective contracts for finance lease is disclosed in Note 22;
- information on significant conditions of issued bonds is disclosed in Note 23.

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

(in USD thousand, unless otherwise stated)

36. Financial risk management (continued)

assets which are exposed to credit risk are represented as follows: cash and balances on bank accounts, trade and other accounts receivable (except for receivables that are not represented by financial assets), financial assistance issued, prepayments for bonds, bank deposits.

Exposure to credit risk

The carrying value of financial assets is a maximum value exposed to credit risk. Maximum level of credit risk as at 31 December 2009, 31 December 2008 and 2007 was presented as follows:

Financial assets	30 June 2010	31 December 2009	30 June 2010
Cash and cash equivalents	105 625	1 727	1 446
Long-term deposits	28	504	4 229
Short-term deposits	297 223	155 917	238 089
Trade accounts receivable, net	88 868	47 320	84 721
Loans to related parties	2 717	4 320	108 451
Interest receivable for deposits	15 561	39 411	19 190
Accounts receivable for bonds	—	—	25 937
	510 022	**249 199**	**482 063**

The Group's credit risk is mainly related to long-term and short-term deposits. Credit risk is heightened in 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, there were no significant losses during the 6 months ended 30 June 2010 and 2009 resulting from non-fulfilment of obligations by clients. Concentration of credit risk on trade accounts receivable is characterised by the following indicators:

For the 6 months ended 30 June 2010 USD 17 547 thousand or 11% of Group's sales revenue is related to sales transactions, realised with one client of the Group. As at 30 June 2010 USD 19 087 thousand or 22% of trade accounts receivable relates to one customer.

For the 6 months ended 30 June 2009 USD 22 198 thousand or 22% of Group's sales revenue is related to sales transactions, realised with one client of the Group. As at 30 June 2009 USD 58 143 thousand or 69% of trade accounts receivable relates to one customer.

Trade accounts receivable as at 30 June 2010 and 2009 by dates of origin was presented as follows:

30 June 2010:	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	60 108	10 400	4 339	3 811	979	—	9 231	88 868

30 June 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	14 227	13 852	5 454	7 151	9 101	2	34 934	84 721

(in USD thousand, unless otherwise stated)

36. Financial risk management (continued)

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 accordance with plans of the Group, its working capital needs are satisfied by cash flows from operating activities, as well as by use of loans if cashflows from operating activities are insufficient for liabilities to be settled.

The table below represents the expected maturity of components of working capital:

30 June 2010:	Carrying value	Less than 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
Bank deposits	297 251	100 000	197 223	28	—
Trade accounts receivable	88 868	88 868	—	—	—
Financial assistance issued	2 717	2 717	—	—	—
Cash and cash equivalents	105 625	105 625	—	—	—
Other nontrading accounts receivable	2 417	2 417	—	—	—
Interest receivable for deposits	15 561	15 561	—	—	—
Bank loans	(226 078)	(6 964)	(120 373)	(98 741)	—
Trade accounts payable	(86 016)	(86 016)	—	—	—
Financial assistance received	(15 250)	(15 250)	—	—	—
Finance lease (including VAT)	(7 240)	—	(2 073)	(5 167)	—
Current liabilities for bonds	(24 488)	—	(24 488)	—	—
Accounts payable for property, plant and equipment	(7 762)	(7 762)	—	—	—
Interest payable	(6 969)	(6 969)	—	—	—
Bonds coupon profit payable	(2 052)	(2 052)	—	—	—
Other accounts payable	(6 735)	(6 735)	—	—	—
	129 849	**183 440**	**50 289**	**(103 880)**	**—**

(in USD thousand, unless otherwise stated)

36. Financial risk management (continued)

30 June 2009:	Carrying value	Less than 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
Bank deposits	242 318	—	238 089	4 229	—
Trade accounts receivable, net	84 719	84 719	—	—	—
Financial assistance issued	108 451	108 451	—	—	—
Cash and cash equivalents	1 446	1 446	—	—	—
Other nontrading accounts receivable	2 748	2 748	—	—	—
Accounts receivable for bonds	25 937	25 937	—	—	—
Interest receivable for deposits	19 190	19 190	—	—	—
Bank loans	(471 807)	(131)	(236 026)	(236 026)	—
Trade accounts payable	(76 958)	(76 958)	—	—	—
Financial assistance received	(241 929)	(60 481)	(181 448)	—	—
Finance lease (including VAT)	(9 673)	—	(2 170)	(7 503)	—
Current liabilities for bonds	(26 376)	—	(25 376)	—	—
Accounts payable for property, plant and equipment	(9 618)	(9 618)	—	—	—
Interest payable	(2 750)	(2 750)	—	—	—
Bonds coupon profit payable	(4 184)	(4 184)	—	—	—
Other accounts payable	(4 850)	(4 850)	—	—	—
	(363 336)	**83 519**	**(206 931)**	**(239 300)**	**—**

c) Market risk

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

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

36. Financial risk management (continued)

Exposure to foreign currency risk

The Group's exposure to foreign currency risk and the amount in local currency (UAH) as at 30 June 2010 based on carrying amounts was as follows:

