



**ASTARTA-KYIV**  
agri-industrial holding

## **Astarta Holding N.V.**

*(a public limited liability company incorporated under the laws of The Netherlands, with its corporate seat in Amsterdam, and address at Koningslaan 17, 1075 AA Amsterdam)*

### **Offering of ordinary shares with a nominal value of € 0.01 per share**

Based on this document (the "Prospectus"), up to 7,600,000 ordinary shares (the "Offer Shares") in Astarta Holding N.V. (the "Issuer"), a public company with limited liability (*naamloze vennootschap*) organised under the laws of The Netherlands, are offered, including up to 6,700,000 newly issued ordinary shares (the "New Shares") offered for subscription by the Issuer and up to 900,000 existing ordinary shares (the "Sale Shares") offered for sale by Albacon Ventures Limited, a company organised under the laws of Cyprus, with its address at 1, Lampousas Street, 1095 Nicosia, Cyprus, and by Aluxes Holding Limited, a company organised under the laws of Cyprus, with its address at Neocleous House, 199 Arch. Makariou III Ave., 3030 Limassol, Cyprus (the "Selling Shareholders"). The Selling Shareholders are the current holders in total of 100% of shares in the Issuer. The Offer Shares offered in this offering ("the Offering") constitute a minority interest in the Issuer. The Offering consists of a public offering in Poland and an international offering by way of a private placement to certain institutional investors outside of Poland. The Offer Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the "US Securities Act") or with any securities regulatory authority of any state or any jurisdiction in the United States 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 under the US Securities Act ("Regulation S")) except in certain transactions exempt from the registration requirements of the US Securities Act. See: "*Selling Restrictions*".

The Offer Shares are being offered, as specified in this Prospectus, subject to cancellation or modification of such Offering and subject to certain other conditions.

The Prospectus constitutes a prospectus in the form of a single document within the meaning of Article 3 of the Directive 2003/71/EC of the European Parliament and of the Council of the European Union (the "Prospectus Directive") and has been prepared in accordance with Article 3 of the Dutch Securities Act 1995 (*Wet toezicht effectenverkeer 1995*, the "Dutch Securities Act"). This Prospectus has been filed with, and was approved on 21 July 2006 by the Netherlands Authority for the Financial Markets (the "AFM"), which is the Dutch competent authority for the purpose of relevant implementing measures of the Prospectus Directive in The Netherlands. The Issuer will be authorised to carry out the Offering to the public in Poland once the Polish Securities and Exchange Commission (the "PSEC"), which is the Polish competent authority, has informed the Issuer that the AFM provided the PSEC with a certificate of approval of this Prospectus, which is equivalent with authorising the Offering to the public in Poland.

**See: "*Risk Factors*" for a description of factors to be taken into account when considering whether to invest in the Offer Shares.**

Prior to the Offering there was no public market for the shares of the Issuer. Application will be made based on this Prospectus to admit and list all of the Issuer's shares ("Shares"), including the Offer Shares, to trading on the Warsaw Stock Exchange (the "WSE") (the "Admission"). The date on which trading of the Offer Shares on the WSE will commence is expected to be on or about 11 August 2006 (the "Listing Date"). Payment for and delivery of the Offer Shares is expected to be made on or about 7 August 2006 (the "Settlement Date"). Prospective investors may subscribe for the Offer Shares during a period which is expected to commence on or about 26 July 2006 and is expected to end on or about 2 August 2006 (the "Subscription Period"). The Offer price per Offer Share (the "Offer Price") will not exceed PLN 27.20. The Offer Price and the final number of the Offer Shares will be determined jointly by the Issuer and the Selling Shareholders upon recommendation of the Managers after termination of the Subscription Period on or about 2 August 2006 based on interest from investors and will be announced in a press release and in the same manner as this Prospectus and by way of the Current Report. If the Offering is cancelled or postponed prior to the Settlement Date, all subscriptions for the Offer Shares will be disregarded, any allotments made will be deemed not have been made and any subscription payments made will be returned without interest or other compensation. All dealings in the Offer Shares prior to settlement and delivery are at the sole risk of the parties concerned.

### **Offer Price: To be determined**

ING Securities S.A. will act as a listing agent (the "Listing Agent") for the listing of the Shares on the WSE. ING Bank N.V., London Branch is the Global Coordinator and Bookrunner of the Offering.

The Issuer will receive the net proceeds from the sale of the New Shares. The Selling Shareholders will receive the net proceeds from the sale of the Sale Shares.

**ING Bank N.V.**



**ING Securities S.A.**

## IMPORTANT INFORMATION

*Capitalised terms used in this Prospectus have the meaning ascribed to such terms in Annex I "Definitions".*

**Prospective investors are expressly advised that an investment in the Offer Shares entails financial risk and that they should therefore read this Prospectus entirely and, in particular "Risk Factors", when considering an investment in the Offer Shares. The contents of this Prospectus are not to be construed as legal, financial or tax advice. Each prospective investor should consult his, her or its own legal adviser, independent financial adviser or tax adviser for legal, financial or tax advice.**

No person is or has been authorised to give any information or to make any representation in connection with the Offering, other than as contained in this Prospectus, and, if given, or made, any other information or representation must not be relied upon as having been authorised by us, or by the Managers.

### Responsibility

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of our knowledge and belief, having all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect its import. The delivery of this Prospectus at any time after the date hereof will not, under any circumstances, create any implication that there has been no change in our affairs since the date hereof. Neither the Managers nor the legal advisors to the Company accept responsibility whatsoever for the contents of this Prospectus, or for its transaction, or for any other statement made or purported to be made by any of them or on their behalf in connection with us. The Managers and the legal advisors to the Company accordingly disclaim all and any liability whether arising in tort or contract which they might otherwise have in respect of this Prospectus or any such statement.

### Notice to Prospective Investors

The distribution of this Prospectus and the Offering of the Offer Shares in certain jurisdictions may be restricted by law. This Prospectus may not be used for, or in connection with, and does not constitute, any offer to sell, or an invitation to purchase, any of the Offer Shares offered hereby in any jurisdiction in which such offer or invitation would be unlawful. Persons in possession of this Prospectus are required to inform themselves about and to observe any such restrictions, including those set out under "*Selling Restrictions*". Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

As condition to a purchase of any Offer Shares in the Offering, each purchaser will be deemed to have made, or in some cases be required to make, certain representations and warranties, which will be relied upon by us, the Managers and others. We reserve the right, in our sole and absolute discretion, to reject any purchase of Offer Shares that we, the Managers or any agents believe may give rise to a breach or a violation of any law, rule or regulation. See: "*Selling Restrictions*".

The Offer Shares have not been approved or disapproved by the US Securities and Exchange Commission, any State securities commission in the United States or any other US regulatory authority, nor have any of the foregoing passed upon or endorsed the merits of the Offering or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

### Presentation of Financial and Other Information

In this Prospectus, "Astarta", the "Issuer", the "Company", the "Group", "we", "us" and similar terms refer to Astarta Holding N.V. and its subsidiaries, unless the context requires otherwise.

Our pro-forma consolidated financial information in the Prospectus has been prepared in accordance with International Financial Reporting Standards ("IFRS"). See: "*Key Accounting Policies and Presentation of Financial Information*". In making an investment decision, prospective investors must rely upon their own examination of us, the terms of the Offering and the financial information provided herein.

Certain figures contained in this Prospectus, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances the sum of the numbers in a column or a row in tables contained in this Prospectus may not conform exactly to the total figure given for that column or row.

In this Prospectus, references to "Euros", "EUR" or "€" are to the lawful currency of the European Economic and Monetary Union, of which The Netherlands is a member. References to "US dollars", "USD" or "US\$" are to the lawful currency of the United States. References to "Hryvnia" or "UAH" are to the lawful currency of the Republic of Ukraine. References to "Zloty" or "PLN" are to the lawful currency of the Republic of Poland.

Certain sugar process industry terms and other terms used in this Prospectus are explained in Annex III "*Glossary of Industry Terminology*" and Annex I "*Definitions*".

### **Market, Economic and Industry Data**

All references to market, economic or industry data, statistics and forecasts in this Prospectus consist of estimates compiled by professionals, organisations, analysts, publicly available information or our knowledge of our sales and markets. The reports used include reports by the International Sugar Organisation ("ISO") and the Ukrainian National Sugar Producers Association "Ukrtsukor". Industry publications generally state that their information is obtained from sources they believe reliable but that the accuracy and completeness of such information is not guaranteed and that the projections they contain are based on a number of significant assumptions. We have relied on the accuracy of such data and statements without carrying out an independent verification thereof and therefore cannot guarantee its accuracy and completeness.

In this Prospectus, we make certain statements regarding our competitive position and market leadership. We believe these statements to be true based on market data and industry statistics regarding the competitive position of certain of our competitors.

The information in this Prospectus that has been sourced from third parties has been accurately reproduced and, as far as we are aware and able to ascertain from the information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading.

### **Documents Incorporated by Reference**

No documents or content of any website are incorporated by reference in this Prospectus or enumerate the documents or information that are incorporated by reference in this Prospectus.

### **Date of the Prospectus**

The date of this Prospectus is 21 July 2006.

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## SUMMARY

*This summary should be read as an introduction to this Prospectus and contains information included elsewhere in this Prospectus. It is expressly pointed out that this summary is not exhaustive and does not contain all information which is of importance to prospective investors. Reading this summary should in no way be considered a substitute for reading this Prospectus in its entirety. Prospective investors should read this Prospectus thoroughly and completely, including the "Risk Factors", any supplements to this Prospectus required under applicable laws and our consolidated financial statements, financial information and related notes, before making any decision with respect to investing in the Shares. No civil liability will attach to us in respect of this summary (including financial highlights) or any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court in a Member State, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated.*

### Summary of Our Business and Financial Results

We are an agri-industrial holding and one of the leaders of the Ukrainian sugar sector. We focus our operations on production and sales of sugar made of sugar beet, sugar by-products and related services. In 2004 and 2005 we were one of top 5 Ukrainian sugar producers. In particular, last year we occupied the fourth place in terms of domestic sugar output, with a share of 4.6 per cent in sugar produced and 3.2 per cent of sugar consumed in Ukraine. We are also involved in growing and selling various grain crops due to the necessity for crop rotation in sugar beet cultivation. Cattle farming is our additional, non-core activity.

As of the date hereof, we are a group of companies, with a parent holding company established under the laws of the Netherlands and with all production assets based in Ukraine. These assets are controlled by our Ukrainian holding company LLC Firm "Astarta-Kyiv", which in turn controls 27 production units and 2 trading companies. As of the date hereof, we control 5 sugar plants, 20 agricultural companies with approximately 73.5 thousand hectares under lease, as well as one fruit and vegetable processing and one mixed fodder plant. Our two trading companies, the Ukrainian holding company operating as one of those, provide centralised sales.

All of our operations are located in the Poltava and Vinnytsya Oblasts (administrative regions) of Ukraine. Our Ukrainian headquarters are in Kyiv. One of the founders of the Company, Mr. Viktor Ivanchyk, currently serves as our Chief Executive Officer and is indirectly a beneficial owner of 50 per cent of our shares. Another founder, Mr. Valery Korotkov, currently serves as the Chairman of the Board of Directors, and is indirectly a beneficial owner of the remaining 50 per cent of our shares.

Our main product is sugar, which constituted 52.3 per cent of total revenues in 2005 and 46.6 per cent in 2004 and together with related business (sugar by-products, grain crops, services under barter terms and other) represented 91.8 per cent of total revenues in 2005 and 95.1 per cent in 2004. Production and selling of grain crops which is linked to the necessity of crop rotation in the sugar beet cultivation process contributed to about 15.5 per cent of total revenues in 2005 and 23.7 per cent in 2004. The remainder of revenues came from meat and milk production. In 2005, our consolidated sales were approximately EUR 51.8 million, which represents an increase of about 62.4 per cent compared with 2004. As at December 31, 2005, the daily processing capacity of our five plants stood at approximately 17,600 tonnes of sugar beet.

In 2005, we sold approximately 66,400 tonnes of sugar for EUR 27.1 million mainly to large industrial customers – such as confectionary plants of AVK, Poltavakonditer and Kraft Foods, wholesale traders, such as Cargill and to mid- and small-size industrial producers, most of which are located in Eastern Ukraine.

Sugar beet for our production is sourced from our agricultural companies, as well as from independent producers, located in the vicinity of our plants. We acquire all of the sugar beet produced by our agricultural companies. We also purchase sugar beet from third party agricultural producers either by advance purchases or at spot prices. Over the recent years, we have been continuously increasing the area of land under lease, which almost doubled from 35.7 thousand hectares in 2003 to 66.9 thousand hectares in 2005. At the same time areas used for sugar beet cultivation were expanded from 3.9 thousand hectares in 2003 to 7.4 thousand hectares in 2005.

### Our Strategy

The key elements of our strategy are as follows:

- Organic growth through investments in modernisation and capacity increases of the current production base;
- Acquisition-driven growth to become one of the leading consolidators in the highly fragmented domestic sugar industry;
- Vertical integration with increasing share of in-house grown raw materials;
- Increasing production of premium-quality refined sugar;
- Exports growth.

### Our Competitive Strengths

- We are one of the top 5 sugar sector players poised to become one of the consolidators of the very fragmented market;
- Our efforts towards more vertically integrated structure allow us to have greater control over the full production cycle compared to most of our competitors;
- We have a strong position in the premium industrial customer market;
- Economies of scale compared to competitors;
- Geographic proximity to both raw material sources and customers, minimizing transportation costs and protecting us from competition from other sugar producers;
- Access to state-of-the-art farming and sugar production technologies;
- Professional and experienced management team.

### Financial Highlights

The following table sets forth our pro-forma results of operations for the years ended 31 December 2005, 2004 and 2003 respectively.

#### Pro-forma consolidated income statement

(in thousands of Euros)

|  | 2005          | 2004          | 2003          |
|--|---------------|---------------|---------------|
| <b>Revenues</b>                                  | <b>51,783</b> | <b>31,888</b> | <b>22,291</b> |
| Cost of revenues, including re-measurement gains | (36,403)      | (23,027)      | (14,223)      |
| <b>Gross profit</b>                              | <b>15,380</b> | <b>8,861</b>  | <b>8,068</b>  |
| Operating expenses, net                          | (6,143)       | (3,625)       | (2,524)       |
| <b>Profit from operations (EBIT)</b>             | <b>9,237</b>  | <b>5,236</b>  | <b>5,544</b>  |
| Net financing expenses and gains                 | 30            | (259)         | (2,207)       |
| <b>Profit before tax</b>                         | <b>9,267</b>  | <b>4,977</b>  | <b>3,337</b>  |
| Income tax benefit (expense)                     | 386           | 297           | (175)         |
| <b>Net profit before minority interests</b>      | <b>9,653</b>  | <b>5,274</b>  | <b>3,162</b>  |

Source: Company's calculations based on pro-forma consolidated financial statements

#### Pro-forma consolidated balance sheet

The following table summarises our balance sheet as of 31 December, 2005, 2004 and 2003.

(in thousands of Euros)

|   | 2005          | 2004          | 2003          |
|---|---------------|---------------|---------------|
| Property, plant and equipment                         | <b>25,448</b> | 16,541        | 15,777        |
| Intangible assets                                     | <b>34</b>     | 27            | 19            |
| Other non-current assets                              | <b>3,279</b>  | 1,812         | 1,313         |
| <b>Total non-current assets</b>                       | <b>28,761</b> | <b>18,380</b> | <b>17,109</b> |
| Inventories   | <b>29,867</b> | 18,492        | 12,846        |
| Biological assets                                     | <b>1,854</b>  | 966           | 779           |
| Trade and other accounts receivable and prepayments   | <b>14,768</b> | 9,553         | 6,400         |
| Promissory notes at fair value through profit or loss | <b>516</b>    | 393           | 146           |
| Cash and cash equivalents                             | <b>503</b>    | 112           | 172           |
| <b>Total current assets</b>                           | <b>47,508</b> | <b>29,516</b> | <b>20,343</b> |
| <b>Total assets</b>                                   | <b>76,269</b> | <b>47,896</b> | <b>37,452</b> |
| Long-term loans and borrowings                        | <b>10,086</b> | 5,101         | 3,586         |
| Deferred tax liabilities                              | <b>1,729</b>  | 387           | 652           |
| <b>Total non-current liabilities</b>                  | <b>11,815</b> | <b>5,488</b>  | <b>4,238</b>  |

|  | 2005          | 2004          | 2003          |
|--|---------------|---------------|---------------|
| Trade accounts payable   | 4,745         | 5,461         | 3,696         |
| Current loans and borrowings and current portion of long-term loans and borrowings | 11,888        | 8,908         | 6,071         |
| Minority interests   | 8,729         | 5,975         | 4,256         |
| Other current liabilities  | 8,674         | 3,855         | 2,631         |
| <b>Total current liabilities</b>   | <b>34,036</b> | <b>24,199</b> | <b>16,654</b> |
| Contributed capital  | 60            | 3             | 3             |
| Additional paid-in capital   | 1,296         | 942           | 846           |
| Retained earnings  | 29,358        | 21,920        | 18,825        |
| Currency translation adjustment  | (296)         | (4,656)       | (3,114)       |
| <b>Total equity</b>  | <b>30,418</b> | <b>18,209</b> | <b>16,560</b> |
| <b>Total liabilities and equity</b>  | <b>76,269</b> | <b>47,896</b> | <b>37,452</b> |

## Risk Factors

Before investing in the Shares, prospective investors should consider carefully, together with the other information contained in this Prospectus, certain risks factors pertaining to the Company and to our operating companies being domiciled in Ukraine and to an investment in the Shares, set out in the section "*Risk Factors*".

These risk factors include the fact that our business, results of operations and financial condition may be adversely affected by: (i) market-driven pricing, (ii) a limited number of our customers, (iii) a short-term nature of our contracts, (iv) our major customers that are confectionary plants, (v) dependence on relationship with certain suppliers, (vi) unexpected change in weather condition, (vii) consolidation among our competitors or customers, (viii) access of our competitors to a larger number of or cheaper sources of capital, (ix) our inability to implement our strategy, (x) our inability to operate our production facilities without interruption during peak harvesting periods of the agricultural season due to the conditions of some of our equipment, (xi) our delayed access to the modern production technologies available at the market, (xii) increase of energy or labour costs, (xiii) our dependence on our managers and other members of workforce, (xiv) increase in transportation costs, (xv) our inability to raise additional capital to fund growth of our operations, (xvi) our inability to obtain working capital at all or at terms comparable to those on which we historically done so, (xvii) covenants in the debt agreements of our subsidiaries restricting our ability to borrow and invest, (xviii) any future increase of our indebtedness, (xix) the seasonality of our business and our related short-term financing requirements, (xx) additional need for investments in recently acquired companies, (xxi) our inability to obtain sufficient insurance, (xxii) potential insufficiency of our current management information system, (xxiii) material costs that we may incur to comply with healthy, safety and environmental laws and regulations, (xxiv) challenging by third parties of our title to or other rights to land that we lease, (xxv) material fines imposed on us in connection with our alleged concerted actions on domestic sugar market in Ukraine, (xxvi) adverse changes in government regulations or legislations, (xxvii) the Ukrainian governments' abandonment, altering or failure to continue with its policy of imposing duties on imported raw cane sugar, (xxviii) discontinuance of state subsidies, (xxix) change in the taxation of dividends we receive from our Operating Company, (xxx) not holding by us of all licenses necessary to operate our computer software, (xxxi) problems with enforcement of judgements against us, (xxxii) uncertainties surrounding the Company's reorganisation and consolidation of the shares of our principal production subsidiaries, (xxxiii) our liabilities if it is determined that our past actions violated Ukrainian corporate laws or regulations.

For an explanation of these risk factors and the risk factors related to Ukraine, to the Shareholders and to trading in the Shares (which are not incorporated in this summary) see: "*Risk Factors*".

## Summary of the Offering

### *The Issuer*

Astarta Holding N.V.

### *The Offering*

The Offering comprises the offer of 7,600,000 Offer Shares, including the subscription offer by the Issuer of up to 6,700,000 New Shares, and the sale offer by the Selling Shareholders of up to 900,000 Sale Shares, constituting together a minority interest in the Issuer, by way of a public offering to Retail and Institutional Investors in Poland and international private placement to institutional investors in certain jurisdictions outside Poland.

**The Selling Shareholders**

Aluxes Holding Ltd. and Albacon Ventures Ltd., both companies incorporated and operating in accordance with the laws of Cyprus, that as of the date of this Prospectus hold 100% shares in the Issuer.

**Offer Shares**

Shares of the Company of nominal value EUR 0.01 each. The final number of Offer Shares sold will be determined by us and the Selling Shareholders upon recommendation of the Managers after termination of the Subscription Period on or about 2 August 2006 based on interest from investors and will be announced in a press release and in the same way as the Prospectus and by way of a Current Report.

**Subscription Period**

The period which is expected to commence on or about 26 July 2006 and is expected to end on or about 2 August 2006.

**Offer Price**

The Offer Price will be determined by us and the Selling Shareholders upon recommendation of the Managers after termination of the Subscription Period on or about 2 August 2006 based on interest from investors and will be announced in a press release and in the same manner as this Prospectus and by way of a Current Report. The Offer Price will not be higher than PLN 27.20 per share.

**Allotment Date**

Allotment will occur following the Subscription Period, and is expected to take place on or about 2 August 2006, subject to acceleration or extension of the timetable for the Offering at the discretion of the Company and the Selling Shareholders.

**Listing and Trading**

Application will be made by us to list all of our Shares on the WSE. Trading of the Shares on the WSE is expected to commence on 11 August 2006. Prior to the Offering, there was no public market for our Shares.

**Dividends**

All Shares, including the Offer Shares, carry full dividend rights if and when declared from the date the holder acquires such shares.

**Delivery, Settlement and Payment**

Delivery of the Shares is expected to be made on or about 7 August 2006 upon payment of the total Offer Price, through the book-entry facilities of the Polish National Deposit of Securities (the "NDS") in accordance with their normal settlement procedures applicable to initial public offerings of equity securities.

**Voting Rights**

Each Share entitles its holder to one vote at our General Meeting of Shareholders.

**Use of Proceeds**

Net proceeds from the New Shares will accrue to the Issuer whereas from the Sale Shares will accrue to the Selling Shareholders.

The Company intends to use at least approximately one-third of the net proceeds received from the Offering of the New Shares for (i) purchasing additional modern machinery and technology for sugar beet cultivation, (ii) further modernization of its existing sugar plants, (iii) continuous market expansion in Ukraine, including acquisition of additional sugar plants.

Remaining funds will be used for (iv) supporting working Company's capital needs and optimising cost and size of its debt obligations, (v) taking advantage of other opportunities in the agricultural and food processing business in Ukraine which may create shareholder value and (vi) for general corporate purposes.

**Lock-up**

Each of the Company and the Selling Shareholders has agreed that, without the prior written consent of the Global Coordinator and Bookrunner, it will not, subject to certain exceptions, during the 12 months period after the Settlement Date, issue, offer, sell, contract to sell, pledge or otherwise transfer or dispose of, or announce the proposed sale of, any Shares or other equity securities or securities linked to the Company's share capital.

**Form of Shares**

We will apply for registration of all of our Shares, including the Offer Shares, with the National Depository of Securities as soon as practicable. Following the successful Offering, all of our Shares, including the Offer Shares, will exist in book-entry form.

**ISIN Code**

All our existing Shares, including the Sale Shares, have ISIN code NL0000686509. We will apply for ISIN code for the New Shares as soon as practicable. We believe that the New Shares will be assigned the same ISIN code as our existing Shares.

**Global Coordinator and Bookrunner**

ING Bank N.V., London Branch

**Polish Manager**

ING Securities S.A.

**Managers**

ING Bank N.V., London Branch and ING Securities S.A.

**Listing Agent**

ING Securities S.A.

**Selling Restriction**

The Offer Shares have not been and will not be registered under the US Securities Act or with any securities regulatory authority of any state or any jurisdiction in the United States 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) except in certain transactions exempt from the registration requirements of the US Securities Act. See: "*Selling Restrictions*".

## RISK FACTORS

Prospective investors of the Offer Shares should carefully consider the following risks, as well as other information contained in this Prospectus before deciding to invest in any of the Offer Shares. The Company's business, financial condition or results of operations have been, and could be, materially adversely affected by the following risks. If any of the following risks actually occurs the value and trading price of the Offer Shares could decline, and investors could lose all or part of their investment.

Described below are the risks and uncertainties we believe are material, but these risks and uncertainties may not be the only ones we face. Additional risks and uncertainties, including those we currently are not aware of or deem immaterial, may also result in decreased revenues, increased expenses or other events that could result in a decline in the value of the Offer Shares.

### Risks Relating to the Company

#### ***The commodity nature of our products means that we are sensitive to market-driven pricing***

Selling prices for our sugar and grain products are volatile and are determined by market conditions. Among the key factors affecting the market are the availability and supply of raw materials, the weather, biological factors, crop yields and governmental regulations. If any or all of these factors depress prices or increase our operating costs, our business, results of operations and financial condition may be adversely affected.

#### ***In our trading operations, we sell a substantial portion of our products to a limited number of customers***

To minimise logistical expense and optimise administrative and management costs, we aim to trade on bulk wholesale terms, particularly in our white sugar and grain trading operations. As a result, we have well-established ties with a number of large customers in our white sugar trading operations. See: "The Company". The loss of the majority of our customers or termination of their contracts could lead to a material decrease in sales volumes, which could have an adverse effect on our business, results of operations and financial condition.

#### ***Contracts with the majority of our customers have a short-term nature***

Most of the contracts with our customers are either entered into for the period of up to one year or are entered into as contracts for one transaction with "spot" prices fixed in the contract. We regularly re-enter into new contracts with our key customers on an annual basis. Such practice of short-term contracts is consistent with the general commercial practice on Ukrainian sugar and grain market. However, our failure to re-execute any of the contracts with our key customers could lead to a decrease in sales volumes, which could have an adverse effect on our business, results of operations and financial condition.

#### ***Our major customers are confectionary plants***

We sell our sugar primarily to industrial customers, of which 70 per cent are confectionary plants. A decrease in sugar consumption by confectionary plants in Ukraine could have an adverse effect on our business, results of operations and financial condition.

#### ***We depend upon our relationships with certain suppliers to purchase the raw materials we need for our production***

We rely upon the availability of a sufficient stock of sugar beets located near our processing and storage facilities to supply our operations. Although we cultivate a growing proportion of sugar beet on our farms, our primary sugar beets suppliers are private agricultural farms. The supplies of these farms accounted for more than half of our total annual supplies of sugar beets in 2003, 2004 and 2005 respectively. Consequently, we depend on our network of and (contractual) relationships with these suppliers. Any abnormal loss of these suppliers through business failure, any failure to make contracted deliveries to us or any refusal to extend existing contracts would adversely impact our production and would negatively affect our business, results of operations and financial condition.

#### ***An unexpected change in weather conditions may adversely affect our supply of raw materials***

Our ability to obtain raw materials in a timely manner and in sufficient quantities may be affected by natural conditions, including, among others, drought, flood, unexpected or heavy frost and hurricanes. Such factors may cause deliveries of raw materials to be delayed or unavailable to us and may adversely affect our business, results of operations and financial condition.

#### ***Consolidation among our competitors or customers could weaken our market position and harm our business***

We are one of the largest companies engaged in the production and trading of sugar and sugar products in the Ukrainian market and we have managed to raise our market share for the past three years. The appearance of new or increased activity by current market participants and/or their efforts for consolidation of the market may significantly increase competition. We may need to increase our expenses on new acquisitions, our marketing efforts or to adjust pricing of our products. This could adversely affect our business because of increased operating costs and reduced profitability.

#### ***Our competitors may have access to more and cheaper sources of capital allowing them to modernise and expand their operations more quickly and giving them a substantial competitive advantage over us***

Our business requires us to be able to raise working capital quickly to fund operations and to obtain financing for investments at a reasonable cost. Our competitors may have the ability to obtain more and cheaper sources of capital than we. Their access to such capital may enable

them to implement operational or investment projects that could give them a competitive advantage over us and could adversely affect our results of operations and financial condition.

***We may be unable to implement our strategy, and the plan we execute may not produce the results we intend***

Our strategy envisages that we will produce and sell greater volumes of our current products in a more efficient manner. We also intend to increase the volume of our own raw materials that we grow. Our ability to obtain financing to accomplish these goals will depend upon the stability of our current operations and the willingness of the market to make financing available to the Company. There can be no assurance that we will continue to produce the volumes of sugar and grain products required to maintain or increase our profitability or that we will be able to fulfil our strategy in the time period we have set for ourselves.

***We may be unable to operate our production facilities without interruption during peak harvesting periods of the agricultural season due to the condition of some of our equipment***

Our sales depend to a large degree upon the continued operation of our individual processing facilities dispersed throughout Ukraine, some of which have been in operation since a long time and rely on outdated equipment. The operation of our plants involves risks, including, among others, the breakdown, failure or substandard performance of equipment, the improper installation or operation of the equipment, an inability to make timely repairs and compliance with government regulations. Any significant manufacturing disruptions or reductions in capacity could adversely affect our ability to process and sell our products, which could have a material adverse effect on our business, results of operations and financial condition.

***We may incur additional costs in our operations as compared to our competitors because of delayed access to the modern production technologies available in the market***

Our competitors may have a privileged access to the modern technology and/or equipment that improves the efficiency of the production process and lowers costs. Any failure or delay to make adequate improvements of our production facilities compared to our competitors could adversely affect our business, results of operations and financial condition.

***Energy or labour costs could increase***

Costs related to energy and labour constitute a significant portion of our operating costs. According to state statistics, the wages and energy prices in Ukraine have been rising. It is expected that said costs will rise further in the coming years. Although we are currently working to reduce the energy consumption and manual labour, there can be no guarantee that increases of wages and energy prices would not negatively affect our results of operations.

***Increases in transportation costs may decrease our profitability***

We require significant quantities of raw materials to be delivered to our plants by truck or rail. Our operating profit may be adversely affected by increased transportation costs. If, under certain circumstances, a need arises to obtain larger than normal quantities of raw materials from farms located at a greater distance from our plants, such need will cause higher transportation costs. While these costs may be generally recovered through our sales pricing, the recovery may not occur in the same financial year as the cost is incurred and as a result our operating profit for a particular financial year could decrease.

***We depend heavily upon our managers and other members of our workforce***

Our growth and future success depend upon our senior management, particularly Mr. Viktor Ivanchyk and Mr. Petro Rybin who both actively participate in the day to day management of the Company, and Mr. Valery Korotkov, who is heavily involved in developing the Company's strategy, as well as on our ability to attract and retain employees with relevant expertise. The loss of some or all of our key management or our inability to attract new qualified employees could have a material adverse effect on our business, results of operations and financial condition.

***We may be unable to raise additional capital to fund growth of our operations***

We may need additional capital to maintain and expand our business. Our ability to raise additional funding to pursue our strategy depends on our access to capital markets. At the present time, we believe that our current debt facilities and cash flows from operations should be sufficient to finance our capital requirements for the foreseeable future. However, market conditions and other factors, especially large transactions, acquisitions or capital expenditures, may cause us to seek additional financing sooner than we expect.

If we fail to generate sufficient funds from operating cash flow and debt or equity financing, we may have to delay or abandon our business plans or fall behind in our plant maintenance. We may have to issue additional shares leading to dilution of the Company's then shareholders, or we may have to issue shares or debt instruments with rights superior to those of holders of the Shares. If we cannot obtain adequate financing on acceptable terms, we may be unable to take advantage of opportunities or to meet unexpected financial requirements. Any of these events could adversely affect our business, results of operations and financial condition.

***We may be unable to obtain working capital at all or on terms comparable to those on which we have historically done so***

We have historically required a high level of working capital because of factors such as the seasonal nature of our business and our expansion programme. We have historically obtained working capital from many sources, including bank loans, shareholder loans and bonds issues.

In the future, any inability to obtain working capital on comparable terms or at all could negatively affect our business, results of operations or financial condition. See: "The Company".

***Covenants in the debt agreements of our subsidiaries may restrict our ability to borrow and invest, which could affect our flexibility to operate and our ability to expand***

In order to upgrade our facilities or make future significant acquisitions, we may need to incur debt. To obtain future loans, we may need to pledge some of our significant assets as security. Restrictive covenants in any such loan facility may limit our flexibility to operate. In addition, any onerous collateral requirement may limit our ability to raise additional funds. For example, some of the current debt facilities of our operating subsidiaries contain covenants that impose operating and financial restrictions on such subsidiaries, including the restriction to establish new entities, amend the constituent documents, dispose, transfer and/or lease assets, grant and/or receive loans, provide suretyship, distribute dividends or profits, initiate the bankruptcy proceedings, change the registered name and/or legal form of the subsidiary, change the kinds of activities of the subsidiaries, conclude agreements related to the distribution of profits with third parties, receive credits from other banks, create liens, become a subject of alienation or reorganization, etc. Events beyond our control could prevent us from complying with these covenants. Breach of any such obligation may constitute an event of default.

***We finance ourselves with debt and any future increase of the indebtedness could adversely affect our cash flow, prevent us from fulfilling our strategic expansion plans or from paying dividends***

As of 31 December 2005 we had EUR 22.0 million of debt obligations reflecting a debt/assets ratio of 28.8 per cent which is average in the Ukrainian business environment. Any need to obtain additional loans to finance our development could increase such obligations and cause several consequences, including:

- Limitation to our ability to obtain additional financing for working capital, capital expenditures or other purposes;
- Need to dedicate a substantial portion of the cash flow to pay interest expense and repay debt principal, which would reduce funds that would otherwise be available to us for operations and future business opportunities;
- Limitation to our flexibility in planning for, or reacting to, changes in our business and the markets in which we operate;
- Placing the Company at a competitive disadvantage compared to its competitors that have less debt;
- Increasing our vulnerability to general adverse economic and industry conditions;
- Constraining our ability to pay dividends.

***Due to the seasonality of our business and our related short-term financing requirements, we may experience liquidity problems***

Due to a seasonal nature of our business, we require high levels of financing at in the end of the summer to support the purchase of raw materials as they become available. We fulfil our seasonal financing requirements by obtaining short-term credit lines from commercial banks, which are repaid in autumn on the condition that our sales to customers are timely settled and are not repaid in instalments. If the majority of our customers were unable or unwilling to fulfil their payment obligations in a timely manner, we would be forced to repay our short-term credit lines from other resources, thus jeopardising our liquidity position.

***Additional need for investments into recently acquired companies could adversely affect our financial condition***

We have recently acquired a number of companies and we intend to continue to acquire new companies and production facilities in the future. The need for investments in such companies to bring their operations in line with the Company's strategy could have an adverse effect on our operating results and financial condition.

***We may not have or we may be unable to obtain sufficient insurance to protect ourselves from business risks and liabilities***

While we tend to maintain the types of insurance customarily available to commercial businesses in Ukraine, our insurance policies do not cover, and insurance is not commercially available, to cover all potential risks to which the Company is or may be exposed, such as crop insurance and management liability insurance. Our lack of insurance for all or certain business related risks may expose us to substantial losses, which could adversely affect our business, results of operations and financial condition.

***Our current management information systems, in particular our accounting systems, may be insufficient for our operations or as robust as those of companies organised in jurisdictions with a longer history of compliance with international financial reporting standards***

The existing management information systems of the Company are not as robust as those of companies organised in jurisdictions with a longer history of compliance with IFRS. Insufficient robustness of management information systems may limit our growth potential, adversely affect efficiency of our internal control and procedures and lead to incorrect presentation or interpretation of financial matters affecting the Company. The Company is currently in the process of switching to a fully integrated accounting system. We lack experience with the operation of the new system and, consequently, timely delivering of the information which has to be processed by it. See: "The Company".

***We may incur material costs to comply with health, safety and environmental laws and regulations***

We are subject to environmental and health and safety laws and regulations relating to pollution, protection of the environment and protection of human health and safety. In the ordinary course of business, we are subject to state inspections and health and safety related claims of the employees and contractors. As a result of such inspections, we may incur substantial costs, including fines, damages and civil or criminal sanctions, or experience interruptions in our operations for actual or alleged violations of environmental laws. Costs of compliance and potential liabilities due to environmental damage or harm to health may also be material and could adversely affect our business, results of operations and financial condition.

***Third parties could challenge our title to or other rights to land that we lease***

We lease all the land plots on which we grow sugar beet, grains and oilseeds. Approximately 95 per cent of our land plots under lease is leased from private individuals, whereas approximately 5 per cent of our land plots is leased from local authorities. As of the date of this Prospectus, we lease about 73.5 thousand hectares of land. Any challenge to the validity or enforceability of our subsidiaries' or affiliates' rights to land they lease may result in the loss of the respective lease rights, without such loss extending to titles to plants on that land. Any relevant loss of land could materially affect the volume of cultivated and harvested raw materials and thus our business, results of operations and financial condition.

***We may be subject to material fines in connection with our alleged concerted actions on the domestic sugar market of Ukraine***

On 24 February 2006 (therefore before the recent parliamentary elections in Ukraine on 26 March 2006), the Antimonopoly Committee of Ukraine (the "AMC") issued its resolution on the imposition of fines on seven Ukrainian wholesale sugar traders, including, *inter alia*, the following members of our Group: the Operating Company, LLC Trade House "Agricultural Produce Organization "Tsukrovyk Poltavshyny" and LLC "Agricultural Produce Organization "Tsukrovyk Poltavshyny" for violation of the antimonopoly legislation of Ukraine. Our fine amounted to UAH 2.2 million (EUR 344,000).

The AMC considered that this alleged violation was done by seven wholesale traders through concerted actions on the domestic sugar market of Ukraine and coordinated pricing policy in the period from April through July 2005.

We disagree with the AMC resolution because our Group was supplying sugar to large industrial customers at prices fixed under 1-year contracts. We were not selling any other significant quantities of sugar to retail customers or wholesale sugar traders. Along with the other companies concerned we appealed against this resolution of the AMC in court on 25 May 2006. We expect that our appeal will be resolved by the end of this year.

We may not exclude that in the future the AMC or other state authorities of Ukraine may again institute proceedings against our Group for alleged violations of the pricing and antimonopoly legislation of Ukraine. Any such proceeding could materially affect our business, results of operations and financial condition.

***Changes in government regulations or legislation could adversely affect our business***

Agricultural markets and agricultural production generally are subject to prevailing political and social policies. At times, governments impose production and selling restrictions and limitations in the form of quotas, tariffs and other mechanisms to protect national producers both at international and domestic levels. The said restrictions and limitations can affect volumes and prices in national, regional and world markets. There is no guarantee that the Ukrainian government will grant new or additional quotas to agricultural producers such as the Company or that it will impose other protectionism measures. So far, sufficient quotas were put at the market's disposal. Any change in government regulations or legislation in our market, the markets in which we compete, or in the markets of our competitors could adversely affect our business, results of operations and financial condition.

***The Ukrainian government might abandon, alter or fail to continue with its policy of imposing duties on imported raw cane sugar***

In 2001 the Ukrainian government introduced a system of tariffs on imports of white and raw cane sugar with the goal of stimulating domestic production and processing of sugar beet. The import tariffs are currently set at 50% of the value, but not less than EUR 300 per tonne which significantly restricts such imports. Under the tariffs the ex-works cost of sugar produced from the raw cane sugar (approximately EUR 779 per tonne) is more than double the production cost of beet sugar (approximately EUR 354 per tonne) (*Source: Data of the National Association of Sugar Producers of Ukraine "Ukrtsukor"*).

In the future Ukraine will be required to liberalise its domestic sugar market in line with the obligations related to its WTO accession. The producers from other WTO countries, including Australia and Brazil, will be granted a right to export raw cane sugar to Ukraine within a yearly tariff quota of 260,000 tonnes and at import duty rate of 2%. Taking into account that the volume of such tariff quota corresponds to 12–13% of the Ukrainian sugar consumption it could have negative impact on prices.

Ukrainian government may also abandon, alter or fail to continue with the policy of regulating the domestic sugar market within the existing import tariffs system.

In both cases our business results of operations and financial condition may be adversely affected.

***State subsidies currently enjoyed by the Company are subject to government approval on an annual basis and could be discontinued***

The Ukrainian government provides various types of financial support to domestic agricultural producers by providing subsidies, including partially reimbursing interest paid on credit facilities with Ukrainian commercial banks and insurance premiums for insuring the crops. In addition, Ukrainian agricultural producers were given a right to set aside their VAT net amounts and use them to finance operational activities.

The aggregate amount of the above-mentioned compensation is determined annually in the state budget. The right to interest rate reimbursement is granted to agricultural companies based on a tender procedure, while other subsidies are paid upon application of the producer.

During last three years we have received the reimbursements on loan interest and VAT subsidies worth EUR 0.8 million in 2003, EUR 1.2 million in 2004 and EUR 2.3 million in 2005.

A decision by the Ukrainian government to discontinue unexpectedly subsidies for domestic agricultural producers in the future, or our failure to qualify for such subsidies, could have a material adverse effect on our business, results of operations and financial condition.

***The taxation of dividends we receive from our Operating Company may change***

The dividends we receive from our Operating Company through Ancor Investments Limited are currently exempt from withholding tax. However, there is no assurance that the current favourable tax regime will continue in the future. A number of existing agreements on avoidance of double taxation to which Ukraine is legally a party, including the agreement with Cyprus, were originally entered into by the Union of Soviet Socialist Republics. Ukraine is a successor to such agreements but has not originally negotiated such agreements. Therefore, Ukraine may decide to terminate unilaterally such agreements, or may attempt to negotiate new agreements with different provisions on taxation of dividends. In particular, it has been proposed by the Ukrainian government that the existing double tax treaty with Cyprus be terminated. In order for such termination to be valid it must be approved by the Ukrainian Parliament (the Verkhovna Rada). The draft law approving the termination has not been adopted by the Verkhovna Rada but it cannot be excluded that it would be adopted in the future. If the Verkhovna Rada adopts the law and the agreement is terminated, then the dividends payable by our Operating Company to Ancor Investments Limited would be subject to 15% Ukrainian withholding tax. The termination of the agreement may also result in increased taxation of other future payments, if any, made by the Operating Company to Ancor Investments Limited, such as interest payments, capital gains or royalties. In such case, we will consider restructuring of our business in order to maintain the most favorable tax treatment of fund flows within the Group.

***We may not hold all licenses necessary to operate our computer software***

Because we operate in multiple locations and business segments, we obtain our computer software from a variety of suppliers. We may therefore be unable to assess reputation of each individual supplier from whom we obtain software. Consequently, although we endeavour to operate only licensed software, we may, at times, have unknowingly purchased unlicensed software from vendors with which we were unfamiliar. In such cases, a court could, in principle, judge us liable for infringement of certain intellectual property rights. Such a judgment could harm our business reputation and necessitate the payment of damages, both of which could negatively affect our business, operating results and financial condition.

***Non-Dutch or non-Ukrainian investors may have problems with enforcement of judgements against the Issuer***

The Issuer is a company incorporated in accordance with Dutch law and has its registered office in The Netherlands. The majority of the assets of the Group is located in Ukraine. For this reason and despite the fact that The Netherlands is subject to the Regulation of the European Council of 22 December 2000 on the Jurisdiction and Enforcement in Civil and Commercial Matters, non-Dutch and non-Ukrainian investors may encounter difficulties in service of process and the conduct of proceedings with respect to any of the entities within the Group. For the same reason it may be more difficult for non-Dutch and non-Ukrainian investors to enforce a judgment of their home country courts issued against the entities within the Group than if those entities were located in that home country.

***There may be uncertainties surrounding the Company's reorganisation and consolidation of the shares and assets of its principal production subsidiaries***

Some of the Company's principal operating subsidiaries acquired their assets in bankruptcy sales or through similar proceedings. Since it is uncertain whether the Company has complied in all material respects with all applicable laws and regulations on the acquisition of enterprises and the protection of creditors' and shareholders' rights, these acquisitions could be challenged as having been improperly conducted. If the Company's title to such assets is successfully challenged, it may lose its ownership interest in the assets of some of its operating subsidiaries and incur fines and penalties which could materially adversely affect its business, results of operations and financial condition.

***We could be subject to liabilities if it is determined that our past actions violated Ukrainian corporate laws or regulations***

Ukrainian corporate law has developed considerably since Ukraine's transition to a market economy. Some of these laws contain ambiguities, imprecisions and inconsistencies, which make compliance with these laws more difficult. In addition, our business has expanded over the last ten years primarily through acquisitions and reorganizations. As a result, prior transactions engaged in by our business may not have fully complied with all corporate formalities. In particular, certain reorganizations in our Group may not have fully complied with all technical

requirements of Ukrainian corporate law. To date, we have not received any notice of violation from any interested parties or from governmental authorities, and we do not expect that any party would seek to review or modify any such transaction. However, there can be no assurance that we will not receive any such notices or claims in the future.

## **Risks Relating to Ukraine**

### ***General***

Since obtaining independence in 1991, Ukraine has undergone a substantial political transformation from a constituent republic of the former Soviet Union to an independent sovereign state. Concurrently with this transformation, Ukraine is progressively changing to a market economy. 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 is essential to support market institutions, the effective transition to a market economy and broad-based social and economic reforms. Set forth below is a brief description of some of the risks incurred by investing in Ukraine, although the list is not an exhaustive one.

### ***Risks associated with emerging markets including Ukraine***

Investors in emerging markets such as Ukraine should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant political, economic and legal risks. Prospective investors should also note that emerging economies such as Ukraine's are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly. Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is suitable only for sophisticated investors who fully appreciate the significance of the risks involved. Prospective investors are urged to consult with their own legal and financial advisors before making an investment decision.

### ***Official statistics and other data in this Prospectus may not be reliable***

Official statistics and other data published by Ukrainian state authorities may not be as complete or reliable as those of more developed countries. Official statistics and other data may also be produced on different bases than those used in more developed countries. The Company has not independently verified any such official statistics nor other data and any discussion of matters relating to Ukraine in this Prospectus is, therefore, subject to potential uncertainty due to questions regarding the completeness or reliability of such information.

Specifically, prospective investors should be aware that certain statistical information and other data contained in this Prospectus have been extracted from official governmental sources in Ukraine and were not prepared in connection with the production of this Prospectus. The Company accepts responsibility only for the correct extraction and reproduction of such information.

### ***Ukraine may continue to experience political instability or uncertainty***

Since independence in 1991, governmental instability has been a feature of the Ukrainian political scene and, as a result, Ukraine has had fourteen different prime ministers during this period. Historically, a lack of political consensus in the Parliament has made it difficult for the Ukrainian government to secure the support necessary to implement a series of policies intended to foster liberalisation, privatisation and financial stability. The various state authorities, and the relations among them, as well as the Ukrainian government's policies and the political leaders who formulate and implement them, are subject to rapid change.

Following the second round of presidential elections in November 2004, demonstrations and strikes took place throughout Ukraine to protest the election process and results. While tensions in Ukraine appear to have subsided following the invalidation of the November elections results by the Supreme Court of Ukraine and the revote held on 26 December 2004, resulting in the victory of Mr Viktor Yuschenko, the long-term effects of these events are not yet clear. For example, in early 2005, the government announced plans to review the privatisation of a number of major companies that they believed were sold at unfairly low prices, and one such enterprise was re-privatised, although President Yuschenko and Prime Minister Yekhanurov have in recent months emphasised that such plans are no longer under consideration. See: *"Ukraine may not be able to maintain access to foreign trade and investment"*.

The government appointed in February 2005 and led by former Prime Minister Yuliya Tymoshenko was formed based on a compromise of different political and economic groups that supported President Yuschenko at the time of the elections. Certain ministers and other officials were allegedly appointed due to their close relations with President Yuschenko. On 8 September 2005, President Yuschenko dismissed Prime Minister Tymoshenko and the entire government after resignations and corruption claims. On 22 September 2005, President Yuschenko won the necessary parliamentary consent to name Yuriy Yekhanurov as Ukraine's new Prime Minister.

On 1 January 2006, constitutional reform limiting the powers of the President and transferring certain powers of the President to the Parliament and Prime Minister partially occurred. In particular, Parliament is now empowered to appoint, upon the President's proposal, the Prime Minister, Minister of Defence and Minister of Foreign Affairs and, upon the proposal of the Prime Minister, the remaining members of the government as well as the Chairman of the Antimonopoly Committee, the Chairman of the State Committee for Television and Broadcasting and the Chairman of the State Property Fund of Ukraine. Parliament is also empowered to dismiss these officials. The President no longer has the right to appoint members of the government.

Other constitutional reforms will come into force after the new Parliament elected in March 2006 is formed. Such reforms will relate, in particular, to the necessity to create a majority coalition in Parliament, the right of such coalition to submit proposals on candidates for the roles of Prime Minister and members of the Cabinet of Ministers, new rights of the President to dissolve Parliament and prolongation of the terms of Parliament and local councils from the current four years to five years. President Yuschenko has criticised this constitutional reform and has announced plans to establish a Constitutional Committee to draw up a new draft of the Constitution, which would need to be approved by a subsequent referendum.

On 10 January 2006, Parliament adopted a controversial resolution on the dismissal of the Prime Minister and members of the Cabinet of Ministers. The current government has been entrusted by the Parliament to continue to perform its duties until a new government is formed. However, on 19 January 2006 the Parliament additionally dismissed the Minister of Fuel and Energy, Mr Plachkov, and the Minister of Justice, Mr Golovaty, due to their alleged incompetence during the recent gas crisis between National Joint-Stock Company "Naftogaz of Ukraine", the Ukrainian monopoly state-owned gas company ("Naftogaz") and Open Joint-Stock Company "Gazprom", the Russian gas monopoly ("Gazprom"). See "*Regional Relationships*". Despite their dismissal by the Parliament, the ministers in question currently continue in office. According to the amended Constitution of Ukraine, the Cabinet of Ministers must resign before the newly elected Parliament is formed but continues in power until the appointment of a new government.

On 26 March 2006, the first Ukrainian parliamentary elections by proportional representation took place. According to the official results of the elections, out of 45 participants only 5 political groups were able to gain 3% or more of the national vote required to gain seats in the Parliament: *Partiya Regioniv* (the Party of Regions), chaired by President Yuschenko's main opponent at the 2004 presidential election, Mr Viktor Yanukovich; *Blok Yuliy Tymoshenko* (Bloc Yuliya Tymoshenko), led by the former Prime Minister Tymoshenko; *Blok Nasha Ukrayina* (Bloc Our Ukraine), an election alliance of political parties led by the current Prime Minister Yekhanurov and associated with President Yuschenko; the Socialist Party of Ukraine chaired by Mr Oleksandr Moroz; and the Communist Party of Ukraine led by Mr Petro Symonenko. Since none of these parties and election blocs won the majority of seats in Parliament, the majority coalition was formed on 22 June by 2006 by Bloc Yulia Tymoshenko, Bloc Our Ukraine and the Socialist Party of Ukraine. However, on 6 July 2006 the Socialist Party of Ukraine pulled out from the abovementioned coalition and Mr. Oleksandr Moroz was elected the new Speaker of the Parliament of Ukraine with the support of the Party of Regions, the Socialist Party of Ukraine, and the Communist Party of Ukraine. Following these events, on 7 July 2006, the Party of Regions, the Socialist Party of Ukraine, and the Communist Party of Ukraine formed a new coalition in the Parliament. The new coalition subsequently nominated Mr. Viktor Yanukovich to the position of the Prime Minister and submitted his candidacy for approval of President Yuschenko. Presently, President Yuschenko is discussing with the new coalition the legality of such nomination and the validity of the new coalition. President Yuschenko may dissolve the Parliament and hold the new elections, if the negotiations fail and the Prime Minister is not appointed by 25 July 2006, *i.e.*, within 60 days from the date when the new Parliament convened and the old Cabinet of Ministers was dismissed.

President Yuschenko and the new government will face several challenges, including appeasement of the divergent factions within the eastern and western regions of Ukraine, the recovery of relations with Russia, the implementation of unpopular economic reforms and the building of a political consensus. No assurance can be given that reform and economic growth will not be hindered as a result of any further disruption of government continuity, any continued dissent in the government and Parliament or any other changes affecting the stability of the government or involving a rejection or reversal of reform policies favouring privatisation, industrial restructuring and administrative reform. Political instability in Ukraine may have negative effects on the economy and thus on Astarta's business, results of operations and financial condition.

#### ***Ukraine may experience economic instability***

In recent years, the Ukrainian economy has experienced a number of factors which could lead to economic instability, including a relatively weak banking system, providing limited liquidity to Ukrainian enterprises, tax evasion, significant capital flight and low wages for a large portion of the Ukrainian population.

Although the Ukrainian government has generally been committed to economic reform, the implementation of reform has consistently been impeded by a lack of political consensus, controversies over privatisation (including privatisation of land in the agricultural sector), the restructuring of the energy sector, the removal of exemptions and privileges for certain state-owned enterprises or for certain industry sectors and the limited extent of cooperation with international financial institutions.

There has historically been no clear consensus between the President and the Parliament as to the scope, pace and content of economic and political reform. No assurance can be given that current reform policies favouring privatisation, industrial restructuring and tax reform will continue to be implemented and, even if implemented, that those policies will be successful, or that the economy in Ukraine will continue to improve.