(in conversion to USD thousand)	USD	EUR	CHF	UAH	TOTAL
Short-term bank deposits	(100 000)	—	—	(197 223)	**(297 223)**
Long-term bank loans	—	—	1 545	195 237	**196 782**
Short-term bank loans	725	—	—	27 450	**28 175**
Trade accounts payable	203	1 109	—	84 704	**86 016**
Trade accounts receivable, net	—	(11 733)	—	(77 135)	**(88 868)**
Accounts payable for property, plant and equipment	—	1 265	—	6 497	**7 762**
Net exposure to foreign currency risk	**(99 072)**	**(9 359)**	**1 545**	**39 530**	**(67 356)**

The Group's exposure to foreign currency risk and the amount in local currency (UAH) as at 30 June 2009 based on carrying amounts was as follows:

(in conversion to USD thousand)	USD	EUR	CHF	UAH	TOTAL
Long-term bank loans	—	—	1 774	247 569	**249 343**
Short-term bank loans	738	—	—	220 564	**221 302**
Trade accounts payable	1 422	300	—	72 623	**74 345**
Accounts payable for property, plant and equipment	—	920	—	2 109	**3 029**
Net exposure to foreign currency risk	**2 160**	**1 220**	**1 774**	**542 865**	**548 019**

ii) Sensitivity analysis (foreign currency risk)

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

Effect in USD thousand:

	Increase in currency rate against UAH	Effect on profit before tax
30 June 2010		
USD	15%	14 861
EUR	10%	936
CHF	10%	(154)

Effect in USD thousand:

	Increase in currency rate against UAH	Effect on profit before tax
30 June 2009		
USD	15%	(324)
EUR	10%	(122)
CHF	10%	(177)

(in USD thousand, unless otherwise stated)

36. 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 in borrowings at fixed interest rates.

Structure of interest rate risk

As at 30 June 2010 the structure of interest financial instruments of the Group, grouped according to the types of interest rates, was presented as follows:

	30 June 2010	30 June 2009
Instruments with fixed interest rate		
Financial assets	297 250	242 319
Financial liabilities	(250 566)	(497 183)
Instruments with variable interest rate		
Financial assets	—	—
Financial liabilities	(7 240)	(9 673)

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 below, since possible effect of changes in interest rate risk (discount rates) under these financial instruments is not material.

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

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

As at 30 June 2010 the following methods and assumptions were used by the Group to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

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

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

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

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 at the balance sheet date.

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

36. Financial risk management (continued)

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.

e) Financial markets volatility

The global financial crisis, which started in 2007 in the market for mortgage loans in the USA, affected not only the USA, because 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 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 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, so that in the Group's opinion, it reflects the approximate cash flows deriving from the Group's income in a more reliable way.

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

(in USD thousand, unless otherwise stated)

36. Financial risk management (continued)

As at 30 June 2010 and 2009 the Group's financial leverage coefficient made up (26.8%) and 70.8% respectively.

	Carrying value	
	30 June 2010	30 June 2009
Short-term loans	43 425	463 233
Long-term loans	80 653	235 650
Current portion of long-term loans	117 250	14 855
Long-term finance lease (including VAT)	5 167	7 503
Current portion of non-current liabilities for finance lease (including VAT)	2 073	2 170
Current liabilities for bonds	24 488	25 376
Total amount of borrowing costs	**273 056**	**748 787**
Cash and cash equivalents	105 625	1 446
Deposits	297 250	242 319
Financial assistance issued	2 717	108 451
Accounts receivable for bonds	—	25 937
Net debt	**(132 536)**	**370 634**
Share capital	835	644
Share premium	317 021	—
Retained earnings	360 883	201 098
Effect from translation into presentation currency	(60 199)	(55 343)
Minority interest	9 446	6 817
Total equity	**627 986**	**153 216**
Total amount of equity and net debt	**495 450**	**523 850**
Financial leverage coefficient	**(26.8%)**	**70.8%**

For the 6 months ended 30 June 2010 ratio of net debt to EBITDA amounted to:

	6 months ended 30 June 2010	6 months ended 30 June 2009
PROFIT/(LOSS) FOR THE PERIOD	61 943	33 367
Income tax income/expenses	339	341
Financial income	(15 590)	(19 643)
Financial expenses	10 511	22 792
EBIT (earnings before interest and income tax)	**57 203**	**36 857**
Depreciation	6 295	6 218
EBITDA (earnings before interest, income tax, depreciation and amortisation)	**63 498**	**43 075**
Net debt at the year end	(132 536)	370 634
Net debt at the year end / EBITDA	**-2,1**	**8,6**

36. Financial risk management (continued)

During the 6 months 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.

37. 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.

38. Events after the consolidated balance sheet date

On 14 July 2010 a deposit amounting to USD 100 000 thousand was transfered into the bank account of Avangardco Investments Public Limited.

As at reporting date the Group and Lessor (Note 21) carry on negotiations about conditions of signing of amicable settlement agreements relating to finance lease liabilities. As of the date of the issuance of the interim consolidated financial information amicable settlement agreements are still in the process of signing by parts.

In the third quarter of 2010 trade receivables significantly changed as a result of their paying-off in the amount of USD 68 420 thousand.

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