While Ukraine has made significant gains in increasing its gross domestic product ("GDP"), decreasing inflation, stabilising its currency, increasing real wages, and improving its trade balance and current account surplus, the political instability in the fourth quarter of 2004 negatively impacted the main economic indicators at that time. While Ukraine's economy in the main withstood the recent political upheaval, 2005 was a difficult time for the government and the President. The rate of inflation in 2005 was 10.3 per cent, which is lower than the 12.3 per cent, recorded in 2004, but higher than the 8.2 per cent and negative 0.6 per cent, recorded in 2003 and 2002, respectively. In addition, it is expected that in 2006, Ukraine's GDP growth will be approximately 1.5–3.5 per cent, according to the World Bank, compared with the GDP

growth rate of 2.6 per cent in 2005 and the GDP growth rates of 12.1 per cent, in 2004 and 9.6 per cent in 2003. In January 2006, the Ukrainian Ministry of Economy retracted its macroeconomic forecast for 2006. An economic downturn may have an adverse effect on Astarta's business, results of operations and financial condition.

In addition, in April 2005, the NBU revalued the Hryvnia and as a result, the exchange rate of the Hryvnia to the U.S. dollar appreciated from UAH 5.19 to US\$ 1.00 on 20 April 2005 to UAH 5.05 to US\$ 1.00 on 21 April 2005. Although the U.S. dollar-Hryvnia exchange rate has remained relatively constant since April 2005, any further appreciation of the Hryvnia against the U.S. dollar may adversely affect Ukrainian exports and the economy generally, which may have an adverse effect on Astarta's business, results of operations and financial condition.

#### ***Ukraine's relationships with western governments and institutions***

Ukraine continues to pursue the objective of a closer relationship with the North Atlantic Treaty Organisation, joining the WTO in the next few years and becoming an associate member of the EU. With effect from 30 December 2005, the EU granted Ukraine market economy status.

Ukraine has recently strengthened its relationship with the United States and was part of the coalition that despatched troops to Iraq in support of the US-backed military campaign there. Shortly after the visit of President Yuschenko to Washington, D.C. in early 2005, the US Senate allocated an additional US\$ 60 million of financial assistance to Ukraine, which was subsequently approved by the US House of Representatives. In August 2005, the US administration lifted 100 per cent tariff sanctions that had been in place since 2002 on US\$ 75 million of Ukrainian exports to the United States due to the Ukrainian government's failure to enact legislation to stem the illegal production and trade of compact discs and digital versatile discs. In January 2006, the office of the US Trade Representative announced that the United States will reinstate the benefits of the Generalised System of Preferences for Ukraine and lower Ukraine's designation from "priority foreign country" to "priority watch list". With effect from 1 February 2006 the United States granted Ukraine market economy status, and on 9 March 2006 the United States abolished the Jackson-Vanik amendment that restricted Ukrainian exports. Ukraine also expects the United States to continue to support its WTO aspirations.

As of April 2006, Ukraine had signed 46 bilateral protocols with member states of the WTO, including the bilateral protocol with the United States, which was signed on 13 March 2006, and is yet to sign such protocols with Kyrgyzstan and Taiwan. The possibility of significantly expediting Ukraine's access to the WTO will depend on the adequate coordination of activity between the government and the Parliament in such areas as customs, taxes, intellectual property, non-tariff regulation, technical barriers in trade and trade services.

Any adverse changes in Ukraine's relations with Western governments and institutions may have negative effects on the Ukrainian economy and on Astarta's business, results of operations and financial condition.

#### ***Regional relationships***

Historically, Ukraine has had close relationships with the Russian Federation and Poland. Significant relationships have also been developed with other countries of the EU (including Germany, Hungary and Slovakia), members of the Commonwealth of Independent States ("CIS") (including Belarus and Georgia), as well as Turkey and Romania.

At the beginning of August 2004, the *Gosudarstvennaya Duma* (Parliament) of the Russian Federation adopted a law amending certain provisions of Russia's Tax Code. As a result of these amendments, exports of oil and gas from Russia to Ukraine since 1 January 2005 have been subject to a zero per cent VAT rate instead of the previously effective 18 per cent VAT rate. However, the 2004 Ukrainian presidential elections have, to a certain extent, negatively affected relations between Ukraine and Russia. Moreover, Russia has repeatedly increased its oil export duty. For example, Russian oil export duty rose from US\$ 101.00 per tonne as of 1 January 2005 to US\$ 140.00 per tonne as of 1 August 2005 and US\$ 179.90 per tonne as of 1 October 2005. While Russian oil export duty subsequently fell to US\$ 160.80 as of 1 February 2006, it increased to US\$ 186.40 as of 1 April 2006.

In addition, gas prices in Ukraine have risen as a result of recent disagreements between Gazprom and Naftogaz over the prices and methods of payment for gas delivered by Gazprom to, or for transportation through, Ukraine. Until December 2005, Ukraine was receiving natural gas from Russia at a price of US\$ 50 per 1,000 cubic metres. However, on 1 January 2006, Gazprom temporarily stopped selling natural gas to Naftogaz in connection with a dispute over an increase in prices. On 4 January 2006, Gazprom, Naftogaz and RosUkrEnergo AG, a gas trading company incorporated in Switzerland, entered into a series of new agreements for the supply of natural gas to Ukraine and supplies resumed. The parties agreed upon an increased price for natural gas of US\$ 95 per 1,000 cubic metres and on the transit fee for Russian natural gas through the territory of Ukraine at a rate of US\$ 1.60 per 1,000 cubic metres for each 100 km. The parties established the transit fee for the period until 1 January 2011 and agreed that the price of US\$ 95.00 per 1,000 cubic metres may be changed only upon the parties' mutual agreement.

Also pursuant to these agreements, on 2 February 2006, Naftogaz and RosUkrEnergo AG established a Ukrainian joint venture, Closed Joint-Stock Company "Ukrغاز-Energo" ("Ukrغاز-Energo"). On the same date, Ukrغاز-Energo and RosUkrEnergo AG entered into a five-year agreement for the supply of natural gas at a fixed price of US\$ 95 per 1,000 cubic metres. The contractual price for natural gas under this agreement may be changed in certain circumstances, including to reflect changes in market prices for natural gas. Ukrغاز-Energo assumed Naftogaz' rights and obligations under gas supply contracts with customers in Ukraine as from 1 April 2006. RosUkrEnergo AG is expected to source natural gas from Russia, Turkmenistan, Uzbekistan and Kazakhstan.

Since January 2006, Russia and Ukraine have had certain disagreements in connection with the stationing of the Russian Black Sea Navy (*Chernomorskiy Flot*) in the Crimean region of Ukraine, as well as in connection with the ban imposed by Russia on all imports of livestock products from Ukraine. On 14 February 2006, a special Russian-Ukrainian Sub-Commission on the Activity of the Black Sea Navy of the Russian Federation and its Stationing in the Territory of Ukraine met to discuss, among other things, the transition to charging market-based fees for the stationing of the Russian Black Sea Navy in Crimea.

Any major changes in Ukraine's relations with Russia, in particular any such changes adversely affecting the supply of energy resources from Russia to Ukraine and/or Ukraine's export revenues derived from transit charges for Russian oil and gas, may also have negative effects on the Ukrainian economy and thus may adversely affect Astarta's business, results of operations and financial condition.

#### ***Ukraine's external debt***

In 2000, Ukraine undertook a comprehensive debt restructuring exercise to alleviate its rising external debt burden resulting from the accumulation of large payments on external debt coming due in 2000 and 2001. Since the conclusion of this debt restructuring exercise, the ratio of external debt servicing (including principal, interest and fees but excluding debt owed to the International Monetary Fund ("IMF")) to GDP has risen from approximately 1.9 per cent as of 31 December 2001 to approximately 2.3 per cent as of 31 December 2002 and approximately 2.9 per cent as of 31 December 2003, falling to approximately 2.1 per cent as of 31 December 2004 and approximately 1.9 per cent as of 31 December 2005, based on official Ukrainian government sources. Total government external debt servicing (excluding payments to the IMF) was approximately US\$ 1.4 billion in 2003, approximately US\$ 1.4 billion in 2004 and approximately US\$ 1.5 billion in 2005, based on official Ukrainian government sources.

Ukraine has been able to access the international capital markets, raising new financing in 2003, 2004 and 2005 and its credit rating was upgraded from B2 to B1 by Moody's in November 2003, from B+ to BB- by S&P in May 2005 and from B+ to BB- by Fitch in January 2005 (although in January 2006, Fitch revised its outlook on Ukraine's foreign and local currency ratings from BB- (positive) to BB- (stable)). However, the absence of a deep and liquid market for domestic treasury bonds means that Ukraine remains vulnerable should access to international capital markets not be possible for any reason in the future. Under such circumstances, any failure of Ukraine to receive support from creditors and international financial institutions (such as the IMF and the World Bank) could adversely affect Ukraine's financing of its budget deficit, the level of inflation and/or the value of the Hryvnia, which in turn may adversely affect the Ukrainian economy as a whole and thus Astarta's business, results of operations and financial condition.

#### ***The Ukrainian economy is sensitive to fluctuations in the global economy***

Ukraine's economy 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 by other major export markets. Any of such developments may have negative effects on the economy of Ukraine, which in turn may adversely affect Astarta's business, results of operations and financial condition.

#### ***Ukraine may not be able to maintain access to foreign trade and investment***

Notwithstanding improvements in the Ukrainian economy in recent years, cumulative foreign direct investment remains low for a country the size of Ukraine. As has happened in the past, an increase in the perceived risks associated with investing in Ukraine could decrease foreign direct investment in Ukraine and adversely affect the Ukrainian economy. No assurance can be given that Ukraine will remain attractive to foreign trade and investment.

In early 2005, the previous government led by former Prime Minister Yuliya Tymoshenko announced plans to review the privatisation of a number of major companies that they believed were sold at unfairly low prices under the previous administration and one enterprise, OJSC Kryvorizhstal (now known as Mittal Steel Kryviy Rih), was re-privatised in October 2005. Although President Yushchenko and Prime Minister Yekhanurov have in recent months emphasised that these plans are no longer under consideration, and the repeat auction in October 2005 of OJSC Kryvorizhstal was generally perceived as having been conducted in a fair and transparent manner, any future attempts to nationalise private enterprises could adversely affect the climate for foreign direct investment. Any deterioration in the climate for foreign direct investment in Ukraine could have an adverse effect on the economy of Ukraine which in turn may adversely affect Astarta's business, results of operations and financial condition.

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

External analysts have identified corruption and money laundering as problems in Ukraine. In accordance with Ukrainian anti-money laundering legislation which came into force in Ukraine in June 2003, the NBU and other state authorities, as well as various entities performing financial transactions, are now required to monitor certain financial transactions more closely for evidence of money laundering. As a result of the implementation of this legislation, Ukraine was removed from the list of non-cooperative countries and territories by the Financial Action Task Force on Money Laundering ("FATF") in February 2004, and in February 2006 FATF suspended the formal monitoring of 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 Astarta's business, results of operations and financial condition.

### **Potential social instability in Ukraine**

The failure of the Ukrainian government and state-owned enterprises, as well as a number of private companies to pay full salaries on a regular basis and the failure of salaries and benefits in Ukraine generally to keep pace with the rapidly increasing cost of living have led in the past to labour and social unrest. Labour and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralised authority, increased nationalism, with restrictions on foreign ownership in the Ukrainian economy, and possibly violence. Although Astarta has not itself experienced any such pressures in the past, no assurance can be given that it will not experience labour or social problems in the future and any of these events could adversely affect Astarta's business, results of operations and financial condition.

### **Ukraine's legal system**

Since independence in 1991, as Ukraine has been developing from a planned to a market based economy, the Ukrainian legal system has also been developing to support this market-based economy. Ukraine's legal system is, however, in transition and is, therefore, subject to greater risks and uncertainties than a more mature legal system. In particular, risks associated with the Ukrainian legal system include, but are not limited to, provisions in the laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted; inconsistencies between and among Ukraine's Constitution, laws, presidential decrees and Ukrainian governmental, ministerial and local orders, decisions, resolutions and other acts; the lack of judicial and administrative guidance on the interpretation of Ukrainian legislation, including the complicated mechanism of exercising constitutional jurisdiction by the Constitutional Court of Ukraine; the relative inexperience of judges and courts in interpreting Ukrainian legislation in the same or similar cases; corruption within the judiciary; and a high degree of discretion on the part of governmental authorities, which could result in arbitrary actions.

Furthermore, several fundamental Ukrainian laws either have only relatively recently become effective or are still pending hearing or adoption by the Ukrainian Parliament. For example, in 2005 and 2004, Ukraine adopted a new civil code, a new commercial code, new civil and administrative procedural codes, a new law on state registration of proprietary rights to immovable property, a new law on international private law, new secured finance laws and a new law on personal income tax. The relatively recent origin of much of Ukrainian legislation, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Ukrainian legal system, in ways that may not always coincide with market developments, place the enforceability and underlying constitutionality of laws in doubt and may result in ambiguities, inconsistencies and anomalies. In addition, Ukrainian legislation in many cases contemplates implementing regulations. Often such implementing regulations have either not yet been promulgated, leaving substantial gaps in the regulatory infrastructure, or have been promulgated with substantial deviation from the principal rules and conditions imposed by the respective legislation, which results in a lack of clarity and growing conflicts between companies and regulatory authorities.

These and other factors that impact on Ukraine's legal system make an investment in the Shares 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 largely untested notwithstanding the decision of the Supreme Court to declare the results of the disputed run-off of the presidential election in November 2004 invalid (see: "*Ukraine may continue to experience political instability or uncertainty*"). Although the Constitutional Court of Ukraine is the only body authorised to exercise constitutional jurisdiction and has mostly proven impartial in its judgments, the system of constitutional jurisdiction itself remains too complicated to ensure smooth and effective removal of discrepancies between Ukraine's Constitution on the one hand and various laws of Ukraine on the other hand.

The system of general and specialised courts is understaffed and under funded. Judicial precedents under Ukrainian law generally have no binding effect on subsequent decisions. Not all Ukrainian legislation is readily available to the public or organised in a manner that facilitates understanding. As of 1 June 2006, under the Law of Ukraine "*On Access to Court Decisions*", decisions of courts of general jurisdiction in civil, economic, administrative and criminal matters have become open to public access. However, courts themselves are generally not bound by earlier decisions taken under the same or similar circumstances, which results in the inconsistent application of Ukrainian legislation to resolve the same or similar disputes. The Ukrainian judicial system has become more complicated and hierarchical as a result of recently introduced judicial reform. The perceived result of the judicial reform 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, 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 State Execution Service 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 State Execution Service 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 legislation, the legislature of Ukraine may attempt legislatively to overrule any such court decisions by backdating such legislative changes to a previous date.

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. The Company 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 Astarta's business, results of operations and financial condition.

### ***Ukraine's tax system***

Ukraine currently has a number of laws related to various taxes imposed by both central and local authorities. Applicable taxes include value-added tax, corporate income tax (profits tax), customs duties, payroll (social) taxes and other taxes. These tax laws have not been in force for significant periods of time, compared to more developed market economies, and often result in unclear or non-existent implementing regulations. Moreover, tax laws in Ukraine are subject to frequent changes and amendments, which can result in either a friendlier environment or unusual complexities for the Company and its business generally. For example, with effect from 1 January 2004, personal income tax was reformed by the introduction of a new flat tax of 13 per cent (to be increased to 15 per cent from 1 January 2007) for almost all levels of income. In addition, with effect from 1 January 2004, the rate of corporate profits tax was reduced from 30 per cent to 25 per cent.

The amendments to the Law on the State Budget for 2005, effective since 31 March 2005, abolished different tax preferences, including, *inter alia*, those for domestic and foreign investors, which may become grounds for lawsuits against the state. In particular, the Verkhovna Rada (Parliament) of Ukraine adopted a law which cancelled the preferential tax treatment

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

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

### ***Disclosure and reporting requirements and fiduciary duties***

While the Company is incorporated in the Netherlands, its operations are conducted entirely through Ukrainian companies. 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. The concept of fiduciary duties of management or members of the board to their companies or shareholders remains undeveloped in Ukraine. Violations of disclosure and reporting requirements or breaches of fiduciary duties by the Company's Ukrainian subsidiaries or their management could significantly affect the receipt of material information or result in inappropriate management decisions, which may have a material adverse effect on Astarta's business, results of operations, and financial condition.

### ***Shareholder liability under Ukrainian legislation could cause Astarta to become liable for the obligations of its Ukrainian subsidiaries***

The Ukrainian Civil Code, Economic Code, and the Law on Companies 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 the qualified majority of votes (so called "simple dependency"); or
- can direct the actions of the subsidiary, if the effective parent has the majority of votes in the subsidiary. In this case, the effective parent will be considered the "holding company".

The effective parent, which exercises effective control over the subsidiary, incurs 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 the terms unfavorable for this subsidiary, the effective parent will be required to compensate the subsidiary for any losses this subsidiary incurred.

Accordingly, in the Company's position as an effective parent, it could be liable in some cases for the debts of its subsidiaries in Ukraine.

### **Risks Relating to the Selling Shareholders**

#### ***Your shareholdings and voting rights in the Issuer and the earnings per Share may be diluted***

Your shareholding and voting rights in the Issuer and the earnings per Share may be diluted as a result of an issuance of additional Shares with exclusion of your pre-emptive rights.

#### ***We have been and will continue to be controlled by our majority shareholders, whose interests may conflict with those of other shareholders***

Following the Offering, at least 71.5% of our outstanding Shares, provided that all Offer Shares are placed with investors will be owned indirectly by Mr. Valery Korotkov and Mr. Viktor Ivanchyk. Mr. Viktor Ivanchyk is involved in the day-to-day management of the Company as its Chief Executive Officer and Mr. Korotkov serves as the Chairman of the Board of Directors. While we believe the involvement of Mr. Valery Korotkov and Mr. Viktor Ivanchyk in our operations has been, and will continue to be important in the pursuit and implementation of our strategy, there can be no assurance that they will remain significant shareholders in the future. Our business could suffer if they ceased to participate actively in our operations. Our Articles of Association provide that, if not otherwise required by law or the Articles of Association, resolutions at General Meeting of Shareholders will be adopted by absolute majority of votes. Accordingly, Mr. Valery Korotkov and Mr. Viktor Ivanchyk will have the power to control the outcome of most matters to be decided by vote at General Meeting of Shareholders and, as long as they hold, directly or indirectly, the majority of our ordinary shares, will control appointment and removal of directors. Mr. Valery Korotkov and Mr. Viktor Ivanchyk have interests in other companies, some of which may conduct business with us from time to time. The interest of our controlling shareholders could conflict with those of the other holders of Shares, which could adversely affect a prospective investor's investment in our shares. Any such conflict could have a material adverse effect on our business, results of operations and financial condition.

#### ***We may decide not to pay dividends***

Although the current intention of our Board of Directors is to recommend to the General Meeting of Shareholders that no dividend will be declared and paid until the approval by General Meeting of Shareholders of the financial statements for the year ended December 31, 2008, our dividend policy will, however, be reviewed from time to time and payment of any future dividends will be effectively at the discretion of our Board of Directors and the General Meeting of Shareholders after taking into account various factors including our business prospects, future earnings, cash requirements, financial position, expansion plans and the requirements of Dutch law. Accordingly, investors cannot rely on dividend income from the Shares and any returns on an investment in the Shares will likely depend entirely upon any future appreciation in the price of the Shares. We can provide no assurance that the price of the Shares will increase above the Offer Price after the Offering or that the market price for the Shares will not fall below the Offer Price after the Offering.

### **Risks Relating to Trading in the Shares**

#### ***We may be unable to list our Shares on the WSE***

The admission of our Shares to trading on the WSE requires that the Polish Securities and Exchange Commission (the "PSEC") receive a certificate from the AFM confirming that this Prospectus has been approved in the Netherlands, that the Polish National Depository for Securities (the "NDS") accept our Shares into deposit and that the management board of the WSE approves that our Shares are listed and traded on the WSE. We intend to take all the necessary steps to ensure that our Shares are admitted to trading on the WSE as soon as possible. However, there is no guarantee that all of the aforementioned conditions will be met and that our Shares will be admitted to trading on the WSE on the date expected therefore or at all.

#### ***Trading in our Shares on the WSE may be suspended***

The WSE management board has the right to suspend trading in shares of a listed company if the company fails to comply with the regulations of the WSE (such as specific disclosure requirements) or if such suspension is necessary to protect the interests of market participants. Moreover, trading may be suspended upon the request of the Company or of the PSEC in the case of the latter if (i) investors' interests, or (ii) the orderly stock exchange trading, or (iii) the security of stock exchange trading are endangered. There can be no assurance that trading in our Shares will not be suspended. However, currently we have no reasons to believe that such a suspension may occur. Any suspension of trading would adversely affect our share price.

#### ***Our Shares may be excluded from trading on the WSE***

If a company listed on the WSE fails to fulfil certain requirements or obligations under the applicable laws and regulations of the WSE or/and if the orderly stock exchange trading, the safety of trading thereon or the investors' interests are endangered, the company's securities can be excluded from trading on the WSE. This particularly may be the case: (i) if transferability of shares is restricted, (ii) if shares cease to exist in a book entry form (iii) upon the PSEC request or (iv) if shares are excluded from trading on a regulated market by a relevant supervisory authority. There can be no assurance that such a situation will not occur in relation to our Shares.

If a company listed on the WSE fails to fulfil certain requirements under applicable laws, in particular, the requirements referred to in Art. 96 of the Act on Public Offerings, the PSEC has the authority to impose a fine on the company and/or to exclude the company's securities from trading on a regulated market. There can be no assurance that such a situation will not occur in relation to our Shares, however, currently there are no reasons to believe that such a situation will occur in the future.

***The marketability of our Shares may decline and the market price of our Shares may fluctuate and decline below the Offer Price***

We cannot assure you that the marketability of our Shares will improve or remain consistent. The market price of our Shares at the time of the Offering may not be indicative of the market price for our Shares after the Offering has been completed. The market price of our Shares may fluctuate widely, depending on many factors beyond our control. These factors include, amongst other things, actual or anticipated variations in operating results and earnings by the Company and/or its competitors, changes in financial estimates by securities analysts, market conditions in the industry and in general the status of the securities market, governmental legislation and regulations, as well as general economic and market conditions, such as recession. The market price of our Shares is also subject to fluctuations in response to further issuance of shares by us, sales of Shares by our major shareholders, the liquidity of trading in our Shares and capital reduction or purchases of Shares by us as well as investor perception. As a result of these or other factors, we cannot assure you that the public trading market price of our Shares will not decline below the Offer Price.

However, except for the issue of the Offer Shares and any shares issued in connection with the management stock option plan, we have agreed that in the period of twelve (12) months from the Settlement Date, we will not, without the prior written consent of the Global Coordinator and Bookrunner, which consent shall not be unreasonably withheld, propose or otherwise support an offering of any of our shares, announce any intention to offer new shares and/or to issue any securities convertible into our stock or securities that in any other manner represent the right to acquire our shares, or conclude any transaction (including any transaction involving derivatives) whose economic effect would be similar to the effect of selling our stock. Similar undertaking has been undertaken by the Selling Shareholders.

***We will have a limited free float which may have a negative effect on the liquidity, marketability or value of our Shares***

Prior to the Offering, the Selling Shareholders owned 100% of our outstanding Shares and after the Offering their combined interest will have been diluted to approximately 71.5%, provided that all Offer Shares are placed with investors. Consequently, the free float of Shares held by the public will be limited. Furthermore we do not have any agreement with the Selling Shareholders that restricts them from increasing their ownership percentage of our Shares although they are not planning to subscribe for the New Shares in the Offering.

***There is no prior market for the Shares and therefore there can not be assurance regarding the future development of such market***

The lack of a prior public market for the Shares may have a negative effect on the ability of shareholders to sell their Shares or the price at which the holders may be able to sell their Shares. If a market for the Shares were to develop, the Shares could trade on prices that may be higher or lower than the Offer Price, depending on many factors. Therefore, there can be no assurance as to the liquidity of any trading in the Shares or that an active market for the Shares will develop.

***We are not in full compliance with the Dutch Corporate Governance Code and the Corporate Governance Rules of the WSE and do not expect to be in full compliance in the near future***

Whilst our corporate governance structure complies with the principles of Dutch law, we deviate in several respects from the best practice provisions set forth in the Dutch Corporate Governance Code and the Corporate Governance Rules of the WSE contained in the "Best Practices in Public Companies in 2005". However, we believe that in most important aspects we comply with the codes and our deviations result from specifics of the Dutch law or the Polish market practice, or from the conflict between the Dutch and Polish corporate governance regulations. We have adopted a policy that whenever the Dutch Corporate Governance Code and the Corporate Governance Code of the WSE contain conflicting provisions we will be complying with the regulations of the WSE, as the main market on which our Shares will be listed. See: "Management and Corporate Governance".

***We are established and organized under Dutch law***

We are a company organized and existing under the law of The Netherlands. Accordingly, our corporate structure as well as rights and obligations of our shareholders may be different from the rights and obligations of shareholders in Polish companies listed on the WSE.

The exercise of certain shareholders' rights for Polish investors in a Dutch company may be more difficult and costly than the exercise of rights in a Polish company. Resolutions of the General Meeting of Shareholders may be taken with majorities different from the majorities required for adoption of equivalent resolutions in Polish companies. Action with view of declaring a resolution invalid must be filed with, and will be reviewed by a Dutch court, in accordance with the law of The Netherlands.

Investors in our Shares may also be subject to Dutch taxation of dividends received from the Company (see: "Material Tax Consideration"). Although Poland and the Netherlands maintain the Polish-Dutch Tax Treaty that provides protection against double taxation there can be no assurance that such treaty will continue to remain in force.

## EXCHANGE RATES

As all of our operations are carried out in Ukraine, our principal internal reporting currency is Hryvnia as it reflects the economic substance of the underlying events and circumstances of our Group. However, given that we are incorporated in the Netherlands, our statutory reporting currency is Euro. Our pro-forma consolidated financial statements for the years ended 31 December 2003, 2004 and 2005 included in this Prospectus are presented in Euro and Hryvnia. Going forward, we are planning to report our financial results in Hryvnia and Euro.

The following table shows, for the periods ending 31 December, unless indicated otherwise, certain information regarding the exchange rate between Hryvnia (as a base currency) and Euro, Polish zloty and US dollar. This information is based on the official exchange rates quoted by the NBU. These rates may differ from the actual rates used in the preparation of our pro-forma consolidated financial statements and other financial information appearing in this Prospectus.

Additionally, for the convenience of Polish investors, we present separately certain exchange rate information on Polish zloty (as a base currency) and Euro, Hryvnia and US dollar, for the periods ending 31 December, unless indicated otherwise.

Note that the average rates in both tables are simple arithmetic averages for a given period.

|                      | High   | Low    | Average | Period End |
|----------------------|--------|--------|---------|------------|
| <b>UAH per 1 EUR</b> |        |        |         |            |
| 2003                 | 6.6638 | 5.5334 | 6.0244  | 6.6622     |
| 2004                 | 7.2334 | 6.2881 | 6.6094  | 7.2175     |
| 2005                 | 7.1051 | 5.8918 | 6.3899  | 5.9716     |
| 30 June 2006         | 6.5438 | 5.9575 | 6.2051  | 6.3271     |
| <b>UAH per 1 PLN</b> |        |        |         |            |
| 2003                 | 1.4507 | 1.3044 | 1.3709  | 1.4211     |
| 2004                 | 1.7848 | 1.3165 | 1.4622  | 1.7716     |
| 2005                 | 1.8110 | 1.4666 | 1.5876  | 1.5470     |
| 30 June 2006         | 1.6822 | 1.5317 | 1.5954  | 1.5501     |
| <b>UAH per 1 USD</b> |        |        |         |            |
| 2003                 | 5.3349 | 5.3313 | 5.3327  | 5.3315     |
| 2004                 | 5.3315 | 5.3054 | 5.3192  | 5.3054     |
| 2005                 | 5.3052 | 5.0500 | 5.1247  | 5.0500     |
| 30 June 2006         | 5.0500 | 5.0500 | 5.0500  | 5.0500     |

Source: Company's calculation based on data from NBU website at [www.bank.gov.ua](http://www.bank.gov.ua).

|                      | High   | Low    | Average | Period End |
|----------------------|--------|--------|---------|------------|
| <b>PLN per 1 UAH</b> |        |        |         |            |
| 2003                 | 0.7666 | 0.6880 | 0.7292  | 0.7013     |
| 2004                 | 0.7607 | 0.5593 | 0.6854  | 0.5642     |
| 2005                 | 0.6865 | 0.5483 | 0.6242  | 0.6465     |
| 30 June 2006         | 0.6529 | 0.5959 | 0.6269  | 0.6340     |
| <b>PLN per 1 EUR</b> |        |        |         |            |
| 2003                 | 4.7170 | 3.9773 | 4.3978  | 4.7170     |
| 2004                 | 4.9149 | 4.0518 | 4.5340  | 4.0790     |
| 2005                 | 4.2756 | 3.8223 | 4.0254  | 3.8598     |
| 30 June 2006         | 4.1065 | 3.7565 | 3.8887  | 4.0434     |
| <b>PLN per 1 USD</b> |        |        |         |            |
| 2003                 | 4.0910 | 3.6709 | 3.8889  | 3.7405     |
| 2004                 | 4.0572 | 2.9716 | 3.6540  | 2.9904     |
| 2005                 | 3.4491 | 2.9066 | 3.2348  | 3.2613     |
| 30 June 2006         | 3.3008 | 2.9929 | 3.1644  | 3.1816     |

Source: Company's calculation based on data from National Bank of Poland website at [www.nbp.gov.pl](http://www.nbp.gov.pl).

## FORWARD-LOOKING STATEMENTS

Some of the statements in some of the sections in this Prospectus include forward-looking statements which reflect our current views with respect to future events and financial performance. Statements which include the words "intend", "plan", "project", "expect", "anticipate", "will" and similar statements of a future or forward-looking nature identify forward-looking statements.

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. These factors include, but are not limited to, those set out under "*Risk Factors*", which should be read in conjunction with the other cautionary statements that are included elsewhere in this Prospectus. If one or more of these or other risks or uncertainties materialise, or if our underlying assumptions prove to be incorrect, actual results may vary materially from those projected in this Prospectus.

Apart from any continuing obligations under the Dutch Securities Act, the Polish Act on Public Offerings, or WSE Rules to which we are subject to, we undertake no obligation to publicly update or review any forward-looking statement contained in this Prospectus, whether as a result of new information, future developments or otherwise.

## SELECTED FINANCIAL INFORMATION

The following tables set out, in summary form, consolidated balance sheet and consolidated statement of operations information relating to the Company. Such information is extracted without material adjustment from the pro-forma consolidated financial statements of the Company as at and for the years ended 31 December 2004, 2003 and 2005. Such financial statements, together with the report of KPMG Accountants N.V. dated July 11, 2006 and the accompanying notes, are included in this Prospectus, starting on page F-1. It should also be read in conjunction with "Management Discussion and Operating and Financial Review" section of this Prospectus.

### Pro-forma consolidated income statement

The following table sets forth our pro-forma consolidated results of operations for the years ended 31 December 2005, 2004 and 2003 respectively.

|  | <i>(in thousands of Euros)</i> |               |               |
|--|--------------------------------|---------------|---------------|
|  | <b>2005</b>                    | <b>2004</b>   | <b>2003</b>   |
| <b>Revenues</b>                                  | <b>51,783</b>                  | <b>31,888</b> | <b>22,291</b> |
| Cost of revenues, including re-measurement gains | (36,403)                       | (23,027)      | (14,223)      |
| <b>Gross profit</b>                              | <b>15,380</b>                  | <b>8,861</b>  | <b>8,068</b>  |
| Operating expenses, net                          | (6,143)                        | (3,625)       | (2,524)       |
| <b>Profit from operations (EBIT)</b>             | <b>9,237</b>                   | <b>5,236</b>  | <b>5,544</b>  |
| Net financing expenses and gains                 | 30                             | (259)         | (2,207)       |
| <b>Profit before tax</b>                         | <b>9,267</b>                   | <b>4,977</b>  | <b>3,337</b>  |
| Income tax benefit (expense)                     | 386                            | 297           | (175)         |
| <b>Net profit before minority interests</b>      | <b>9,653</b>                   | <b>5,274</b>  | <b>3,162</b>  |

|  | <i>(in thousands of Hryvnia)</i> |                |                |
|--|----------------------------------|----------------|----------------|
|  | <b>2005</b>                      | <b>2004</b>    | <b>2003</b>    |
| <b>Revenues</b>                                  | <b>330,868</b>                   | <b>210,763</b> | <b>134,334</b> |
| Cost of revenues, including re-measurement gains | (232,597)                        | (152,189)      | (85,711)       |
| <b>Gross profit</b>                              | <b>98,271</b>                    | <b>58,574</b>  | <b>48,623</b>  |
| Operating expenses, net                          | (39,256)                         | (23,959)       | (15,212)       |
| <b>Profit from operations (EBIT)</b>             | <b>59,015</b>                    | <b>34,615</b>  | <b>33,411</b>  |
| Net financing expenses and gains                 | 196                              | (1,707)        | (13,301)       |
| <b>Profit before tax</b>                         | <b>59,211</b>                    | <b>32,908</b>  | <b>20,110</b>  |
| Income tax benefit (expense)                     | 2,469                            | 1,966          | (1,054)        |
| <b>Net profit before minority interests</b>      | <b>61,680</b>                    | <b>34,874</b>  | <b>19,056</b>  |

### Key profitability ratios (as a percentage of sales)

|                     |               |               |               |
|---------------------|---------------|---------------|---------------|
| Gross profit margin | 29.7 per cent | 27.8 per cent | 36.2 per cent |
| EBITDA margin       | 24.0 per cent | 23.4 per cent | 33.0 per cent |
| EBIT margin         | 17.8 per cent | 16.4 per cent | 24.9 per cent |

#### Notes:

*EBIT – earnings before interest expense and taxes, assumed to be equal to the operating profit*

*EBITDA – earnings before interest expense, taxes, depreciation and amortisation*

*Source: Company's calculations based on pro-forma consolidated financial statements*

**Pro-forma consolidated balance sheet**

The following table summarises our pro-forma consolidated balance sheet as of 31 December, 2005, 2004 and 2003.

(in thousands of Euros)

|  | 2005          | 2004          | 2003          |
|--|---------------|---------------|---------------|
| Property, plant and equipment  | 25,448        | 16,541        | 15,777        |
| Intangible assets  | 34            | 27            | 19            |
| Other non-current assets   | 3,279         | 1,812         | 1,313         |
| <b>Total non-current assets</b>  | <b>28,761</b> | <b>18,380</b> | <b>17,109</b> |
| Inventories  | 29,867        | 18,492        | 12,846        |
| Biological assets  | 1,854         | 966           | 779           |
| Trade and other accounts receivable and prepayments                                | 14,768        | 9,553         | 6,400         |
| Promissory notes at fair value through profit or loss                              | 516           | 393           | 146           |
| Cash and cash equivalents  | 503           | 112           | 172           |
| <b>Total current assets</b>  | <b>47,508</b> | <b>29,516</b> | <b>20,343</b> |
| <b>Total assets</b>  | <b>76,269</b> | <b>47,896</b> | <b>37,452</b> |
| Long-term loans and borrowings   | 10,086        | 5,101         | 3,586         |
| Deferred tax liabilities   | 1,729         | 387           | 652           |
| <b>Total non-current liabilities</b>   | <b>11,815</b> | <b>5,488</b>  | <b>4,238</b>  |
| Trade accounts payable   | 4,745         | 5,461         | 3,696         |
| Current loans and borrowings and current portion of long-term loans and borrowings | 11,888        | 8,908         | 6,071         |
| Minority interests   | 8,729         | 5,975         | 4,256         |
| Other current liabilities  | 8,674         | 3,855         | 2,631         |
| <b>Total current liabilities</b>   | <b>34,036</b> | <b>24,199</b> | <b>16,654</b> |
| Contributed capital  | 60            | 3             | 3             |
| Additional paid-in capital   | 1,296         | 942           | 846           |
| Retained earnings  | 29,358        | 21,920        | 18,825        |
| Currency translation adjustment  | (296)         | (4,656)       | (3,114)       |
| <b>Total equity</b>  | <b>30,418</b> | <b>18,209</b> | <b>16,560</b> |
| <b>Total liabilities and equity</b>  | <b>76,269</b> | <b>47,896</b> | <b>37,452</b> |

(in thousands of Hryvnia)

|  | 2005           | 2004           | 2003           |
|--|----------------|----------------|----------------|
| Property, plant and equipment  | 151,967        | 119,385        | 105,110        |
| Intangible assets  | 206            | 198            | 125            |
| Other non-current assets   | 19,477         | 13,084         | 8,751          |
| <b>Total non-current assets</b>  | <b>171,650</b> | <b>132,667</b> | <b>113,986</b> |
| Inventories  | 178,356        | 133,467        | 85,581         |
| Biological assets  | 11,069         | 6,973          | 5,191          |
| Trade and other accounts receivable and prepayments                                | 88,291         | 68,955         | 42,636         |
| Promissory notes at fair value through profit or loss                              | 3,082          | 2,834          | 973            |
| Cash and cash equivalents  | 3,002          | 812            | 1,155          |
| <b>Total current assets</b>  | <b>283,800</b> | <b>213,041</b> | <b>135,536</b> |
| <b>Total assets</b>  | <b>455,450</b> | <b>345,708</b> | <b>249,522</b> |
| Long-term loans and borrowings   | 60,230         | 36,816         | 23,889         |
| Deferred tax liabilities   | 10,323         | 2,796          | 4,341          |
| <b>Total non-current liabilities</b>   | <b>70,553</b>  | <b>39,612</b>  | <b>28,230</b>  |
| Trade accounts payable   | 28,335         | 39,412         | 24,623         |
| Current loans and borrowings and current portion of long-term loans and borrowings | 70,995         | 64,294         | 40,449         |
| Minority interests   | 52,129         | 43,126         | 28,351         |
| Other current liabilities  | 51,803         | 27,817         | 17,540         |
| <b>Total current liabilities</b>   | <b>203,262</b> | <b>174,649</b> | <b>110,963</b> |
| Contributed capital  | 358            | 21             | 19             |
| Additional paid-in capital   | 7,845          | 5,525          | 4,878          |
| Retained earnings  | 173,432        | 125,901        | 105,432        |
| <b>Total equity</b>  | <b>181,635</b> | <b>131,447</b> | <b>110,329</b> |
| <b>Total liabilities and equity</b>  | <b>455,450</b> | <b>345,708</b> | <b>249,522</b> |

## MANAGEMENT DISCUSSION AND OPERATING AND FINANCIAL REVIEW

**The following discussion contains forward looking statements, which involve risks and uncertainties. The actual results may therefore differ significantly from the results discussed in the forward looking statements. See: "Risk Factors".**

The following discussion and analysis of our financial condition and results of operations encompasses the years ended 31 December 2005, 2004 and 2003. The financial information presented in this discussion and analysis has been extracted or derived from our audited pro-forma consolidated financial statements for the years ended 31 December 2005, 2004 and 2003, each prepared in accordance with Ukrainian National Accounting Standards and then adjusted as necessary to comply with the requirements of International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB, with some exceptions as described in respective note to the attached pro-forma consolidated financial statements. Consequently, this section should be read together with the Pro-forma consolidated financial statements and related notes, as well as the other financial information included elsewhere in this Prospectus. See: "*Financial Information*".

Further, due to the fact that the Issuer was incorporated on June 9, 2006 and its sole purpose is to serve as a holding company, its financial statements since incorporation until the date of this Prospectus are not relevant. Consequently, this section discusses only financial results at the Astarta-Kyiv level.

Certain information contained in the review set forth below and elsewhere in this Prospectus includes "forward-looking statements". Such forward-looking statements are subject to risks, uncertainties and other factors, which could cause our actual results to differ materially from those expressed or implied by such forward-looking statements. See: "*Forward-Looking Statements*" and "*Risk Factors*".

### Overview

LLC Firm "Astarta-Kyiv" is an agri-industrial holding and one of the leaders in the Ukrainian sugar sector. Our main activity is producing and supplying Ukrainian consumers with high quality sugar. Our business is vertically-integrated because we produce sugar, in large proportion from our own-cultivated sugar beet. We are also active in growing and selling various grain crops due to necessity for crop rotation in sugar beet cultivation. Cattle farming is our additional, non-core activity.

Our largest sugar buying customers are confectionary companies, mostly located in Eastern Ukraine. With the daily nominal processing capacity of over 17,600 tonnes of sugar beet and the total land in use of about 73,500 hectares as of the end of May 2006, we are amongst the Top Five sugar producers in the country. In 2005/2006 marketing season our share in the Ukrainian sugar market in terms of sales was about 3.2 per cent, according to our management estimates.

Our Company comprises five sugar plants with daily processing capacities varying from 2,600 tonnes to 5,500 tonnes. Additionally, we manage and operate 20 agricultural subsidiaries for supply of raw materials. Sugar beet and grain crops are cultivated at the arable land that we use based on long term operating leases. We employ about 6,000 workers, including approximately 1,500 seasonal workers.

In 2005, about 9 per cent of our revenues came from exports, mainly from sugar by-products and grain. We currently sell our sugar in Ukraine only.

### Current Trading Environment

Following the recovery in growth of sugar beet over the past several years, the Ukrainian sugar industry is on its way of reaching supply-demand equilibrium. In the 2005/2006 marketing season, domestic sugar companies produced approximately 1.89 million tonnes of white sugar, registering a 5.6 per cent increase year-on-year. This compares to 2.15 million tonnes of sugar consumption in the same period. At the same time, due to government policies protecting domestic sugar producers, imports into Ukraine are restricted. These two factors contribute to a generally high level of sugar prices in the domestic market.

Further growth of sugar consumption in Ukraine is expected to be driven by demand from industrial food producers, which continue to increase output and hence the use of sugar for domestic market and exports.

### Key Accounting Policies and Presentation of Financial Information

#### General

Our pro-forma consolidated financial statements for the years ended 31 December 2005, 2004 and 2003 include financial results of several companies controlled by our two beneficial shareholders: Mr Ivanchyk and Mr Korotkov, see: "*Major Shareholders*". These companies together did not constitute a legal group until December 2005 and hence consolidated historical financial information has not been prepared. However, the companies were under common ownership throughout the period presented in the pro-forma consolidated financial statements (or date of incorporation, if later). Consequently, the pro-forma consolidated financial statements do not constitute consolidated financial statements as required under IFRS.

In 2006 a restructuring took place and a group of companies was incorporated under the name Astarta Holding N.V., in which LLC Firm "Astarta-Kyiv" is the principal operating subsidiary. See notes to the pro-forma consolidated financial statements in "*Financial Information*".

All of our operating companies consolidated into Astarta-Kyiv maintain records in accordance with the Ukrainian National Accounting Standards and our Pro-forma consolidated financial statements are then adjusted as necessary to comply with the requirements of IFRS.

Our pro-forma consolidated financial statements contain certain pro-forma adjustments as follows:

(i) Prior to 2005, the companies did not constitute a legal group; however the companies were under common ownership throughout 2004 and 2003. Accordingly, for the purposes of presenting historical financial information, the financial statement as of and for the years ended December 31, 2004 and 2003 are combined as if the companies existed during those periods in the same legal structure that was in place as of December 31, 2005.

(ii) Certain subsidiaries and associates of Astarta-Kyiv are not consolidated or accounted for under the equity method in these pro-forma consolidated financial statements because they do not relate to the primary agricultural production and processing business.

Investments in these non-consolidated subsidiaries and non-equity accounted for associates are carried at cost less impairment in the pro-forma consolidated financial statements. This approach allows direct comparison on a "like-for-like" basis of our agricultural operations which are at the core of our business. These subsidiaries and associates were sold to related parties prior to the date of these pro-forma consolidated financial statements and are accounted for as if the sale occurred prior to 1 January 2003. Additional investments into these entities after 31 December 2002 are recorded as a distribution of capital. These subsidiaries and associates were sold to related parties prior to the date of these pro-forma consolidated financial statements.

(iii) Astarta-Kyiv and substantially all of its subsidiaries and associates are limited liability companies. Under Ukrainian law, a participant in a limited liability company may unilaterally withdraw his share in a company. In such case the company is obliged to pay the withdrawing participant's share of net assets of the company determined in accordance with National Accounting Standards. At the time of withdrawal a participant's share of net assets determined under National Accounting Standards may not be equal to that determined under IFRS. In order to comply with International Financial Reporting Standard IAS 32 Financial Instruments: Disclosure and Presentation, share capital, contributions by participants, other capital contributions and retained earnings are required to be presented as net assets attributable to participants, rather than as equity.

During 2006, the equity holders transferred their participation in Astarta-Kyiv to the Issuer through Ancor Investments Limited. Therefore, for the purposes of preparation of these pro-forma consolidated financial statements, share capital, contributions by participants, other capital contributions and retained earnings are presented as equity. Minority interests in subsidiaries that are limited liability companies are presented as current liabilities.

### **Key accounting policies**

For more detailed description of the key accounting policies, please refer to our pro-forma consolidated financial statements starting on page F-1.

The preparation of the pro-forma consolidated financial statements in conformity with IFRS requires us to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on our best knowledge of current events and actions, actual results ultimately may differ from these estimates. The most significant estimates and assumptions are as follows:

- *Impairment of trade accounts receivable.* We estimate impairment by assessing the likelihood of the collection of trade accounts receivable based on an analysis of individual accounts. Factors taken into consideration when assessing individual accounts include an ageing analysis of trade accounts receivable in comparison with the credit terms provided to customers, the financial position and collection history with the customer.
- *Cost of inventories.* We estimate the necessity of write down of inventories to its net realizable value taking into consideration the prices at which inventories may be sold at the balance sheet date.
- *Post-employment and other long-term employee benefit obligations.* We performs a calculation of post-employment and other long-term employee benefit obligations using the projected unit credit method based on actuarial assumptions that represent management's best estimates of the variables that will determine the ultimate cost of providing post-employment and other long-term employee benefits.
- *Fair value of biological assets.* Due to the lack of an active market as defined by International Financial Reporting Standard IAS 41 Agriculture, the fair value of biological assets is estimated by present valuing the net cash flows expected to be generated from the assets discounted at a current market-determined pre-tax rate. We use the assistance of independent appraisers to estimate expected cash flows, and determine discount rates by reference to current market rates on deposits in Ukrainian Hryvnia. The fair value is then reduced for estimated point-of-sale costs.

- *Fair value of agricultural produce.* We estimate the fair value of agricultural produce by reference to quoted prices in an active market, as defined by International Financial Reporting Standard IAS 41. In addition, point-of-sale costs at the point of harvest are estimated and deducted from the fair value. The fair value less point-of-sale costs becomes the carrying value of inventories at that date.
- *Principles of combination.* When financial statements of individual companies that do not constitute a legal group are combined in one set of financial statements, their assets, liabilities, equity accounts as well as income and expenses are added together. Intercompany balances and transactions, and any unrealised gains arising from intercompany transactions, are eliminated.
- *Acquisition and disposal of minority interests.* Any difference between the consideration paid to acquire a minority interest or any difference between the consideration received upon disposal of a minority interest and the carrying amount of that portion of the Group's interest in the subsidiary, is recognised as equity increases (or decreases) in the parent shareholder's interest, so long as the parent controls the subsidiary. The presentation of minority interest within equity supports the recognition of increases and decreases in ownership interests in subsidiaries without a change in control as equity transactions in the pro-forma consolidated financial statements. Accordingly, any premiums or discounts on subsequent purchases of equity instruments from (or sales of equity instruments to) minority interests is recognised directly in the parent shareholders' equity.

Our financial statements are prepared on the fair value basis for biological assets, agricultural produce and promissory notes at fair value through profit or loss. Property, plant and equipment is revalued to fair value as at 1 January 2003 based on an independent appraisal performed in November 2005. These fair values serve as the basis for deemed cost in accordance with IFRS 1.

Biological assets are stated at their fair value less estimated point-of-sale costs, whereas agricultural produce is stated at its fair value less estimated point-of-sale costs at the point of harvest. Promissory notes at fair value through profit and loss are stated at fair value. All other assets and liabilities are carried at historical cost.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use.

The estimated useful lives are as follows:

- Buildings – 20–50 years
- Production equipment – 10–20 years
- Furniture and office equipment – 3–5 years
- Vehicles – 5–10 years

Revenues from the sale of goods are recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenues are recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

The cost of raw materials at the agricultural and sugar production businesses is determined using the weighted average method including acquisition costs incurred, such as transportation.

All the entities within our group that are involved in the agricultural business (as defined by statute) are exempt from income taxes in Ukraine until December 31, 2009 because they are subject to a flat agricultural tax calculated as 0.15 per cent of the appraised value of land used. To qualify for the agricultural tax, the exempt entities must be involved in agricultural production activities and sales of agricultural production must not be less than 75 percent of the total sales for the entity. This agricultural tax is included in cost of revenue.

For other companies, income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. The corporate income tax rate stood at 30 per cent of taxable profit base in 2003 and at 25 per cent in 2004 and 2005.

We are entitled to receive certain government subsidies related to VAT and interest on our loans. As a result, VAT amounts that we would otherwise be required to remit to the government can be retained and used for certain qualifying expenditures. Until qualifying expenditures are made, the VAT is recorded as deferred government subsidy and shown in other accounts payable in the balance sheet, while corresponding amounts of cash are maintained in restricted bank accounts. Once qualifying expenditures are made, the subsidy is recognized in other operating income. Our savings related to the VAT subsidies were EUR 0.7 million in 2003, EUR 0.9 million in 2004 and EUR 1.6 million in 2005.

In addition, our companies that are subject to the flat agricultural tax are also eligible for reimbursement by the government for a portion of interest incurred on borrowings by the entity. The interest subsidy is received under tender terms only. The amount of interest subsidy depends on terms and purposes of financing obtained from banks and it falls within the range of 7–9 per cent and 10–14 per cent for loans received in foreign and local currency, respectively. Because the interest subsidy is payable only when the governmental budget allows, it is recorded on the cash basis, and is reflected in other operating income. Our savings related to the loan interest subsidies EUR 0.2 million in 2003, EUR 0.3 million in 2004 and EUR 0.7 million in 2005.

We also have a significant level of non-cash transactions as is common with many Ukrainian companies. These transactions involve tolling schemes and provision of inventories and agricultural services in exchange for sugar beets supplies. Non-cash transactions consist of mutual settlements arising from the exchange of goods and services, and transactions that are settled by means of promissory notes. Mutual settlement transactions are centrally managed. Prices are usually fixed in contracts with the mutual settlement transactions valued and recorded at the market prices for the goods involved in the transaction. Non-cash sales and purchases are accounted for on an accruals basis in the same manner as traditional cash transactions.

## **Major Factors and Events Affecting our Operations and Historical Results**

### ***Acquisitions of operating subsidiary companies and of arable land***

Our business grew from one plant (Yareskiivsky) acquired in 1999 through the following acquisitions in 2003–2005:

- In 2003 – Kobelyatsky sugar plant (daily processing capacity of 5,500 tonnes) and Zhdanivsky sugar plant (daily processing capacity of 2,600 tonnes);
- In 2004 – Veselopodilsky sugar plant (daily processing capacity of 3,150 tonnes);
- In 2005 – Globynsky sugar plant (daily processing capacity of 3,380 tonnes).

We strongly believe that vertical integration is the key factor of success in our business as it ensures reliable quality and secure supply of raw materials, as well as a control over production costs. To the end of May 2006, we managed about 73,500 hectares of arable land through long term operating leases. In order to maximize the yield of sugar beet, best quality seeds, fertilizers and crop rotation are applied. The arable land managed by our Company has been accumulated through acquisitions of agricultural companies. All of our land is located in the vicinity of our sugar processing plants. As a result of more land under cultivation and improvements in techniques applied the share of in-house grown sugar beet in the total volume of sugar beet processed at our plants has increased from 22.4 per cent in 2003 to 31.3 per cent in 2005.

### ***Investments in fixed assets***

We have been focusing on modernising our sugar plants and on acquisition of modern agricultural equipment for cultivation of sugar beet. We plan to maintain high growth rate in our sugar business by purchasing additional modern equipment and improving efficiency of production and growing of raw materials.

### ***Seasonality of our business***

We grow, process and sell agricultural products, the seasonal nature of which affects our results of operations. The quality and quantity of these products also depends on factors such as weather, over which we have no influence. We typically harvest the grains from July to November and sell about 70% of them by the January of the next calendar year. We purchase the largest amounts of sugar beet between August and November and then sell approximately half of the sugar produced until the end of the calendar year. The residual amount of grain and sugar is stored in our warehouses and sold during the next calendar year. This tends to create significant inventories by the end of each year which amounted to EUR 12.8 million, EUR 18.5 million and EUR 29.9 million at the end of 2003, 2004 and 2005, respectively.

In order to finance this seasonally increased activity, we use short term banking facilities, hence the borrowing tends to be close to its peak in the second half and especially at the end of the financial year. See: "*Risk Factors – Risks Relating to the Company – Due to the seasonality of our business we may experience liquidity problems*".

### ***Government's agricultural programmes***

The Ukrainian government protects the local sugar market against imports by imposing tariffs on imports of no less than EUR300 per tonne. This tariff policy is currently consistent with Ukraine's expected admission to the WTO, but Ukraine is required to liberalise its sugar market ahead of WTO accession. For more details see: "*Industry – Ukrainian sugar market*".

Another source of governmental support, directly affecting our financial results, is ability of all of our farming subsidiaries, provided they meet certain conditions, to pay the agricultural tax (which is related to the value of land and not actual profits derived from it), rather than an ordinary income tax. As a result, our overall tax bill is greatly reduced. Similarly, we benefit from favourable treatment of VAT refunds (which allow us to use amounts which would otherwise be due to the government for certain business-related investments) and subsidies towards the cost of our banking debt. See: "*Key Accounting Policies*" earlier in this chapter.

### ***WTO accession***

Following Ukraine's WTO accession, major sugar producers from WTO countries, including Australia and Brazil, will be granted a right to export raw cane sugar into Ukraine within the yearly tariff quota of 260 thousand tonnes at an import duty rate of 2 per cent, such amount reflecting 12–13 per cent of the current estimated consumption of sugar in Ukraine.

## **Results of Operations**

The following table sets forth our pro-forma consolidated results of operations for the years ended 31 December 2005, 2004 and 2003 respectively.

(in thousands of Euros)

|  | 2005          | 2004          | 2003          |
|--|---------------|---------------|---------------|
| <b>Revenues</b>                              | <b>51,783</b> | <b>31,888</b> | <b>22,291</b> |
| Cost of revenues, incl. re-measurement gains | (36,403)      | (23,027)      | (14,223)      |
| <b>Gross profit</b>                          | <b>15,380</b> | <b>8,861</b>  | <b>8,068</b>  |
| Operating expenses, net                      | (6,143)       | (3,625)       | (2,524)       |
| <b>Profit from operations</b>                | <b>9,237</b>  | <b>5,236</b>  | <b>5,544</b>  |
| Net financing expenses and gains             | 30            | (259)         | (2,207)       |
| <b>Profit before tax</b>                     | <b>9,267</b>  | <b>4,977</b>  | <b>3,337</b>  |
| Income tax benefit (expense)                 | 386           | 297           | (175)         |
| <b>Net profit before minority interests</b>  | <b>9,653</b>  | <b>5,274</b>  | <b>3,162</b>  |

## Revenues

The following table sets forth our revenue breakdown in 2005, 2004 and 2003.

(in thousands of Euros)

|                                      | 2005          | 2004          | 2003          |
|--------------------------------------|---------------|---------------|---------------|
| Sugar and related business:          |               |               |               |
| Sugar                                | 27,077        | 14,855        | 7,067         |
| Molasses                             | 1,877         | 844           | 817           |
| Pulp                                 | 872           | 293           | 229           |
| Crops                                | 8,025         | 7,564         | 7,786         |
| Services rendered under barter terms | 5,609         | 4,469         | 2,554         |
| Other sugar related business         | 4,072         | 2,313         | 1,571         |
| Total sugar and related business     | 47,532        | 30,338        | 20,024        |
| Cattle farming                       | 4,251         | 1,550         | 2,267         |
| <b>Total</b>                         | <b>51,783</b> | <b>31,888</b> | <b>22,291</b> |

Our main product is sugar, which constituted 52.3 per cent of total revenues in 2005 and 46.6 per cent in 2004 and together with related business (sugar by-products, grain crops, services under barter terms and other) represented 91.8 per cent of total revenues in 2005 and 95.1 per cent in 2004. Production and selling of grain crops which is linked to the necessity of crop rotation in the sugar beet cultivation process contributed to about 15.5 per cent of total revenues in 2005 and 23.7 per cent in 2004. The remainder of revenues came from selling of cattle-farming products (mainly meat and milk).

Revenues from sugar doubled to EUR 14.9 million in 2004 from EUR 7.1 million in 2003 and increased further to EUR 27.1 million, or by 82 per cent year-on-year in 2005. The revenue growth was due to a sales volume increase from 20.5 thousand tonnes of sugar in 2003 to 47.2 thousand tonnes in 2004 and to 66.4 thousand tonnes in 2005. Sales growth was achieved due to acquisitions of the new sugar plants as well as organic growth of existing operations. In addition, our revenues increased as our average realised price amounted to EUR346 per tonne in 2003, EUR315 in 2004 and EUR408 in 2005.

Annual revenues from sale of grain crops between 2003 and 2005 were approximately EUR 8 million. Revenues from cattle decreased to EUR 1.6 million or by 31.6 per cent in 2004, compared to 2003, and significantly grew further to EUR 4.3 million in 2005. Approximately 11 per cent of revenues in 2005 were received and paid for in the form of non-cash barter transactions under which we provide individual farmers and farms with sugar beet processing services and related services (including a delivery of sugar seeds and fertilizers) and then we are paid for the services that we have rendered to such third parties with approximately one third of their sugar beet processed, (2004: 14 per cent, whereas in 2003: 11 per cent). Such transactions enable us to better utilize our processing capacity and decrease costs and working capital requirements.

## Cost of Revenues

The table below provides the breakdown of the cost of revenues for 2003–2005.

(in thousand of Euros)

|                      | 2005  | 2004  | 2003  |
|----------------------|-------|-------|-------|
| Raw materials        | 8,630 | 6,043 | 3,155 |
| Fuel and electricity | 5,964 | 3,997 | 2,300 |
| Fertilizers          | 5,732 | 3,266 | 1,914 |

|   | 2005          | 2004          | 2003          |
|---|---------------|---------------|---------------|
| Transportation                          | 4,748         | 3,199         | 1,875         |
| Other materials                         | 3,632         | 1,907         | 1,172         |
| Payroll and related charges             | 2,978         | 2,744         | 1,703         |
| Depreciation                            | 2,383         | 1,626         | 1,375         |
| Change in carrying value of inventories | 619           | 163           | 4             |
| Maintenance                             | 327           | 183           | 107           |
| Other                                   | 1,929         | 938           | 1,211         |
| <b>Total</b>                            | <b>36,942</b> | <b>24,066</b> | <b>14,816</b> |

Production costs and costs per tonne of sugar produced are to a significant degree affected by changes in the production volumes and capacity utilisation, and hence production levels are a major factor in determining our overall profitability.

The cost of raw materials mainly consists of purchases of sugar beet from external suppliers and seeds for crop rotation. It increased from EUR 3.2 million in 2003 to EUR 6.0 million in 2004 and EUR 8.6 million in 2005 due to increase in production output and purchase prices.

Fuel and electricity costs mainly relate to natural gas and electricity consumed during processing of sugar beet, as well as fuel consumed by machinery engaged in agricultural production. Such costs nearly doubled to EUR 4.0 million in 2004 from EUR 2.3 million in 2003 on higher production volumes and increased per unit fuel and gas costs. In 2005, fuel and electricity costs increased further to EUR 6.0 million, or by 50 per cent due to increased production output.

Fertiliser costs increased to EUR 3.3 million in 2004, or by 71 per cent year-on-year, and further to EUR 5.7 million or by 76 per cent, in 2005 due to increasing volumes of in-house grown sugar beet as well as growth in arable land leased by the Company – from 35.7 thousand hectares in 2003 to 44.0 thousand hectares in 2004 and 66.9 thousand hectares in 2005.

Transportation costs are related mainly to sugar beet supplies to processing plants, and transportation of sugar and grain crops to customers. These services are mainly provided by third parties. In 2004 the total cost of transportation amounted to EUR 3.2 million, posting a 71 per cent increase from 2003, due to increasing volumes of sugar sales and in-house sugar beet production. In 2005 the transportation expenses grew by another 48 per cent to EUR 4.7 million and it is attributable, in addition to the above factors, to the rising costs of external transportation services.

Payroll and related charges are attributable to average wage or salary paid by our company and average employment during the year. In 2004 the payroll and related charges amounted to EUR 2.7 million, posting a 61 per cent increase over 2003. These costs further increased to about EUR 3.0 million or by 9 per cent in 2005.

## Gross Profit

As a result of the above factors our gross profit and gross profit margin amounted EUR 8.1 million and 36 per cent in 2003, EUR 8.9 million and 28 per cent in 2004, EUR 15.4 million and 30 per cent in 2005, respectively.

## Other Operating Income

The table below summarises the other operating income in 2003, 2004 and 2005.

|   | 2005         | 2004         | 2003         |
|---|--------------|--------------|--------------|
| Government subsidies relating to VAT                          | 1,643        | 904          | 660          |
| Government subsidies relating to interest and financing costs | 686          | 328          | 165          |
| Changes in fair value of biological assets                    | 1,015        | 617          | 1,586        |
| Penalties   | –            | –            | 30           |
| Other   | 296          | 815          | 43           |
| <b>Total</b>  | <b>3,640</b> | <b>2,664</b> | <b>2,484</b> |

(in thousands of Euros)

Other operating income was relatively stable in 2003 and 2004 at EUR 2.5 million and EUR 2.7 million, respectively. It increased to EUR 3.6 million in 2005, or by 37 per cent year-on-year. Most of this income is related to government subsidies towards VAT and financing costs.

## Operating Expenses

The table below summarises the operating expenses in years 2003, 2004 and 2005.

|                                  | <i>(in thousands of Euros)</i> |                |                |
|----------------------------------|--------------------------------|----------------|----------------|
|                                  | <b>2005</b>                    | <b>2004</b>    | <b>2003</b>    |
| General administrative expense   | <b>(4,025)</b>                 | (3,230)        | (2,181)        |
| Selling and distribution expense | <b>(3,301)</b>                 | (2,049)        | (2,391)        |
| Other operating expense          | <b>(2,457)</b>                 | (1,010)        | (436)          |
| <b>Total operating expenses</b>  | <b>(9,783)</b>                 | <b>(6,289)</b> | <b>(5,008)</b> |

General and administrative expenses increased to EUR 3.2 million in 2004 or by 48 per cent from 2003. They grew by another 25 per cent to EUR 4.0 million in 2005. The increase is mainly attributable to rising amount of administrative personnel due to the acquisition of additional subsidiaries and their costs of salaries and depreciation.

Selling and distribution costs amounted to EUR 2.0 million in 2004 posting a 14 per cent decrease from EUR 2.4 million in 2003. In 2005 such costs increased to EUR 3.3 million on back of higher cost of transportation, driven by higher volumes of sugar deliveries and sales.

Other operating expenses mainly relate to changes in fair value of biological assets (*i.e.* livestock), and charity. Such expenses more than doubled both in 2004 (to EUR 1.0 million) and in 2005 (to EUR 2.5 million).

## Operating Profit

Our operating profit stood at EUR 5.5 million and operating profit margin at 25 per cent in 2003, EUR 5.2 million and 16 per cent in 2004, EUR 9.2 million and 18 per cent in 2005.

## Financial Expenses

Over the last three years the financial expenses increased from EUR 0.3 million in 2003 to EUR 1.3 million in 2004 and EUR 2.4 million in 2005 due to the working capital needs of the growing operations of our Company.

## Income Tax

Only few of our subsidiaries are subject to corporate income tax. The majority of subsidiaries are subject to an agricultural tax providing they are involved in agricultural production and sales of agricultural products constitute no less than 75 percent of their total sales. The agricultural tax amounts to 0.15 per cent of appraised value of the land used and is included in cost of revenues.

The components of income tax expense (benefit) for our companies subject to income taxes for the years ended 31 December are as follows:

|   | <i>(in thousands of Euros)</i> |              |             |
|---|--------------------------------|--------------|-------------|
|   | <b>2005</b>                    | <b>2004</b>  | <b>2003</b> |
| Current                                   | <b>72</b>                      | 15           | 1           |
| Deferred                                  | <b>(458)</b>                   | (312)        | 174         |
| <b>Total income tax expense (benefit)</b> | <b>(386)</b>                   | <b>(297)</b> | <b>175</b>  |

The effective tax expense (benefit) will vary depending on the companies that qualify for the agricultural tax, which may vary from year to year, and the net profit or loss of the companies subject to income taxes.

## Net Income

For the reasons set forth above our net profit increased by 67 per cent to EUR 5.3 million in 2004 and posted another 83 per cent increase in 2005 to EUR 9.7 million.

## Liquidity and Capital Resources

The following table summarises our statements of cash flow for 2005, 2004 and 2003.

|   | <i>(in thousands of Euros)</i> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2005</b>                    | <b>2004</b> | <b>2003</b> |
| Cash and cash equivalents as at 1 January             | 112                            | 172         | 110         |
| Cash flows provided by (used in) operating activities | 2,630                          | (2,261)     | (5,999)     |
| Cash flows used in investing activities               | (7,119)                        | (2,652)     | (1,805)     |
| Cash flows provided by financing activities           | 4,832                          | 4,860       | 7,894       |
| Cash and cash equivalents as at 31 December           | 503                            | 112         | 172         |

In 2003 and 2004 we financed our operations primarily through bank loans with domestic financial institutions and a bond issue. Cash flows from operating activities were negative as of 31 December 2003 and 2004 at EUR 6.0 million and EUR 2.3 million respectively. This is primarily due to the seasonal nature of our business leading to sizeable increases in inventories (primarily sugar beet and sugar) of over EUR 5.0 million at the end of the year. Net negative changes in working capital were related to large sales volumes and accounts receivables as well as certain cash advances made to sugar beet producers to lock-in the supply of raw materials at the fixed price. In 2005 our operating cash flow changed into positive EUR 2.6 million due to an increase in profits and more efficient working capital management.

Cash used in investing activities steadily increased from EUR 1.8 million in 2003 to EUR 2.7 million in 2004 and EUR 7.1 million in 2005 as we completed our major acquisitions and capital expenditures for modernisation of our agricultural and processing machinery. Our investments in property, plant and equipment, mainly related to purchases of modern agricultural equipment and upgrading of processing facilities, amounted to EUR 2.9 million in 2003, EUR 3.4 million in 2004 to EUR 6.5 million in 2005. In addition, we invested EUR 0.1 million and EUR 1.6 million in 2004 and 2005, respectively in consolidating our interest in key subsidiaries (e.g. LLC Agricultural Firm "Pustoviytovo").

Our principal sources of financing are short- and medium-term Hryvnia denominated bank loans and bonds and US Dollar denominated shareholder loans. Cash from financing activities gradually decreased from EUR 7.9 million in 2003 to EUR 4.9 million in 2004 and EUR 4.8 million in 2005 in line with steadily improving operating cash flows.

## Balance Sheet

The following table summarises our pro-forma consolidated balance sheet as of December 31, 2005, 2004 and 2003.

(in thousands of Euros)

|  | 2005          | 2004          | 2003          |
|--|---------------|---------------|---------------|
| Property, plant and equipment  | 25,448        | 16,541        | 15,777        |
| Intangible assets  | 34            | 27            | 19            |
| Other non-current assets   | 3,279         | 1,812         | 1,313         |
| <b>Total non-current assets</b>  | <b>28,761</b> | <b>18,380</b> | <b>17,109</b> |
| Inventories  | 29,867        | 18,492        | 12,846        |
| Biological assets  | 1,854         | 966           | 779           |
| Trade and other accounts receivable and prepayments                                | 14,768        | 9,553         | 6,400         |
| Promissory notes at fair value through profit or loss                              | 516           | 393           | 146           |
| Cash and cash equivalents  | 503           | 112           | 172           |
| <b>Total current assets</b>  | <b>47,508</b> | <b>29,516</b> | <b>20,343</b> |
| <b>Total assets</b>  | <b>76,269</b> | <b>47,896</b> | <b>37,452</b> |
| Long-term loans and borrowings   | 10,086        | 5,101         | 3,586         |
| Deferred tax liabilities   | 1,729         | 387           | 652           |
| <b>Total non-current liabilities</b>   | <b>11,815</b> | <b>5,488</b>  | <b>4,238</b>  |
| Trade accounts payable   | 4,745         | 5,461         | 3,696         |
| Current loans and borrowings and current portion of long-term loans and borrowings | 11,888        | 8,908         | 6,071         |
| Minority interests   | 8,729         | 5,975         | 4,256         |
| Other current liabilities  | 8,674         | 3,855         | 2,631         |
| <b>Total current liabilities</b>   | <b>34,036</b> | <b>24,199</b> | <b>16,654</b> |
| Contributed capital  | 60            | 3             | 3             |
| Additional paid-in capital   | 1,296         | 942           | 846           |
| Retained earnings  | 29,358        | 21,920        | 18,825        |
| Currency translation adjustment  | (296)         | (4,656)       | (3,114)       |
| <b>Total equity</b>  | <b>30,418</b> | <b>18,209</b> | <b>16,560</b> |
| <b>Total liabilities and equity</b>  | <b>76,269</b> | <b>47,896</b> | <b>37,452</b> |

As a result of our investments fixed assets increased from EUR 15.8 million in 2003, EUR 16.5 million in 2004 and EUR 25.4 million in 2005. A substantial part of our current and total assets comprised of inventories that more than doubled from EUR 12.8 million in 2003, EUR 18.5 million in 2004 to EUR 29.9 million in 2005.

## Indebtedness

Our indebtedness includes short- and long-term bank loans and borrowings from our shareholders. To ensure stability of financing of our dynamically growing business we are gradually refinancing our short-term interest-bearing debt into longer-term facilities benefiting from an improvement in macroeconomic environment in Ukraine.

Our total debt comprised EUR 3.6 million of long-term debt and EUR 6.0 million short-term debt as of 31 December 2003. In 2004 our indebtedness comprised EUR 5.1 million of long-term debt and EUR 8.9 million of short term debt and increased further to EUR 10.1 million of long-term debt and EUR 11.9 million of short-term debt in 2005. Growth in debt is attributable to an increased of scale of operations (*i.e.* higher production volumes, investments, purchases of raw materials and seasonal increase in inventories) and higher financing needs of the latter.

Over the last three years the level of long term debt in overall amount of interest bearing debt grew from 37 and 36 per cent in 2003 and 2004, respectively, to 46 per cent in 2005, reflecting our efforts aimed at obtaining longer-term financing. The table below provides detailed breakdown of our loans and borrowings as of 31 December 2003, 2004 and 2005.

(in thousands of Euros)

|  | 2005          | 2004         | 2003         |
|--|---------------|--------------|--------------|
| <i>Non-current portion (long term):</i>            |               |              |              |
| Non-bank borrowings from non-resident institutions | 2,639         | 3,734        | 3,454        |
| Non-bank borrowings from local institution         | 199           | –            | –            |
| Bank loans   | 4,736         | 1,367        | 132          |
| Bonds payable                                      | 2,512         | –            | –            |
| <b>Total non-current portion</b>                   | <b>10,086</b> | <b>5,101</b> | <b>3,586</b> |
| <i>Current portion (short term):</i>               |               |              |              |
| Bank loans   | 583           | 4            | 121          |
| <b>Total loans and borrowings</b>                  | <b>10,669</b> | <b>5,105</b> | <b>3,707</b> |

Bonds payable include UAH denominated general obligation bonds issued by APO "Tsukrovyk Poltavshchyny" in August 2005. The face value of each bond is UAH 1,000 (approximately Euro 167). As of 31 December 2005 our liability under the bonds was EUR 2.51 million whereas as at the date hereof the liability fell to EUR 1.9 million as some of the bonds were redeemed. The bonds pay quarterly fixed interest at 17% per annum beginning November 2005 until July 2008. Starting from February 2006 (*i.e.*, after two quarters) the interest rate can be modified at the discretion of issuer but it cannot not be fixed below 2%. Now the issuer decreased it to 15% per annum.

The table below provides detailed breakdown of our current interest-bearing debt as of 31 December 2003, 2004 and 2005.

(in thousands of Euros)

|   | Interest type | Interest rates                | 2005          | 2004         | 2003         |
|---|---------------|-------------------------------|---------------|--------------|--------------|
| Loans from local banks received in UAH  | Fixed         | 17.0 per cent – 18.0 per cent | –             | –            | 5,663        |
| Loans from local banks received in UAH  | Fixed         | 17.0 per cent – 21.0 per cent | 11,289        | –            | –            |
| Loans from local banks received in UAH  | Fixed         | 18.0 per cent – 19.0 per cent | –             | 8,832        | –            |
| Loans from local banks received in UAH  | Fixed         | 26.0 per cent                 | –             | 28           | –            |
| Bank overdraft in UAH                   | Fixed         | up to 21.0 per cent           | 16            | 44           | 15           |
| Loans from local banks received in Euro | Fixed         | 14.0 per cent                 | –             | –            | 256          |
| Loans from local banks received in USD  | Fixed         | 15.0 per cent                 | –             | –            | 16           |
| <b>Total current bank debt</b>          |               |                               | <b>11,305</b> | <b>8,904</b> | <b>5,950</b> |

All current bank loans are due within 12 months and are secured by inventories, biological assets and property and equipment.

## Off Balance Sheet Arrangements

We do not have any off-balance sheet arrangements other than the guarantee granted to a related party OJSC Firm "Astarta-Tsentr". In 2005 the Group guaranteed repayment of interest free bonds amounting to EUR 2.0 million issued by such party. As in accordance with the agreement dated 18 May 2005 concluded between OJSC "Firm "Astarta-Tsentr" and one of the Group's subsidiary companies LLC "Troyitska", the latter pledged all of its assets to secure repayment of total nominal cost of the bonds issued.

## **Risk Management**

Exposure to credit, interest rate and currency risk arises in the normal course of our business. To minimise credit risk, we trade on credit only with a group of selected and trustworthy clients. Changes in interest rates impact our financial results primarily through a variable costs of debt. To minimize risks associated with interest rates, we obtain loans primarily at fixed rates, which are determined based on the market environment at the time of borrowing. We also incur foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than Hryvnia. The currencies giving rise to this risk are primarily US Dollar and Euro. We do not hedge exposure to foreign currency risk.

## CAPITALISATION AND INDEBTEDNESS

The following tables set out our consolidated indebtedness and capitalisation on an actual basis as of 31 December 2005. Subsequent significant changes between 31 December 2005 and the date hereof are described below.

This information should be read in conjunction with the section headed "*Management Discussion and Operating and Financial Review*" and our audited pro-forma consolidated financial statements, including accompanying notes. Deferred tax position has been excluded from the analysis presented below.

| CAPITALISATION AND INDEBTEDNESS  | UAH thousands  | EUR thousands |
|--|----------------|---------------|
| <b>Shareholders' equity</b>  | <b>181,635</b> | <b>30,418</b> |
| Contributed capital  | 358            | 60            |
| Additional paid-in capital   | 7,845          | 1,296         |
| Retained earnings (as of 31 December 2005)                               | 173,432        | 29,358        |
| Currency translation adjustment  | –              | (296)         |
| <b>Total current debt</b>  | <b>203,262</b> | <b>34,036</b> |
| Bank loans   | 67,512         | 11,305        |
| Current portion of long-term loans and borrowings (bank loans and bonds) | 3,483          | 583           |
| Trade accounts payable   | 28,335         | 4,745         |
| Promissory notes issued  | 2,029          | 340           |
| Minority interest  | 52,129         | 8,729         |
| Other liabilities and accounts payable                                   | 49,774         | 8,334         |
| <b>Total Non-current debt</b>  | <b>70,553</b>  | <b>11,815</b> |
| Long-term loans and borrowings   | 60,230         | 10,086        |
| Deferred tax liabilities   | 10,323         | 1,729         |
| <b>Total capitalisation and indebtedness</b>                             | <b>455,450</b> | <b>76,269</b> |
| <b>NET INDEBTEDNESS</b>  |                |               |
| Cash and cash equivalents  | 3,002          | 503           |
| <b>Total liquidity</b>   | <b>3,002</b>   | <b>503</b>    |
| Current bank loans   | 67,512         | 11,305        |
| Current portion of long term loans and borrowings                        | 3,483          | 583           |
| Promissory notes issued  | 2,029          | 340           |
| <b>Current financial debt</b>  | <b>73,024</b>  | <b>12,228</b> |
| <b>Net current financial indebtedness</b>                                | <b>70,022</b>  | <b>11,725</b> |
| Long term loans and borrowings, including bonds                          | 60,230         | 10,086        |
| <b>Non current financial indebtedness</b>                                | <b>60,230</b>  | <b>10,086</b> |
| <b>Net financial indebtedness</b>  | <b>130,252</b> | <b>21,811</b> |

Our bank loans (both short and long term) are secured by inventories (mainly sugar and grain crops), biological assets (mainly cattle) and property and equipment. Our bonds, promissory notes and accounts payable (including trade accounts) are not secured.

In 2005 we have guaranteed repayment of interest free bonds amounting to UAH 12.0 million (EUR 1.9 million) issued by our related party OJSC "Firm "Astarta-Tsentr". In accordance with the agreement dated 18 May 2005 concluded between OJSC "Firm "Astarta-Tsentr" and one of our subsidiary companies LLC "Troyitska", the latter pledged all of its assets to secure repayment of bonds' principal amount. We do not have any other conditional or indirect financial indebtedness.

Since 31 December 2005 until 31 May 2006 our consolidated net financial indebtedness has increased by approximately UAH 14.6 million (EUR 2.3 million) to about UAH 144.9 million (EUR 22.4 million). Changes in our debt position are stated in the table below.

|   | 31 May, 2006   |               | 31 December, 2005 |               |
|---|----------------|---------------|-------------------|---------------|
|   | UAH thousands  | EUR thousands | UAH thousands     | EUR thousands |
| <b>NET INDEBTEDNESS</b>                           |                |               |                   |               |
| Cash and cash equivalents                         | 1,840          | 284           | 3,002             | 503           |
| <b>Total liquidity</b>                            | <b>1,840</b>   | <b>284</b>    | <b>3,002</b>      | <b>503</b>    |
| Current bank loans                                | 79,489         | 12,259        | 67,512            | 11,305        |
| Current portion of long term loans and borrowings | 5,411          | 835           | 3,483             | 583           |
| Promissory notes issued                           | 7,249          | 1,118         | 2,029             | 340           |
| <b>Current financial debt</b>                     | <b>92,149</b>  | <b>14,212</b> | <b>73,024</b>     | <b>12,228</b> |
| <b>Net current financial indebtedness</b>         | <b>90,309</b>  | <b>13,928</b> | <b>70,022</b>     | <b>11,725</b> |
| Long term loans and borrowings, including bonds   | 54,552         | 8,414         | 60,230            | 10,086        |
| <b>Non current financial indebtedness</b>         | <b>54,552</b>  | <b>8,414</b>  | <b>60,230</b>     | <b>10,086</b> |
| <b>Net financial indebtedness</b>                 | <b>144,861</b> | <b>22,342</b> | <b>130,252</b>    | <b>21,811</b> |

We hereby declare that, in our opinion, having duly considered the nature of banking arrangements and any restrictions on the transfer of funds between our subsidiaries, our working capital is sufficient for present requirements for the next 12 months of our business activities.

## THE COMPANY

### Introduction

We are an agri-industrial holding and one of the leaders of the Ukrainian sugar sector. We focus our operations on production and sales of sugar made of sugar beet, sugar by-products and related services. In 2004 and 2005 we were one of Top 5 Ukrainian sugar producers. In particular, last year we occupied the fourth place in terms of domestic sugar output, with a share of 4.6 per cent sugar produced and 3.2 per cent of sugar consumed in Ukraine. We are also involved in growing and selling various grain crops and oilseed crops due to the necessity for crop rotation in sugar beet cultivation. Cattle farming is our additional, non-core activity.

As of the date hereof, we are a group of companies with a parent holding company established under the laws of the Netherlands and with all production assets based in Ukraine. These assets are controlled by our Operating Company LLC Firm "Astarta-Kyiv". As of the date hereof, we control 5 sugar plants, 20 agricultural companies with approximately 73.5 thousand hectares under lease, as well as one fruit and vegetable processing and one mixed fodder plant. Our two trading companies, the Ukrainian parent company operating as one of those, provide centralised sales. We also hold shares in another associated company over which we exercise neither financial nor operational control. For a more detailed description of the assets see: "*Description of the Business*".

All of our operations are located in the Poltava and Vinnytsya Oblasts (administrative regions) of Ukraine. Our Ukrainian headquarters are in Kyiv.

In 2005, our consolidated sales were approximately EUR 51.8 million, which represents an increase of about 62.4 per cent compared with 2004. In particular, we sold approximately 66,400 tonnes of sugar for around EUR 27.1 million, approximately 105,800 tonnes of various crops (mainly maize, wheat and barley) for around EUR 8.0 million and cattle products, for approximately EUR 4.3 million. Revenue from services rendered and other sales totalled EUR 9.7 million.

Our main product is sugar, which constituted 52.3 per cent of total revenues in 2005 and 46.6 per cent in 2004 and together with related business (sugar by-products, grain crops, services under barter terms and other) represented 91.8 per cent of total revenues in 2005 and 95.1 per cent in 2004. Production and selling of grain crops which is linked to the necessity of crop rotation in the sugar beet cultivation process contributed to about 15.5 per cent of total revenues in 2005 and 23.7 per cent in 2004. The remainder of revenues came from meat and milk production.

The map below presents location of our sugar processing plants.



## Company History and Development

LLC Firm "Astarta-Kyiv" was established in March 1993 with a view to trading in sugar and petroleum products between Russia and Ukraine. From 1996 we shifted to agribusiness and began to invest in production of sugar and agricultural products. One of the founders of the Company, Mr. Viktor Ivanchyk, currently serves as the Chief Executive Officer and the executive Director A in the Board of Directors. Mr. Ivanchyk is indirectly a beneficial owner of 50 per cent of the Shares of the Issuer. Another founder of the Company, Mr. Valery Korotkov, currently serves as non-executive Director C and the Chairman of the Board of Directors, and is indirectly a beneficial owner of the remaining 50 per cent of the Shares of the Issuer.

The Company underwent a substantial reorganization in 2006 in order to establish a consolidated group for the purposes of listing on the WSE. To this end, control over subsidiary enterprises was consolidated by the Ukrainian parent company LLC Firm "Astarta-Kyiv" and a group holding company (the Issuer) was established in the Netherlands. The Issuer indirectly, through Ancor Investments Limited, a Cyprus-based wholly-owned subsidiary, holds 99.8 per cent of shares in LLC Firm "Astarta Kyiv". The remaining 0.2 per cent of shares of the Operating Company is held in equal proportion by Mr. Korotkov and Mr. Ivanchyk.

The Issuer is a holding company of the Group. It was established on 9 June 2006. Set out below is a brief history of the development and/or acquisition of our current production subsidiaries.

- 1993: LLC Firm "Astarta-Kyiv" was created. In 1994 it became an intermediary in barter trade between Russian suppliers of petroleum products and Ukrainian sugar plants. Proceeds from the intermediation were, over years, invested in Company's assets – mainly sugar plants and agricultural farms;
- 1996–1998: Assets of agricultural company JSC "Pustoviytove" were acquired. These assets were used to form LLC Agricultural Firm "Pustoviytove", which was registered in 1998;
- 1999: Controlling stake in OJSC "Yareskiivsky Sugar Plant" was acquired;
- 2000: LLC "Agricultural Produce Organisation (APO) "Tsukrovyk Poltavshchyny" was established by reorganizing OJSC "Yareskiivsky Sugar Plant" and several agricultural farms. Seven agricultural enterprises in the Poltava Oblast were acquired and current agricultural companies were established based on their assets;
- 2003: Kobelyatsky Sugar Plant was acquired and became part of APO "Tsukrovyk Poltavshchyny". Zhdanivsky Sugar Plant was acquired and became part of our newly created subsidiary "Agropromtsukor";
- 2004: Veselopodilsky Sugar Plant was acquired and became part of APO "Tsukrovyk Poltavshchyny";
- 2005: Globynsky Sugar Plant was acquired and became part of APO "Tsukrovyk Poltavshchyny". Five agricultural farms in the Poltava and Vinnytsya Oblasts were acquired and agricultural companies were established based on their assets. Globynskyi canning factory "Globus" became a subsidiary.

The sugar plants were acquired by purchasing their entire business operations in the course of bankruptcy/composition proceedings or acquisitions of their assets. A small interest (less than 5 per cent) in LLC "APO Tsukrovyk Poltavshchyny", belongs to minority shareholders. Other production companies, SC "Agropromtsukor" and LLC "Globynsky canning factory "Globus" are currently our 100 per cent owned-sub-subsidiaries.

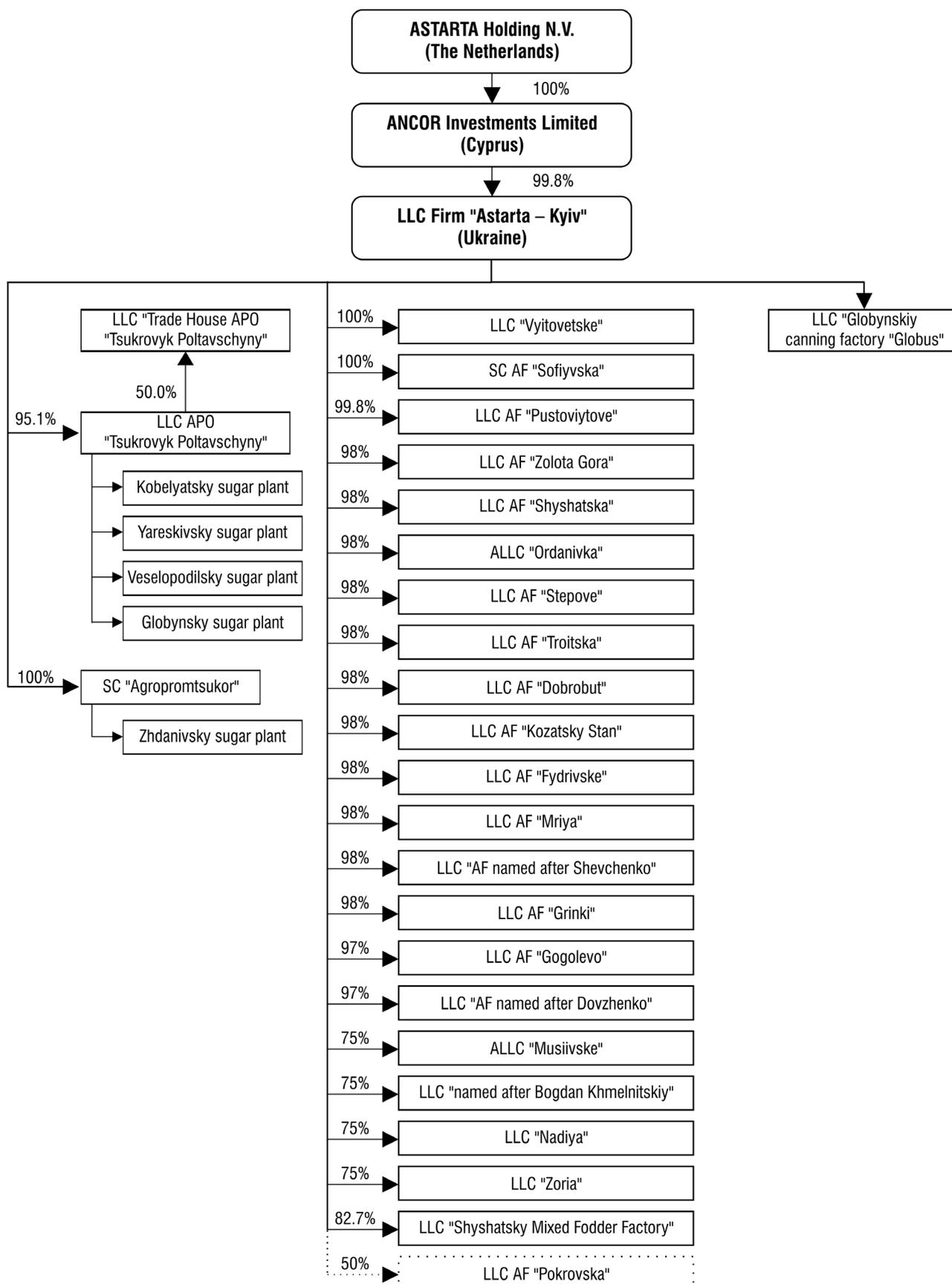
We acquired the agricultural enterprises by taking up or purchasing interests in their capital. As a result of the consolidation process, which involved buying out minority interests, 20 agricultural companies are now fully controlled by us, while another one is our associated company. In particular, our interests in 15 agricultural companies increased between January and May 2006 and reached at least 97 per cent of their equity.

We will continue our strategic acquisition efforts in 2006. With a view of strengthening our positions in the Ukrainian sugar market, we plan to acquire one or two sugar plants, as well as additional agricultural companies in the Poltava and Vinnytsya Oblasts. See: *"Mergers and Acquisitions Policy"*.

## 2006 Reorganization

We underwent a substantial reorganization in 2006 in order to establish a consolidated group for the purposes of listing on the WSE. To this end, control over subsidiary enterprises was consolidated by the Ukrainian parent company LLC Firm "Astarta-Kyiv" and a group holding company (the Issuer) was established in the Netherlands on June 9, 2006.

The following chart describes our principal subsidiaries and interests in those as of date hereof. For a more detailed description of the assets, see: *"Description of the Business"*.



Following the listing on the WSE we intend to increase further our stake in LLC "Trade House "APO "Tsukrovyk Poltavshchyny" so that it becomes our fully-owned subsidiary.

## Our Strategy

We are one of the leading agro-industrial holdings in Ukraine and our core business is to supply high-quality sugar to Ukrainian industrial customers and population. Our development strategy for 2006 to 2010 envisages both increasing the Company's market share in the Ukrainian sugar market through acquisitions and organic growth, as well as entering new markets for the Company's products, primarily sugar, sugar by-products and grain crops. The key elements of our strategy are as follows:

- *Organic growth through investments in modernisation and capacity increases of the current production assets base.* We plan to continue reconstructing and upgrading our sugar plants to bring them in line with the EU standards. This will involve purchasing and installing new production equipment from leading international and European manufacturers. Such measures will result in increasing the efficiency of our sugar production, ensuring an optimal period of production (100 days per season) and significantly reducing our energy consumption (primarily natural gas).  
We are also going to improve our logistics by acquiring and operating additional in-house truck fleet. Finally, we plan to complete rolling out product quality and safety management systems compliant with ISO 9001:2000 and HACCP standards at all of our sugar plants between 2006 and 2007.
- *Acquisition-driven growth to become one of the leading consolidators in the highly fragmented domestic sugar industry.* We plan to increase our daily sugar beet processing capacity from about 17,600 tonnes in 2005 to about 23,000 tonnes in 2010. To achieve this, we plan to acquire one or two additional sugar plants. This would allow us to increase market share in terms of sugar sales from 3.2 per cent in 2005 to an estimated 10.0 per cent by 2010, and increase an average yield from 29.5 tonnes per hectare to over 45 tonnes per hectare.  
We also plan to increase our arable land in use from 66,911 hectares in 2005 to about 120,000 hectares in 2010 in order to develop our agricultural production. As a result, and also due to increased scale of grain and oilseed crops production (mainly wheat, barley, sunflower, soy, maize) and higher yields per hectare, we are planning to raise output from 124,200 tonnes of grains in 2005 to approximately 270,000 tonnes in 2010.  
As a result of all these measures, we expect to increase output of our sugar plants from 87,500 tonnes in 2005 to approximately 280,000 tonnes in 2010.
- *Vertical integration with increasing share of in-house grown raw materials.* We are going to further *develop* vertical integration of our business to ensure secure supply and quality of inputs, as well as cost savings leading to improved margins. In line with this, we concentrate our efforts on in-house growing of sugar beet and aim to increase related land acreage from approximately 7,400 hectares in 2005 and 15,600 as of 22 May 2006 to over 30,000 hectares by 2010.  
As a result, the output of in-house grown sugar beet is expected to increase from approximately 217,000 tonnes in 2005 to approximately 1,500,000 tonnes in 2010, with a corresponding share of in-house grown sugar beet in the overall sugar beet processing volume rising from about 31 per cent in 2005 to at least 70 per cent in 2010.
- *Increasing production of premium-quality refined sugar.* We aim to increase production of premium-quality *refined* sugar from 3,000 tonnes in 2005 to 15,000 tonnes by 2010. This would allow us to increase sales to certain industrial customers, such as alcoholic and soft beverage producers and pharmaceutical manufacturers, all of which use premium quality sugar in their operations.
- *Exports growth.* We aim to expand our exports from 9 per cent of total revenues in 2005 through entering new markets which are expected to lift trade barriers, *e.g.*, Russia and the EU. In particular, we wish to take advantage of the forthcoming trade liberalisation between Ukraine and Russia, stemming from the Protocol of 25 November 2005 between the governments of Ukraine and the Russian Federation, as a result of which the latter is expected to lift trade barriers on 1 January 2009, thus making export of Ukrainian sugar to Russia possible.

In addition, EU sugar market reform envisages pan-EU price reductions, as well as a decrease of exports from the EU which may open new opportunities for Ukraine and the Company. The reform implies lower sugar production capacity in the EU countries. Partial reduction in sugar production is also expected to result in decreased production of its by-products, primarily molasses (which is used for producing ethanol) and sugar beet pulp. This would create additional demand for such products. We are also looking into possibilities of exporting our sugar to other CIS countries, such as Georgia and Azerbaijan.

## Our Competitive Strengths

We believe that our competitive strengths are the following:

- We are one of the Top 5 sugar sector players poised to become one of the consolidators of the very fragmented market;
- Our efforts towards more vertically integrated structure allow us to have greater control over the full production cycle from the growth of raw materials to the processing and marketing of sugar and reduce the production costs, compared to most of our competitors. Many of our smaller competitors recently exited the market due to lack of access to working capital and to raw materials;
- Strong position in the premium industrial consumer market, with leading confectionary players as main customers;

- Economies of scale compared to competitors. Most of our plants have daily processing capacity above 3,000 tonnes while about 80% of Ukrainian sugar plants have lower capacities;
- Geographic proximity to both raw material sources and customers, minimizing transportation costs and protecting us from competition from other sugar producers;
- Access to state-of-the-art farming and sugar production technologies. We only use best quality seeds and fertilisers and purchase the agricultural equipment from leading EU and US manufacturers to bring our agricultural technology in line with international best practice. We also invest in modernisation of our sugar plants with the assistance from European, including Polish, engineering companies;
- Professional and experienced management team, with 10 years of running sugar and agricultural business. We have a lean management structure, with most of our workforce of approximately 6,000 people (including approximately 1,500 seasonal workers) employed at sugar plants and farms and a small, 100 people strong, head office.

## Description of the Business

Our vertically integrated sugar production operation consists of 5 sugar plants. Four of those are located in the Poltava Oblast and form LLC "APO Tsukrovyk Poltavshchyny" and the fifth (Zhdanivsky sugar plant) is at the core of SC "Agropromtsukor" in the Vinnytsya Oblast. Our trading companies, LLC Trade House APO "Tsukrovyk Poltavshchyny" and LLC Firm "Astarta-Kyiv" are responsible for sales of our sugar and its by-products.

### Sugar processing capacity

As at December 31, 2005, the daily processing capacity of our five plants stood at approximately 17,600 tonnes of sugar beet. The table below provides breakdown of our processing capacity in as of 31 December 2003, 2004 and 2005 in tonnes of sugar beet per day.

| Sugar plant    | 2003   | 2004   | 2005   |
|----------------|--------|--------|--------|
| Yareskivsky    | 3,000  | 3,000  | 3,000  |
| Kobelyatsky    | 5,500  | 5,500  | 5,500  |
| Zhdanivsky     | 2,600  | 2,600  | 2,600  |
| Veselopodilsky |        | 3,150  | 3,150  |
| Globynsky      |        |        | 3,380  |
| Total          | 11,100 | 14,250 | 17,630 |

Source: Company's data

In 2005 the average capacity utilisation rate of our plants (about 76 per cent) and processing period (around 64 days) were not optimal which was caused primarily by three factors: Globynsky sugar plant, which was purchased by us by the end of 2005 after completion of a bankruptcy proceeding, was idle in 2005, the necessity of plants modernization and the shortage of raw materials.

The Yareskivsky plant complies with ISO 9001:2000 and HACCP standards, whereas Veselopodilsky and Kobelyatsky comply with ISO 9001:2000 standard. We are expecting that Globynsky and Zhdanivsky plants will adopt ISO standards in 2006–2007.

### Sugar production

We have experienced a steady growth of the sugar production volumes which almost doubled from 46.5 thousand tonnes in 2003 to 87.5 thousand tonnes in 2005 and allowed us to significantly raise our market share in terms of sales from approximately 1.0 per cent in 2003 to about 3.2 per cent in 2005, as illustrated in the table below.

| Sugar production & sales                          | 2003 | 2004 | 2005 |
|---|------|------|------|
| Sugar production, (thousand tonnes)               | 46.5 | 79.2 | 87.5 |
| Sugar sales, (thousand tonnes)                    | 20.5 | 47.2 | 66.4 |
| Share in total Ukrainian domestic production, (%) | 3.2  | 4.4  | 4.6  |
| Share in total Ukrainian consumption, (%)         | 1.0  | 2.3  | 3.2  |

Source: Company's data and estimates

### Procurement of raw materials

Sugar beet is sourced from our own agricultural companies, as well as from independent producers, located in the vicinity of our plants. We acquire all of the sugar beet produced by our agricultural companies. Sugar beet processing usually begins in late August and ends in December. As part of the strategy to develop in-house source of raw materials, we continue stepping up the percentage of sugar beet grown in-house in the overall processing volume.

We also purchase sugar beet from third party agricultural producers either by advance purchases or at spot prices. Normally, we finance in advance about 25 per cent of contract volumes of sugar beet purchased. When using the advance purchase method, we sometimes supply such enterprises with raw materials and equipment (e.g., fuel, fertilizers and plant protection agents), as well as services, for which they settle

by supplying sugar beet at pre-agreed prices. Prices for raw materials are determined and pre-agreed based on sugar price. We only fund the largest agricultural farms with a stable financial position, which have proved to be reliable partners. Raw materials are purchased during the processing season as described above (*i.e.*, from August to December) on *ex-field* terms.

Raw materials are also sourced under "tolling" arrangements, whereby we process sugar beet of third parties and return the produced sugar to them. We retain approximately 35 per cent of the sugar beet supplied for processing by such third parties as their payment for the processing services. Such arrangements allow us to better utilise the production capacity (and hence lower the per unit production costs) until we become more self-sufficient in raw materials. We aim to continuously decrease the share of tolling from about 25 per cent of the production volumes and 11 per cent of the revenues in 2005. This will be achieved through an increased proportion of sugar beet grown in-house in the overall volume of beet processed.

The table below sets out the breakdown of sugar output in 2003–2005 in thousand tonnes.

| <b>Sugar production</b><br>(thousand tonnes)  | <b>2003</b> | <b>2004</b> | <b>2005</b> |
|---|-------------|-------------|-------------|
| Sugar beet processed  | 383.0       | 683.7       | 669.5       |
| Sugar produced from own sugar beet  | 10.7        | 13.8        | 29.9        |
| Sugar produced from purchased sugar beets, including that received as payment for processing services | 22.3        | 47.1        | 35.8        |
| Sugar produced for third persons – "tolling"  | 13.5        | 18.3        | 21.8        |
| Total sugar produced  | 46.5        | 79.2        | 87.5        |
| Sugar extraction rate, (%)  | 12.1        | 11.6        | 13.1        |

Source: Company's data and estimates

Under Ukrainian law, the government annually determines a mandatory minimum purchase price for sugar beets, see: "*Industry Overview and Industry Regulation – Regulation of the Ukrainian Agricultural Industry – Legal Framework*". The minimum purchase price for the last marketing year (2005/06) was set at approximately EUR 23.0 per tonne.

### Sales of sugar

In 2005, we sold approximately 66,400 tonnes of sugar for EUR 27.1 million. The table below provides details of our sugar sales in 2003–2005.

|             | <b>2003</b>     |             | <b>2004</b>     |             | <b>2005</b>     |             |
|-------------|-----------------|-------------|-----------------|-------------|-----------------|-------------|
|             | thousand tonnes | EUR million | thousand tonnes | EUR million | thousand tonnes | EUR million |
| Sugar sales | 20.5            | 7.1         | 47.2            | 14.9        | 66.4            | 27.1        |

Source: Company's data

In 2005 we sold 56 per cent of our sugar by volume to three large industrial customers – confectionary plants of AVK, Poltavakonditer and Kraft Foods. Another 33 per cent was sold to wholesale traders, including Cargill. The remaining 11 per cent was sold to mid- and small-size industrial producers, such as canning factories, bakeries, beverage and dairy producers. Most of our industrial customers are located in Eastern Ukraine. The table below provides a breakdown of our sales by volume in 2005.

| <b>Customer</b>            | <b>Industry</b>       | <b>Share, %</b> |
|----------------------------|-----------------------|-----------------|
| CJSC AVK                   | Confectionary         | 25              |
| OJSC Poltavakonditer       | Confectionary         | 24              |
| CJSC Cargill               | Trader                | 13              |
| CJSC Kraft Foods Ukraine   | Confectionary         | 7               |
| Other industrial customers | Bakeries, Dairy, etc. | 11              |
| Other wholesale traders    | n.a.                  | 20              |

Source: Company's data

We believe that we are not dependent on any single customer. Given the commodity nature of the market, our sales volumes would not be materially affected if we changed customers or lost one or more existing customers.

Supply contracts with our customers are entered into for a maximum term of one year, which is a generally adopted business practice in the Ukrainian sugar market. Approximately 25 to 30 per cent of such supply contracts are based on fixed prices, while the remainder of our contracts is executed on a spot price basis, which fluctuates in line with the domestic market price. For details see: "*Industry Overview and Industry Regulation – Ukrainian Sugar Market*".

### Logistics of our sugar business

Sugar beet is usually delivered to our plants by truck from regional suppliers on *ex-field* terms, *i.e.* we cover transportation costs. If necessary, due to production needs or weather conditions, sugar beet is redistributed from one plant to another. About one third of the sugar beet in 2005 was delivered by our own truck fleet.

With regard to sugar transportation, approximately 20 per cent of sugar is sold to small wholesale customers and picked up by them. The remaining 80 per cent, sold directly to large wholesale buyers, is delivered by rail and trucks. Each of our plants is located close to railway stations and major roads, as well as relatively close to our main customers.

### **Competition in the sugar market**

The sugar industry in Ukraine remains very fragmented, however, the consolidation process is underway. In 2005, about 30 per cent of the sector sales was controlled by Top 5 domestic producers and the remaining 70 per cent – by more than 35 players. Our main competitors are: Ukrainian Food Company, Ukrros, Ukrprominvest and Dakor. The table below provides details of the competitive landscape in terms of production and sales in 2005.

|                   | <b>Production</b><br><i>(thousand tonnes)</i> | <b>Sales</b><br><i>(thousand tonnes)</i> | <b>Share in production</b><br><i>(%)</i> | <b>Share in sales</b><br><i>(%)</i> |
|-------------------|---|--|--|-------------------------------------|
| Ukrainian Food Co | 279   | 210                                      | 14.8                                     | 10.0                                |
| Ukrros            | 192   | 153                                      | 10.2                                     | 7.3                                 |
| Ukrprominvest     | 91  | 75                                       | 4.8                                      | 3.6                                 |
| Astarta-Kyiv      | 88  | 66                                       | 4.6                                      | 3.2                                 |
| Dakor             | 74  | 60                                       | 3.9                                      | 2.9                                 |
| Other             | 1,166   | 1,532                                    | 61.7                                     | 73.0                                |
| Total             | 1,890   | 2,100                                    |  |                                     |

Source: Ukrtsukor and management estimates

Ukrainian Food Company is a sugar producer with 18 plants, of which two have daily processing capacity in excess of 3,000 tonnes. The company is up-stream vertically integrated and leases 52 thousand hectares of land.

Ukrros is a sugar producer with six plants, of which four have daily processing capacity in excess of 3,000 tonnes. The company is up-stream vertically integrated and leases 50 thousand hectares of land.

Ukrprominvest is a sugar producer with three plants, of which two have daily processing capacity in excess of 3,000 tonnes (one of the plants was idle in 2005). The company is up-stream and down-stream vertically integrated and leases 52 thousand hectares of land. Uniquely, it supplies all of its sugar output to affiliated confectionery business, consisting of four confectionary plants in Ukraine and one in Russia.

Dakor is a sugar producer with four plants, of which two have daily processing capacity in excess of 3,000 tonnes. The company is up-stream vertically integrated and leases 20 thousand hectares of land.

### **Sugar production subsidiaries**

APO "Tsukrovyk Poltavschny" is a sub-holding organisation, comprising four sugar plants: Kobelyatsky, Yareskivsky, Veselopodilsky and Globynsky. Raw materials are supplied to the plants from agricultural farms in the Poltava, Dnipropetrovsk and Kharkiv Oblasts. We presently hold 95.1 per cent of its equity.

- *Kobelyatsky Sugar Plant*

Built in 1955 and reconstructed in 1970–75, the plant is located in the township of Beliki, the Poltava Oblast, 8 km from a highway and 0.5 km from a railroad station. This sugar plant has five beet receiving stations. The total daily processing capacity is 5,500 tonnes of sugar beet. The plant has product quality and safety management systems which are compliant with ISO 9001:2000 since the first half of 2006.

- *Yareskivsky Sugar Plant*

Built in 1966 and reconstructed in 1974, 1976 and 1984, the plant is located in the township of Yareski, the Poltava Oblast, 6 km from a railroad station. This sugar plant has two beet receiving stations. The total daily processing capacity is 3,000 tonnes of sugar beet. We have upgraded this sugar plant substantially in the last several years, in particular, by installing new sugar packing and granulated pulp production equipment. The plant has product quality and safety management systems which are compliant with ISO 9001:2000 and HACCP since 2005.

- *Veselopodilsky Sugar Plant*

Built in 1929 and reconstructed in the periods of 1958 to 1964 and 1976 to 2000, the plant is located in the township of Semenivka, the Poltava Oblast, 0.4 km from a railroad station. This sugar plant has two beet receiving stations. The total daily processing capacity is 3,150 tonnes of sugar beet. The plant has product quality and safety management systems which are compliant with ISO 9001:2000 since the first half of 2006.

- *Globynsky Sugar Plant*

Built in 1911 and reconstructed in 1975–78, the plant is located in the township of Globyno, the Poltava Oblast, 0.6 km from a railroad station. The total daily processing capacity is 3,380 tonnes of sugar beet. We are working towards certifying the plant to ISO standards in 2007.

Subsidiary Company "Agropromtsukor"

• Zhdanivsky Sugar Plant

Originally built in 1852 and reconstructed in 1997, the plant is located in the township of Zhdanivka, the Vinnytsya Oblast, 10 km from a highway and 8 km from a railroad station. Sugar beets are supplied to the plant from agricultural farms in the Vinnytsya, Khemlynsky and Zhytomyr Oblasts. The total daily processing capacity in terms of sugar beet is 2,600 tonnes. In 2006 and 2007 we intend to reconstruct and modernize this plant. Product quality and safety management systems are to be certified according to standards ISO in 2006–2007.

**Agricultural operations**

Our agricultural operations consist of 20 companies fully controlled by the Company and one associated agricultural company. They are focused on growing sugar beet but also produce grain, oil seeds and other agricultural crops. Cattle farming is yet another activity. Due to the necessity for crop rotation in the sugar beet growing we use the same areas for the production of sugar beet and of grain. Our agricultural production facilities include storage rooms, grain storage spots and a mixed fodder factory.

We have been continuously increasing the area of land under lease, which almost doubled from 35.7 thousand of hectares in 2003 to 66.9 thousands hectares in 2005. At the same time areas used for sugar beet cultivation were expanded from 3.9 thousand hectares in 2003 to 7.4 thousand hectares in 2005.

Together with the expansion of the land for production of sugar beet we increased area of land for the grain cultivation from 27.3 thousand hectares in 2003 to 40.8 thousand hectares in 2005, due to crop rotation requirements. Table below provides breakdown of agricultural land under lease by type of crops as of 31 December 2003, 2004 and 2005.

| <i>Thousand of hectares</i>          | <b>2003</b> | <b>2004</b> | <b>2005</b> |
|--------------------------------------|-------------|-------------|-------------|
| Sugar beets                          | 3.9         | 4.7         | 7.4         |
| Grain-crops and oilseeds, including: | 27.3        | 35.8        | 40.8        |
| Wheat                                | 2.9         | 9.6         | 12.4        |
| Maize                                | 7.7         | 8.3         | 8.4         |
| Barley                               | 7.2         | 8.3         | 8.7         |
| Sunflower                            | 5.1         | 3.9         | 5.6         |
| Soy                                  | 2.4         | 4.7         | 4.7         |
| Industrial crops                     | 2.0         | 1.0         | 1.0         |
| Other                                | 4.5         | 3.5         | 18.7        |
| <b>Total:</b>                        | <b>35.7</b> | <b>44.0</b> | <b>66.9</b> |

Source: Company's data and estimates

The optimal timing of cultivation of the sugar beet is one in four years on the same land on average. Thus, the area under the sugar beet should reach 25% of the total land we use. However, due to the dynamic growth of the amount of land we lease and the necessity of soil preparation before the cultivation of such crop, we have managed to sow the sugar beet only on about 11% of the total area of land used in 2003–2005.

We grow sugar beet and grain on private lands, which we lease from local individual owners and local authorities. Our land lease agreements normally range from 5 to 10 years. Under Ukrainian law, as well as according to our land lease agreements, we have pre-emptive rights to extend our land leases, unless the owner ceases to lease land at all. We also have rights of first refusal to purchase the land that we lease. However, under the Land Code of Ukraine, there is a moratorium on the sale of land for agricultural production until January 1, 2007.

As recommended by the Ukrainian legislation, our rent payments are normally set at 0.15% of the appraised value of the respective plot. The monthly average rental payment for plough-land leased from local authorities in 2005 was approximately UAH 18 (EUR 3) per hectare; whereas for plough-land leased from individuals the average rental payment was UAH 17 (EUR 3) per hectare. The rents are gradually increasing every year due to increasing appraised value of land. The latter is determined by the state authorities and is subject to annual indexation against inflation in Ukraine.

**Sugar beet production**

We continue to concentrate our efforts on increasing share of in-house grown sugar beet in the total volume of sugar beet processed in order to decrease production costs. The table below provides details of in-house sugar beet production and total volumes of sugar beet processed in 2003–2005.

|   | <b>2003</b> | <b>2004</b> | <b>2005</b> |
|---|-------------|-------------|-------------|
| Production of own sugar beet ( <i>thousand tonnes</i> )             | 90          | 119         | 217         |
| Sugar beet delivered to our sugar plants ( <i>thousand tonnes</i> ) | 399         | 705         | 694         |
| Sugar beet processed, net of waste                                  | 383         | 683.7       | 669.5       |
| Share of in-house grown sugar beet in total volume processed, (%)   | 22.4        | 16.8        | 31.3        |

Source: Company's data and estimates

Due to natural wastage of sugar beet between its delivery and processing the actual amounts of sugar beet processed are 3–4 per cent lower than the amount delivered.

### **Production of grain and oilseeds**

Due to increased acreage of land used for cultivation of grain crops and oilseeds, as well as higher yields and use of advanced agricultural technology, we managed to more than double the output of these crops from 60.1 thousand tonnes in 2003 to 124.2 thousand tonnes in 2005. The table below provides breakdown of grain crop output for the years ending 31 December 2003, 2004 and 2005.

| <i>Thousand tonnes</i>               | <b>2003</b> | <b>2004</b> | <b>2005</b> |
|--------------------------------------|-------------|-------------|-------------|
| Grain crops and oilseeds, including: | 60.1        | 100.9       | 124.2       |
| wheat                                | 4.5         | 33.0        | 45.0        |
| maize                                | 27.1        | 29.5        | 36.0        |
| barley                               | 14.7        | 23.9        | 22.8        |
| sunflower                            | 7.9         | 4.1         | 10.3        |
| soy                                  | 3.2         | 6.1         | 6.6         |
| other                                | 2.7         | 4.3         | 3.5         |

Source: Company's data and estimates for agricultural production

### **Procurement of raw materials for agricultural production**

In our sugar beet and grain production, we introduce an intensive agricultural technology based on the use of seeds, fertilizers and plant protection agents that have certificates of quality as required by the Ukrainian regulations and modern machinery that allows us to rise the output through the increased yields as well as to improve crops quality.

We purchase parental sugar beet seeds from Productiva A.D. of Serbia Montenegro and from Ukrainian plant-breeding stations, and produce from them seeds for our regular sugar beet production. We also buy sugar beet seeds from leading EU producers, including KWS and Advanta.

For our grain production we purchase best quality seeds from major international seed suppliers, such as Syngenta, Rustica Pioneer and Zemun Pole.

We utilize the system of fertilizing the soil with complex use of nitrogenous, phosphorus and potassic fertilizers in different combinations depending on the soil type and specific crop (e.g., in case of sugar beet such breakdown is approximately of 30%, 30% and 40%). We strictly observe the dosage and use norms prescribed for each type of fertilizer and chemicals. We purchase fertilizers from major Ukrainian, Russian and Belarus suppliers, including Cherkassy, Severodonetsk and Rivne Azot, Rosapatit, Belkalyi.

With respect to plant protection agents we purchase approximately 75 per cent of chemicals from leading international suppliers, in particular BASF, Dupont and Syngenta. Ukrainian suppliers provide the rest of supply.

We also utilize modern equipment and machinery manufactured by leading European and American companies, such as Case and Claas. Since 2002 we have been working with partner vendor, an US company Amity Technology, which supplies machinery for growing and harvesting sugar beet.

As a result of intensive agricultural technology we managed to yield on average 29.5 tonnes of sugar beet per hectare in 2005, while the average sugar beet yield in Ukraine stood at 24.5 tonnes per hectare. At five of our agricultural companies (Pustoviytove, Dobrobut, Troitska, Shyshatska and Gogolevo) sugar beet yields reached 40 tonnes per hectare. Similar situation can be observed with respect to grain crops where yield at our agricultural farms was 3.5 tonnes per hectare against Ukraine's average of 2.6 tonnes in 2005.

### **Sales of sugar beet and grain**

Entire volume of sugar beet grown by our agricultural companies is processed at our plants.

We sell grain and oilseed crops to third parties, including for export, as well as use it for internal consumption (for seeds and in cattle-farming). The table below provides details of third-party sales of grain crops for the years ending December 31, 2003, 2004 and 2005.

| <b>Grain and oilseeds</b> | <b>2003</b>            |                    | <b>2004</b>            |                    | <b>2005</b>            |                    |
|---------------------------|------------------------|--------------------|------------------------|--------------------|------------------------|--------------------|
|                           | <i>thousand tonnes</i> | <i>EUR million</i> | <i>thousand tonnes</i> | <i>EUR million</i> | <i>thousand tonnes</i> | <i>EUR million</i> |
| wheat                     | 13.4                   | 2.0                | 25.1                   | 2.1                | 30.8                   | 2.3                |
| maize                     | 31.5                   | 2.8                | 20.8                   | 2.0                | 40.2                   | 2.4                |
| barley                    | 12.1                   | 1.3                | 21.2                   | 1.5                | 18.8                   | 1.4                |
| sunflower                 | 6.4                    | 0.9                | 5.4                    | 1.0                | 6.1                    | 0.9                |
| soy                       | 3.1                    | 0.5                | 3.7                    | 0.6                | 6.4                    | 0.9                |
| other                     | 2.7                    | 0.3                | 4.3                    | 0.4                | 3.5                    | 0.1                |
| Total sales               | 69.2                   | 7.8                | 80.5                   | 7.6                | 105.8                  | 8.0                |

Source: Company's data and estimates

In 2005, about 56 per cent of grain and oilseeds grown by our agricultural companies was sold to leading international traders. The rest was sold in the domestic markets or used internally for processing into mixed fodder for our cattle farms. The table below provides breakdown of our grain crop sales by customer in 2005.

| Customers                                | Volume<br>(thousands of tonnes) | Share<br>(%) |
|--|---------------------------------|--------------|
| Louis Dreyfus Negoce S.A.S.              | 24.1                            | 22.8         |
| Nibulon Trading B.V.                     | 14.4                            | 13.6         |
| Kernel Group                             | 12.3                            | 11.6         |
| Thegra                                   | 4.9                             | 4.6          |
| Glencore                                 | 3.8                             | 3.6          |
| Other customers and internal consumption | 46.3                            | 43.8         |
| <b>Total</b>                             | <b>105.8</b>                    | <b>100</b>   |

Source: Company's data and estimates

The customers listed above are our long-standing partners. We believe that we do not have significant dependency on any single customer. Given the commodity nature of the grain and oilseeds market, our sales would not be materially affected if we changed customers or lost one or more existing customers.

In line with the current market practice, we normally enter into delivery contracts for up to 1 year or into single consignment contracts. Price for grain is fixed on the basis of spot prices, generally in line with international prices as the domestic grain market is fully liberalised. Nearly 70% of grain sales take place from August through January, in counter-cycle with us purchasing raw materials during the sugar processing season.

#### **Logistics of our grain and oilseeds business**

Almost entire amount grain produced by us is delivered to our warehouses by own trucks. We then off-load the grain into railway wagons at our terminals and forward it to clients.

#### **Competition in the sugar beet, grain and oilseeds market**

There is a significant competition in Ukraine for sugar beet supplies between sugar plants. See: "Industry Overview and Industry Regulation". Competition is limited by transportation costs, as it is only economically feasible to purchase sugar beets from farms located in close proximity to sugar plants. The majority of our suppliers are located within a 50 kilometres radius from our sugar plants.

Except for one competitor's plant, there are no other sugar plants in such a close proximity to our suppliers. Thus, it becomes generally economically unfeasible for our competitors to purchase sugar beets from our key suppliers, due to transportation costs. We believe that in the next three to four years, the Ukrainian sugar market will be dominated by large vertically integrated companies that will be able to grow their own sugar beets and will have sufficient financial resources to make advance purchases from external agricultural farms.

Despite ongoing consolidation in the grain sector, competition is extremely fragmented. Several thousands of enterprises are involved in the grain production and no single market participant holds more than a 2% share of the domestic grain market.

#### **Agricultural production subsidiaries**

The Company currently fully controls 20 agricultural companies specializing in growing sugar beets and other agricultural products with approximately 73.5 thousand hectares of land under lease. Another agricultural company "Pokrovska" (with 6,640 hectares of land), in which we hold a 50% stake, is our associate company.

By the end of 2005 we controlled 18 agricultural companies with about 66.9 thousand hectares of land. Their list is presented below:

| No. | Name of the agricultural company | Acquired/<br>Established | Share<br>in capital | Location<br>(district,<br>oblast) | Arable land<br>under lease,<br>(hectares) | Avr. land<br>lease term,<br>(years) | Grain -crops<br>output<br>in 2005,<br>(tonnes) | Sugar beets<br>output<br>in 2005,<br>(tonnes) |
|-----|----------------------------------|--------------------------|---------------------|-----------------------------------|---|-------------------------------------|--|---|
| 1.  | LLC AF Troitska                  | 1999                     | 98%                 | Globinskyi, Poltava               | 3,943                                     | 10                                  | 10,382   | 23,841  |
| 2.  | LLC AF Grinki                    | 1999                     | 98%                 | Globinskyi, Poltava               | 2,748                                     | 5                                   | 7,754  | 13,431  |
| 3.  | LLC AF Shyshatska                | 2000                     | 98%                 | Shyshatskiy, Poltava              | 7,508                                     | 5                                   | 17,847   | 37,703  |
| 4.  | LLC AF Gogolevo                  | 2000                     | 97%                 | Shyshatskiy, Poltava              | 4,773                                     | 8                                   | 13,182   | 27,983  |
| 5.  | LLC AF Stepove                   | 2000                     | 98%                 | Globinskyi, Poltava               | 2,914                                     | 5                                   | 7,788  | 13,042  |

| No.   | Name of the agricultural company    | Acquired/ Established | Share in capital | Location (district, oblast) | Arable land under lease, (hectares) | Avr. land lease term, (years) | Grain -crops output in 2005, (tonnes) | Sugar beets output in 2005, (tonnes) |
|-------|-------------------------------------|-----------------------|------------------|-----------------------------|-------------------------------------|-------------------------------|---------------------------------------|--------------------------------------|
| 6.    | LLC AF named after Shevchenko       | 2001                  | 98%              | Globinskyi, Poltava         | 1,674                               | 5                             | 2,972                                 | –                                    |
| 7.    | ALLC Ordanivka                      | 2002                  | 98%              | Dikanivskiy, Poltava        | 7,251                               | 5                             | 13,529                                | 23,480                               |
| 8.    | LLC AF Dobrobut                     | 2003                  | 98%              | Kozelshinskyi, Poltava      | 5,495                               | 5                             | 9,245                                 | 15,840                               |
| 9.    | LLC Vytovetske                      | 2004                  | 100%             | Khmelnikskiy, Vinnitsa      | 2,454                               | 5                             | –                                     | –                                    |
| 10.   | LLC AF Pustoviytove                 | 2005                  | 99,8%            | Globinskyi, Poltava         | 9,561                               | 5                             | 23,147                                | 37,946                               |
| 11.   | LLC AF Kozatsky Stan                | 2005                  | 98%              | Kozelshinskyi, Poltava      | 2,657                               | 5                             | 2,039                                 | 2,578                                |
| 12.   | LLC AF Fydrivske                    | 2004                  | 98%              | Globinskyi, Poltava         | 929                                 | 5                             | 713                                   | 902                                  |
| 13.   | ALLC Musiivske                      | 2005                  | 75%              | Khorolskyi, Poltava         | 3,104                               | 5                             | 3,317                                 | 1,430                                |
| 14.   | LLC AF Zolota Gora                  | 2005                  | 98%              | Shyshatsky, Poltava         | 2,787                               | 5                             | 6,467                                 | 13,915                               |
| 15.   | LLC AF named after Dovzhenko        | 2005                  | 97%              | Shyshatsky, Poltava         | 3,795                               | 5                             | 5,811                                 | 4,559                                |
| 16.   | LLC Nadiya                          | 2005                  | 75%              | Khmelnikskiy, Vinnitsa      | 1,633                               | 5                             | –                                     | –                                    |
| 17.   | LLC Zoria                           | 2005                  | 75%              | Khmelnikskiy, Vinnitsa      | 1,040                               | 5                             | –                                     | –                                    |
| 18.   | LLC named after Bogdan Khmelnytskyi | 2005                  | 75%              | Khmelnikskiy, Vinnitsa      | 2,645                               | 5                             | –                                     | –                                    |
| Total |                                     |                       |                  |                             | 66,911                              |                               | 124,193                               | 216,650                              |

Source: the Company

Agricultural companies "Nadiya", "Zoria" and "named after Bohdan Khmelnytskyi" in the Vinnitsa oblast were acquired in the fourth quarter of 2005 and hence we did not benefit from their production in 2005. We also had no benefit from the results of LLC "Vytovetske", since we managed to legalise all the land lease rights of this company only by the end of 2005.

During January-May 2006 we acquired one agricultural company "Mriya" (with 1,004 hectares of land under lease) and established another one "Sofiyivska" (with 800 hectares of land under lease).

Our agricultural companies are also leased additional land from individuals. Thus, currently the total area of land we use is approximately 73.5 thousand hectares.

We also hold 50% interest in an associate company "Pokrovska" which has 6,640 hectares of land under an average 5 year leases. However, we do not consolidate this company so it is not include in the above table.

### Sugar by-products

As a result of sugar processing, we obtain two main by-products: molasses and beet pulp. In 2005, we sold 33.3 thousand tonnes of molasses, almost half of which was exported. We also explore the possibility to start, independently or in co-operation with third parties, production of ethanol from molasses produced by our sugar plants. The table below provides sales of sugar by-products for the years ended 31 December 2003, 2004 and 2005.

|                 | 2003            |              | 2004            |              | 2005            |              |
|-----------------|-----------------|--------------|-----------------|--------------|-----------------|--------------|
|                 | Thousand tonnes | EUR, million | Thousand tonnes | EUR, million | Thousand tonnes | EUR, million |
| molasses        | 12.0            | 0.8          | 18.6            | 0.8          | 33.3            | 1.9          |
| sugar beet pulp | 132.8           | 0.2          | 287.7           | 0.3          | 294.2           | 0.9          |

Source: Company's data and estimates

In 2005 we produced about 530 thousand tonnes of wet beet pulp and 4.5 thousand tonnes of dry pulp. The pulp produced by our sugar plants is primarily sold to local agricultural farms as feed for cattle. We dry and granulate about 10% of our pulp and sell it to international traders who

in turn export it to international markets. We have invested EUR 0.8 million to purchase modern drying and granulation equipment and plan to increase the production of dry granulated pulp from 4.5 thousand tonnes in 2005 up to about 20.0 thousand tonnes by 2010.

#### **Cattle breeding and milk production**

We grow cattle for milk and meat at our agricultural farms. Milk is sold to local dairy plants, while meat is sold to meat processing companies in Ukraine. In 2005, sales milk amounted to EUR 3.3 million, which constitutes approximately 6.5% of total sales of the Company. We intend to further develop our cattle business in order to increase its productivity, and reduce production costs.

#### **Mixed fodder production**

We own LLC "Shyshatsky Mixed Fodder Factory" in the Poltava Oblast (the "Fodder Factory"), which produces various types of fodder, majority of which is supplied to our agricultural companies to feed our cattle.

#### **Canned products**

We own LLC "Globynsky Canning Factory "Globus" (the "Canning Factory"), which produces different types of canned vegetables and sauces. The Canning Factory sells up to 50 per cent of its products in Ukraine, while the rest is exported to Russia, Israel and the USA. In 2005, total sales of the Canning Factory amounted to nearly EUR 0.9 million, which consists about 2 per cent of total sales of the Company.

### **Mergers and Acquisitions Policy**

Since 1998, we have been continuously acquiring new production assets. The acquisitions policy and capital investment in production enabled us to significantly increase our sugar production capacity.

By the end of 2005, we consolidated controlling interests in 5 sugar plants and 20 agricultural companies by acquiring majority stakes. These acquisitions will enable us to considerably increase our sugar beet processing and grain production capacity, achieve qualitative improvements in our sales structure by focusing on a larger share of higher-margin products and reduce dependence on suppliers of raw materials. We also intend to continue consolidation of our stakes in the recently acquired agricultural companies in the Vinnitsa Oblast ("Nadiya", "Zoria", and "Named after Bogdana Khmelniyskiy") through buying-out minority interests.

Between January and May 2006, we consolidated further our interest in 15 agricultural companies by reaching at least 97 per cent of their equity. This was effected mainly through monetary and non-monetary contributions into their equity and through buying out minority participatory interests. As of the date hereof, we estimate that the minorities' interests in our production subsidiaries do not generally exceed 2–3 per cent. For more details, please refer to our "*Pro-forma Consolidated Financial Statements*" starting on page F-1.

Access to raw materials closely to a target plant is one of the key decisive factors in our mergers and acquisitions policy. We also pay particular attention to the location of the sugar plant in the traditional sugar growing regions, access to the roads and railroads, as well as the production capacity and technical characteristics of the target plant. Another key factor is the availability of professional personnel at the target plant. See: "*Our Company – Our Strategy*".

### **Employees**

In 2005 the Company's average number of personnel was about 6,000, including approximately 100 employees in the central head office in Kyiv and 1,500 temporary workers. Because our business is mainly conducted through production companies, the majority of our personnel lives and works outside of Kyiv. Key companies within the Group have their own human resources functions responsible for hiring and dismissing personnel. Our production companies' staffing structure comprises about 6 per cent of the total in managerial functions and 5 per cent of service staff. The remaining 89 per cent is approximately equally divided between core and auxiliary production work force.

### **Insurance**

We maintain insurance coverage for some of our assets. In particular, LLC Firm "Astarta-Kyiv" has insured movable and immovable property of Zhdanivsky Sugar Plant and Kobelyatsky Sugar Plant for approximately EUR 4.7 million against fire and various Acts of God. LLC "APO Tsukrovyk Poltavshyn" has insured immovable property of Veselopodilsky and Yareskovsky Sugar Plants for approximately EUR 5.6 million against fire and various Acts of God. The production subsidiary Agricultural firm "Shyshatska" Ltd. insured its machinery against the fire or explosion, as well as its cattle. We believe that we maintain insurance coverage at a level which is customary for Ukrainian companies.

### **Litigation**

From time to time, we are involved in legal proceedings relating to our operational and trading activities. Such incidents often arise out of payment delays or unwillingness of agricultural producers to return funds advanced, contractual breaches, etc. None of the claims brought against us to date has undermined our market position or creditworthiness. At present, we are involved in the following court proceedings with our suppliers.

LLC "Trade House" APO "Tsukrovyk Poltavshyn" filed a claim on 25 May 2004 in the Commercial Court of Kharkiv District for the total value of UAH 0.15 million (EUR 0.03 million) against Dublinskyj distillery. The dispute is related to the indebtedness of the distillery to LLC "Trade House

"APO "Tsukrovyk Poltavshchyny". On 29 June 2004 the court satisfied our claim partially by obliging the defendant to pay UAH 0.14 million (EUR 0.02 million) in our favour. The mandatory enforcement procedures were initiated on 11 October 2004 and they continue today.

In connection with our activity we were and are involved in legal and administrative or governmental proceedings and disputes. To the best of our knowledge none of these proceedings may have or have had in the recent past a significant effect on our financial position or profitability and so far as we are aware, no significant litigation or arbitration proceedings are pending or threatened.

## Real Property

All of our agricultural land is leased land. Due to both legal and financial reasons (see: *"Industry Overview and Industry Regulation – Legislation of Ukraine related to Land and Real Property"*) we lease approximately 95 per cent of our agricultural land through our agricultural production subsidiaries from individuals. Other 5% of agricultural land and the land under our sugar plants as well as our factories are leased from local authorities. We own all the infrastructure situated on our leased land, including buildings and constructions thereon, the book value of which as at December 31, 2005 was reported to be UAH 86.5 million (EUR 14.5 million).

## Intellectual Property

We currently hold the trademark *"Tsukrovyk Poltavshchyny"*, which was registered on 26 March 2001 with the State Patent Office of Ukraine. We do not strongly depend on our trademark, since it is used only in our retail sales of white sugar, which is very limited in quantity.

Our production subsidiary, Globynsky Canning Factory "Globus", holds two trademarks: (i) the emblem with the wording "GLOBUS", which was registered on 17 January 2005, and (ii) the emblem with the wording "po-POLTAVSKY", which was registered on the 15 September 2005.

At present, a related party of the Group – Lakemoy Holding Company Ltd. – is in the process of registering four trademarks with emblem of the Group and the following wording: "Astarta-Kiev agri-industrial holding", "Astarta", "Astarta-Invest assets management" and "Astarta-Centr real estate investments". The latter two are not used by the Company. As soon as practically possible after the registration, Lakemoy Holding Company Ltd. will sell to Astarta Holding N.V. the rights to trademarks "Astarta-Kiev agri-industrial holding" and "Astarta" for a price equal to costs incurred by Lakemoy Holding Company Ltd in connection with registration of the trademarks. It is expected that such costs will not exceed USD 10,000.

## Financing and Other Material Liabilities

From time to time we obtain external financing, mainly as working capital facilities, but also in order to finance the upgrade our facilities or make significant acquisitions. Our operating subsidiaries, LLC Firm "Astarta-Kyiv", LLC "Trade House" APO "Tsukrovyk Poltavshchyny", and LLC APO "Tsukrovyk Poltavshchyny" have received external financing since 1998, mainly from our related party of the group Lakemoy Holding Company.

Bank loans are UAH, EUR or USD denominated. We currently do not hedge our currency risk. All bank loans have fixed interest rate ranging 17–26% for UAH denominated loans, 11–14% for EUR denominated loans, 10%–15% for USD denominated loans. Bank loans are secured by inventories, biological assets and property and equipment. Yareskivsky Plant and Veselopodolyansky Plant were mortgaged to Aval Bank to secure loans taken under credit line opened to the subsidiaries of "Astarta-Kyiv" by Aval Bank under a general loan agreement dated August 11, 2003. The credit line amounts to UAH 121 million (EUR 19.52 million) for the period from 21 September 2005 to 20 September 2006, and UAH 86 million (EUR 13.87 million) for the period from 20 September 2006 to 30 July 2008. As at December 31, 2005 we had EUR 4.74 million bank loans and EUR 2.63 million of non-bank loans outstanding.

In August 2005 our operating subsidiary LLC APO "Tsukrovyk Poltavshchyny" issued UAH denominated general obligation bonds. As of 31 December 2005 our liability under the bonds was EUR 2.51 million whereas as at the date hereof the liability fell to EUR 1.9 million as some of the bonds were redeemed. Initially, the bonds paid fixed coupon payment at 17%. However, starting from February 2006 (i.e., after two quarters), the coupon can be modified at the discretion of the issuer but to no less than 2%. The issuer took advantage of this possibility and decreased the coupon to 15%. The bonds are repayable quarterly beginning November 2005 until July 2008.

Moreover, in October 2005 LLC "APO "Tsukrovyk Poltavshchyny" entered into the 3 year loan agreement with JSC "Ukrainsky Innovatsijnyi Bank" for the amount of UAH 4,785,800 (EUR 771,903). The main purposes of this loan was to finance the purchase of the entire enterprise of LLC "Globyne-Tsukor". This enterprise was used as collateral for the above-mentioned loan. The total estimated value of the enterprise, including building, machinery, equipment and vehicles is UAH 5,234,600 (EUR 844,290). In addition, the collateral for the loan consists of sugar inventories with total value of UAH 2,422,800 (EUR 390,774).

The current debt facilities of our operating subsidiaries contain covenants that impose operating and financial restrictions, including the restriction to establish new entities, amend the constituent documents, dispose, transfer and/or lease assets, grant and/or receive loans, provide suretyships, distribute dividends or profits, initiate the bankruptcy proceedings, change the registered name of the subsidiary, change the kinds of activities of the subsidiaries, conclude agreements related to the distribution of profits with third parties, receive credits from other banks, change the legal form of the subsidiary, create liens, become a subject of alienation or reorganization, etc. Breach of any such obligation may constitute an event of default. We believe that we are not in breach of any such covenants.

### **Information Technology**

The Company has IT systems and other office equipment needed to support its operating activities. To provide stable connections and data exchange with all operational subsidiaries we have installed and are constantly improving internal telecommunications systems which use, *inter alia*, the Internet and satellite channels.

At our head office in Kyiv, as well as at all of our subsidiaries, we use only licensed software from Ukrainian and international IT producers, including Microsoft, or freeware (*e.g.*, Linux operating system).

Data processing and transfer within the Group is based on the corporate WAN network and uses satellite communications, voice-band channels, digital circuits through fiber-optic lines and VPN networks through the Internet. The system uses Cisco routers and computers with Linux OS and appropriate software.

### **Reporting and Management Information Systems**

All our companies use an accounting system of Ukrainian origin "1C:Enterprize 7.7 Complex accounting" which allows transfer of data to LLC Firm "Astarta-Kyiv" for processing and preparation of the management accounts.

In 2006, we plan to install a fully-integrated system "Intalev: Corporate finance", which will be used for budgeting, financial analysis, electronic document circulation, as well as for management accounting purposes.

### **Material Adverse Change**

There has been no material adverse change in the financial or trading position of the Issuer since its incorporation and in the financial and trading position of its subsidiaries since 31 December 2005.

## INDUSTRY OVERVIEW AND INDUSTRY REGULATION

### Global Sugar Industry

#### *Production and consumption*

According to International Sugar Organization ("ISO") world sugar production is forecast at 148.97 million tonnes (raw sugar equivalent) for the 2005/06 marketing season. This corresponds to an increase of 3.26 per cent from the previous year and is approximately 2.225 million tonnes short of the projected world sugar consumption of 151.19 million tonnes for the same period. The bulk of the growth in production is generated in developing countries. Global production is led by a record harvest in Brazil, and a recovery in India. The key players in the market are Brazil (with 21 per cent of global output in 2004/2005), followed by the EU (15 per cent), India (10 per cent), China (7 per cent) and the US (5 per cent).

In terms of exports, Brazil is ranked number one with 31 per cent of global exports in the 2003/2004 marketing season, followed by the EU (16 per cent) and Thailand (10 per cent). Besides Brazil, sugar output is also expected to rise in Mexico (following good weather that resulted in higher yields), Pakistan, the Philippines and China (the latter reflecting the larger crop from the top sugar producing region of Guangxi). In Thailand, however, sugar output is projected to decrease due to drought.

The major structural change in the market over the past decade has been the shift from overproduction towards equilibrium between sugar production and consumption. Previously, global sugar production rose faster than consumption resulting in an increase of global sugar stock to 67.7 million tonnes in 2003/04 (equivalent to 47 per cent consumption for that year). Since 2003/04 sugar stock-piles have been declining due to a reduction in the cane crop (especially in India and Thailand due to drought) and rising global demand.

Global sugar consumption in 2006 (*i.e.*, 2005/2006 marketing season) is forecast to rise by 2.17 per cent to 151.19 million tonnes due to expected growth in consumption in the developing countries of the Far-East and Latin America. Sugar consumption in developing countries is estimated to exceed 100 million tonnes in 2006, in line with income and population growth rates. Consumption is forecast to remain relatively stable in the EU, the US and South Korea. Indian consumption is expected to surpass 21.9 million tonnes within next the 12–18 months, while Chinese consumption is likely to cross 13 million tonnes by 2007/2008, driven by an increased demand from the food processing sector, combined with a declining production of artificial sweeteners. These trends caused important recent structural shifts in India and China to net import positions from net export positions.

#### *Changes to the EU Common Agricultural Policy*

Although the cost of sugar production in the EU is significantly higher than the costs in the rest of the world, the EU sugar producers managed to stay competitive in the export markets by setting high domestic price, in effect allowing for cross-subsidization of exported sugar. In mid-2005, following complaints from Brazil, Thailand and Australia, who are also major sugar exporters, WTO ruled that EU sugar imports are contravening the organisation's trading regulations.

The reform of the EU sugar sector initiated in 2005, intends to bring the EU into compliance with its obligations under WTO agreements, reduce the EU sugar reference price by 36 per cent over next 4 years thereby discouraging further planting of sugar beet and reducing surplus production in the region. Producers, who cannot compete, are given incentives to give up their quotas. The overall result of the reform is expected to be a significant drop in the EU production and an even larger decrease in exports. This new regime is scheduled to be in force from June 30, 2006.

#### *Prices*

World sugar prices have been steadily growing over the last several years. LDP (whites) reference prices increased by over 20 per cent to an average US\$ 13.18 cents per pound in 2005, after a 12 per cent increase over the previous year. Several international agencies have suggested that prices may increase further, as sugar consumption is projected to outstrip production for the third consecutive year. Continuous erosion of sugar stock-piles is a combined result of both long-term structural changes, such as demand for alternative fuels (diverting volumes of cane away from sugar) and the EU reform, and short-term weather conditions in India, Thailand, China and Cuba. However, it is the fluctuations in the level of sugar production in Brazil that emerges as the key driver of global sugar prices. Rising production costs in Brazil, as a result of the falling Real, longer haulage distances from mill to port and rising capital costs, are expected to further contribute to increasing global prices.

The table below provides monthly average spot prices for sugar between 2003 and May 2006 (London Daily Price on a FOB Stowed basis) in US\$cents/lb.

|          | 2003  | 2004  | 2005  | 2006  |
|----------|-------|-------|-------|-------|
| January  | 10.66 | 9.16  | 11.63 | 17.14 |
| February | 11.08 | 9.54  | 12.10 | 19.98 |
| March    | 10.50 | 10.59 | 12.03 | 20.45 |
| April    | 10.14 | 11.19 | 11.73 | 21.36 |
| May      | 9.95  | 10.74 | 11.75 | 21.76 |

|                       | 2003        | 2004         | 2005         | 2006         |
|-----------------------|-------------|--------------|--------------|--------------|
| June                  | 9.65        | 10.73        | 12.60        |              |
| July                  | 9.84        | 11.82        | 14.70        |              |
| August                | 9.76        | 11.80        | 14.80        |              |
| September             | 8.96        | 11.12        | 14.67        |              |
| October               | 8.39        | 11.21        | 14.14        |              |
| November              | 8.68        | 11.27        | 13.08        |              |
| December              | 9.21        | 11.22        | 14.97        |              |
| <b>Annual average</b> | <b>9.74</b> | <b>10.87</b> | <b>13.18</b> | <b>20.14</b> |

Source: International Sugar Organisation, Quarterly Market Outlook

## Ukrainian Sugar Industry

### Ukrainian sugar market

The size of the Ukrainian sugar market in terms of consumption has not changed substantially over the recent years, and is currently estimated as 2.0–2.1 million tonnes per year. The demand is met with sugar produced domestically from sugar beet, and by processing imported raw sugar. The latter has been imported into Ukraine because, due to the crisis in the 1990's resulting from the loss of the supply markets in Russia and other CIS countries, the domestic production of sugar from sugar beet shrank, and was not able to meet domestic demand.

Currently, the Ukrainian sugar industry has recovered, and shows signs of sustainable growth. In 2005, the domestic sugar output reached 1.89 million tonnes, short of an estimated demand of 2.1 million tonnes in the same period. In 2006, it is expected that domestic demand can be fully satisfied with the domestically-produced sugar.

Since sugar exports and imports are restricted, the key factors driving the industry growth are the increasing domestic demand for sugar, and the government's protectionist policy. Current import duties for raw sugar and white sugar at rate of 50 per cent of the value, but no less than EUR 300 per tonne are highly restrictive.

Positive growth dynamics in the sugar processing industry have encouraged sugar beet farming. In 2005, sugar beet production increased by over 20% to 16.3 million tonnes from 2003. At the same time, the yields increased. In 2005, the average yield was 24.5 tonnes per 1 hectare, compared to 19.9 tonnes per 1 hectare in 2003. The table below provides sugar beet production and yields and sugar output in Ukraine in seasons 2003–2005.

| Season                                  | 2003/2004 | 2004/2005 | 2005/2006 |
|---|-----------|-----------|-----------|
| Sugar beet production, (million tonnes) | 13.4      | 16.6      | 16.3      |
| Yield, (tonnes per hectare)             | 19.9      | 23.8      | 24.5      |
| Sugar output, (million tonnes)          | 1.44      | 1.79      | 1.89      |

Source: "Ukrtsukor"

The Ukrainian sugar industry is currently highly fragmented. There were 155 sugar plants with total production capacity of 4.5 million tonnes per annum in Ukraine in 2005. However only 116 of them have been in operation by processing sugar beet in the 2005/2006 marketing season. Generally, Ukrainian sugar plants are small and lack economies of scale with over 80 per cent of total with daily processing capacity less than 3,000 tonnes of sugar beet. The table below provides daily processing capacity of the Ukrainian sugar plants in 2005.

| Number of the sugar plants | Share (%) | Daily processing capacity (tonnes) |
|----------------------------|-----------|------------------------------------|
| 127                        | 81.0      | up to 3,000                        |
| 8                          | 4.9       | 3,000–4,500                        |
| 4                          | 2.4       | 4,500–5,000                        |
| 15                         | 11.1      | 5,000–6,000                        |
| 1                          | 0.6       | more than 6,000                    |
| Total: 155                 | 100       | Average : 2,670                    |

Source: "Ukrtsukor"

The sugar industry has been undergoing consolidation over the recent years. In 2005, less than 30 per cent of the sector sales were controlled by Top 5 domestic producers and the remaining 70 per cent – by more than 35 players. Major players in the domestic sugar market are: Ukrainian Food Company, Ukrros, Ukprominvest, Astarta-Kyiv and Dakor. Bigger players have competitive advantages compared to small producers, such as economies of scale, vertical integration of business and better access to financial resources.

Given a substantial (55 to 60 per cent) share of sugar beet cost in total sugar production costs, access to raw materials is a key factor for domestic sugar producers. The most effective way to secure raw material supplies is through integration into sugar beet farming, *i.e.*, vertical business integration, which is currently a major driver of consolidation in the sugar industry.

Ukrainian sugar industry has potential to renew its sugar and sugar by-products exports, as a result of the EU sugar market reform, a renewed access to the Russian sugar market commencing from 1 January 2009, in accordance with the existing intergovernmental agreement.

#### **Seasonality of the sugar production and sugar consumption**

Sugar production in Ukraine (as in other countries which grow sugar beet) is seasonal. Sugar beet processing commences in September and continues up to December.

Sugar consumption also experiences seasonal fluctuations. The consumption curve is upward in May and June reaching its maximum in July, the season when the individual and industrial customers process fruit and berries for preserves. During this period, production of beverages, ice-cream, juices and beer is also at its highest, and it also drives sugar consumption.

#### **Consumption structure**

Approximately two thirds of sugar is consumed by individual customers in the domestic market, and the remainder – by industrial customers. Practically all domestically-produced sugar is sold in the domestic market as exports are very small.

Retail sugar consumption is relatively high, which results, *inter alia*, from the tradition of home made jams and preserves. Therefore, sustainable growth of real income of population over the recent years resulted in increasing demand for sugar.

Industrial sugar consumption is also on the rise. According to the State Statistics Committee, Ukrainian confectionary output has risen substantially over the last several years, driving sugar consumption growth in this sector by 20 to 25 thousand tonnes per year. Similar output growth was observed in the beverage, condensed milk, ice-cream, canned fruits and juices industries.

The industries consuming molasses, which is a by-product of the sugar production, have also demonstrated dynamic development. In 2005, Ukraine's alcohol production increased by 27.4 per cent to 2.9 million decalitres.

#### **Sugar Stock, Production and Consumption Overview**

The table below provides Ukrainian sugar industry balances in 2002–2007

| <i>(Thousands of tonnes)</i>       | <b>2002/03</b> | <b>2003/04</b> | <b>2004/05</b> | <b>2005/06</b> | <b>2006/07</b> |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
|                                    | (actual)       | (actual)       | (actual)       | (estimates)    | (forecast)     |
| Opening stocks                     | 314            | 402            | 332            | 117            | 195            |
| Sugar produced from sugar beet     | 1,430          | 1,454          | 1,791          | 1,890          | 2,060          |
| Raw cane sugar imports             | 1,339          | 588            | 50             | 110            | 100            |
| Sugar produced from raw cane sugar | 738            | 712            | 48             | 100            | 45             |
| <b>TOTAL OUTPUT*</b>               | <b>2,168</b>   | <b>2,166</b>   | <b>1,839</b>   | <b>1,990</b>   | <b>2,105</b>   |
| Legitimate imports                 | 82             | 58             | 52             | 80             | 80             |
| Illegitimate imports               | 198            | 132            | 55             | 158            | 0              |
| Total imports                      | 280            | 190            | 107            | 238            | 80             |
| <b>TOTAL SUPPLY</b>                | <b>2,762</b>   | <b>2,758</b>   | <b>2,278</b>   | <b>2,345</b>   | <b>2,380</b>   |
| Legitimate exports                 | 340            | 314            | 45             | 50             | 185            |
| Illegitimate exports               | 40             | 80             | 20             | 0              | 0              |
| Total exports                      | 380            | 394            | 65             | 50             | 185            |
| Industrial consumers               | 571            | 632            | 706            | 720            | 750            |
| Individual consumers               | 1,410          | 1,400          | 1,390          | 1,380          | 1,360          |
| Total domestic consumption         | 1,981          | 2,032          | 2,096          | 2,100          | 2,110          |
| <b>TOTAL CONSUMPTION</b>           | <b>2,361</b>   | <b>2,426</b>   | <b>2,161</b>   | <b>2,150</b>   | <b>2,295</b>   |
| Closing stocks                     | 402            | 332            | 117            | 195            | 85             |

\* Ukrtsukor's estimates of sugar output in the 2005/2006 season vary between 2.0 and 2.5 million tonnes. The Company's view supported by other independent analysis is that 2.1 million tonnes is the most realistic figure.

Source: "Ukrtsukor"

#### **Sugar Prices**

Domestic price growth was another important driver behind growing sugar output in Ukraine. Average wholesale price reached EUR 389 per tonne in 2005, representing a 31 per cent increase over the previous year. The prices continued its growing in 2006 and reached EUR 520 per tonne as of 31 May 2006. The recent upward trend resulted primarily from increased production costs, *i.e.*, sugar beet and energy.

The table below provides historical monthly average wholesale domestic prices in 2003–2005, in EUR per tonne.

| <b>Month / year</b> | <b>2003</b> | <b>2004</b> | <b>2005</b> | <b>2006</b> |
|---------------------|-------------|-------------|-------------|-------------|
| January             | 313         | 277         | 312         | 415         |
| February            | 326         | 276         | 314         | 511         |

| Month / year   | 2003       | 2004       | 2005       | 2006       |
|----------------|------------|------------|------------|------------|
| March          | 336        | 282        | 338        | 509        |
| April          | 353        | 289        | 370        | 509        |
| May            | 367        | 310        | 398        | 520        |
| June           | 387        | 313        | 443        |            |
| July           | 385        | 309        | 524        |            |
| August         | 325        | 308        | 437        |            |
| September      | 303        | 303        | 391        |            |
| October        | 304        | 298        | 385        |            |
| November       | 300        | 296        | 383        |            |
| December       | 297        | 298        | 376        |            |
| <b>Average</b> | <b>333</b> | <b>297</b> | <b>389</b> | <b>493</b> |

Source: "Ukrtsukor"

In the 2002/2003 and 2003/2004 marketing years, in total more than 1.9 million tonnes of raw cane sugar was imported into Ukraine, which had an adverse impact on the domestic prices. As a result, at the beginning of the respective beet sugar production periods prices fell below the mandatory minimum. However, currently discussed tariff quota of 260,000 tonnes per year is not expected to have such a significant impact on the market (see "*Implications of the WTO Accession to the Sugar Industry*").

### Implications of the WTO Accession to the Sugar Industry

In 2001, the Ukrainian government introduced a system of duties on imports of white and raw cane sugar with the goal of encouraging domestic production and processing of sugar beet. The import duties are currently set at 50 per cent, but no less than EUR 300 per tonne.

Ukraine is required to partially liberalise its domestic sugar market in line with the implementation of obligations under WTO accession. Some WTO countries, including Australia and Brazil, will be granted right to import raw cane sugar to Ukraine within the yearly quota of 260 thousand tonnes at an import duty of 2 per cent. Taking into account that such quota corresponds to 12–13 per cent of current domestic sugar consumption and is similar to annual imports in recent years, it is not expected to have a major impact on domestic production.

Raw sugar imports within the quota are expected to play a stabilizing role during peak consumption period, *i.e.*, summer, before a new season of sugar beet processing commences. A positive impact on the sugar industry from the WTO accession is expected to come from a renewed access of Ukrainian producers to export markets.

### Regulatory Agencies and Public Organisations

The Ministry for Agricultural Policy is the key Ukrainian agency responsible for determining the public policy on the sugar market. The Ministry drafts and implements the resolutions of the Cabinet of Ministers of Ukraine relating to the regulation of the sugar industry.

Following the democratic and liberal developments in both the Ukrainian economy and society, certain government functions relating to the sugar market regulation have been transferred to an industry public organization, the National Ukrainian Sugar Producers Association "Ukrtsukor". In particular, this association is responsible for the refineries' certification, and for drafting recommendations for the government on the sugar production quotas allocation. Our Chief Executive Officer, Mr. Viktor Ivanchyk currently occupies a position of Deputy Chairman of Council of "Ukrtsukor".

### Regulation of the Ukrainian Agricultural Industry

#### Legal framework

The government of Ukraine strongly supports the agricultural industry. The support is embedded in the Law of Ukraine "*On State Support of Agriculture of Ukraine*", dated 24 June 2004 (the "State Support Law"), which determines various state policies aimed at supporting the production of agricultural products and the development of the agricultural market in Ukraine. For example, the State Support Law authorizes the Cabinet of Ministers of Ukraine (the "CMU") to set minimum and maximum purchase prices for the following agricultural products: wheat, barley, oats, rye, maize, sunflower and sugar produced from sugar beets.

Production of sugar is regulated by the Law of Ukraine "*On State Regulation of Production and Sale of Sugar*", dated 17 June 1999 (the "Sugar Law"). The Sugar Law establishes regulation of production of sugar and growing of sugar beets by way of division of total amount of sugar produced into three quotas ("A", "B" and "C"). Quota "A" is the maximum amount of sugar that may be supplied to the internal market in the period from 1 September of the current year until 1 September of the next year. Quota "B" is the maximum amount of sugar that may be supplied outside of Ukraine under international agreements and that may be used, in case of necessity, as the reserve amount of sugar for the purposes of covering the demands on the internal market. Quota "C" includes those amounts of sugar, which were produced above quotas "A" and "B" and which may be sold only on the external markets.

Under the Sugar Law, the CMU is the principal governmental authority responsible for general regulation of the production and sale of sugar and sugar beet in Ukraine. The CMU annually establishes minimum prices for sugar beets that are supplied for the production of sugar of quota "A", as well as quota "B" for the period of 1 September 2006 – 1 September 2007. The following minimum prices for sugar beet and sugar have been established by the CMU during the last three years.

| No. |            | 2004–2005                              | 2005–2006                              | 2006–2007                              |
|-----|------------|--|--|--|
|     |            | Minimum price per 1 tonne (net of VAT) | Minimum price per 1 tonne (net of VAT) | Minimum price per 1 tonne (net of VAT) |
| 1.  | Sugar beet | UAH 137.5/ USD 27/ EUR 21.6            | UAH 141.7/ USD 28/ EUR 22.85           | UAH 162.5/ USD 32/ EUR 26.2            |
| 2.  | Sugar      | UAH 1,975/ USD 391/ EUR 308.5          | UAH 1,975/ USD 391/ EUR 318.5          | UAH 2,375/ USD 470/ EUR 383            |

Source: the CMU, except for prices expressed in EUR which are based on the Company's calculations

Minimum prices for sugar and sugar beets established by the CMU are mandatory for all business entities regardless of the form of ownership. The CMU also establishes annual quotas for domestic production. The following quotas "A" and "B" were established by the CMU in the period of 2003/2004 to 2006/2007.

| Quotas            | 1 September 2003 –<br>1 September 2004 | 1 September 2004 –<br>1 September 2005 | 1 September 2005 –<br>1 September 2006 | 1 September 2006 –<br>1 September 2007 |
|-------------------|--|--|--|--|
| Quota "A", tonnes | 1,800,000                              | 1,800,000                              | 1,790,000                              | 1,840,000                              |
| Quota "B", tonnes | –                                      | –                                      | –                                      | 185,000                                |

Source: the CMU

The CMU has established the following minimum purchase prices for grain crops in the marketing year 2005/2006.

| Product                       | Minimum purchase price per tonne   |
|-------------------------------|--|
| Soft winter and spring wheat  | UAH 930/ EUR 150 (1 <sup>st</sup> class) – UAH 420/ EUR 67.7 (6 <sup>th</sup> class)   |
| Durum winter and spring wheat | UAH 940/ EUR 151.6 (1 <sup>st</sup> class) – UAH 470/ EUR 75.8 (5 <sup>th</sup> class) |
| Rye                           | UAH 525/ EUR 84.7  |
| Malting barley                | UAH 420/ EUR 67.7 (1 <sup>st</sup> class) – UAH 490/ EUR 79 (2 <sup>nd</sup> class)    |
| Barley                        | UAH 420/ EUR 67.7 (1 <sup>st</sup> class) – UAH 390/ EUR 62.9 (3 <sup>d</sup> class)   |
| Oats                          | UAH 630/ EUR 101.6 (1 <sup>st</sup> class) – UAH 450/ EUR 72.6 (3 <sup>d</sup> class)  |
| Maize                         | UAH 550/ EUR 88.7 (1 <sup>st</sup> class) – UAH 450/ EUR 72.6 (3 <sup>d</sup> class)   |
| Sunflower                     | UAH 1,350/ EUR 217.7 (premium class) – UAH 1,150/ EUR 185.5 (2 <sup>nd</sup> class)    |

Source: the CMU, except for prices expressed in EUR which are based on the Company's calculations

The CMU has reduced the list of grains on which the minimum purchase prices for the marketing year 2006/2007 are established. The table below provides such prices for grain crops.

| Product                       | Minimum purchase price per tonne  |
|-------------------------------|---|
| Soft winter and spring wheat  | UAH 850/ EUR 137.1 (1 <sup>st</sup> class) – UAH 520/ EUR 84 (5 <sup>th</sup> class)  |
| Durum winter and spring wheat | UAH 935/ EUR 151 (1 <sup>st</sup> class) – UAH 570/ EUR 92 (5 <sup>th</sup> class)    |
| Rye                           | UAH 540/ EUR 87.1 (1 <sup>st</sup> class) – UAH 400/ EUR 64.5 (5 <sup>th</sup> class) |

Source: the CMU, except for prices expressed in EUR which are based on the Company's calculations

The establishment and operation of the domestic grain market is further regulated in detail by the Law of Ukraine "On Grain and Grain Market in Ukraine", dated 4 July 2002.

The Ministry of Agriculture of Ukraine (the "Ministry") is the authority responsible for monitoring and regulation of grain, sugar, and sugar beets production in Ukraine. Together with other state authorities, it controls the implementation of rules and procedures for the production and sale of grain and sugar. The Ministry determines quotas for sugar production for each particular sugar producer based on the applications by all interested sugar producers. Such allocation of quotas is done on a competitive basis and takes into account production capacities and previous output of the applicants. As a matter of practice, the Ministry normally satisfies the applications by sugar producers for the respective quotas due to the deficit of sugar on the Ukrainian market.

The State Inspection of Control over Prices is authorized to impose penalties on companies, which violate the minimum prices for sugar and sugar beets approved by the CMU or supply excessive amounts of sugar to the domestic sugar market. Under Ukrainian law, sugar and sugar beet producers are also required to use standard forms of sale and purchase agreements when buying and selling sugar and sugar beets.

Under the Sugar Law, companies engaged in wholesale sugar trade are formally required to obtain a permission (license) issued by a special governmental authority. However, in practice, due to inconsistencies in Ukrainian legislation, at present time, such licenses are not being issued.

### **State purchase and commodity interventions**

The CMU annually determines the volumes of grain and sugar, which must be purchased to meet internal demand of the State and to comply with the obligations of Ukraine under its international treaties. The procurement of grain and sugar to meet demand of the State is carried out by the agencies authorized by the CMU.

The Agricultural Fund, which is technically part of the Ministry, is the main state authority conducting interventions for purposes of stabilizing the prices. The Agricultural Fund is entitled to create the State Food Reserve funded by the State Budget by way of purchasing certain agricultural products at the minimum purchase prices annually established by the CMU. For instance, the Agricultural Fund was required to purchase into the State Food Reserve in 2006 the following amounts of agricultural products:

- Wheat, rye and a mix of wheat and rye – 565,000 tonnes;
- Sugar produced only from sugar beets – 180,000 tonnes.

Pursuant to the State Support Law, the Agricultural Fund also grants loans to the grain producers. Such loans are secured by the pledge on the yet-to-be-produced grain. The amount of each of these loans may not exceed 80 per cent of the value of the collateral, which is calculated based on the established minimum purchase price. For example, in 2006 the state loans for soft winter and spring wheat ranged from UAH 416 / EUR 67.1 (5<sup>th</sup> class) to UAH 680 / EUR 110 (1<sup>st</sup> class) per tonne.

The CMU also envisages a number of additional state support programs for the agricultural sector. Such programs are financed from the State Budget of Ukraine. For example, the State Budget of Ukraine for 2006 envisages a number of state subsidies and financing to boost agricultural production and to partially compensate interest rate payments and insurance premiums paid by agricultural producers.

### **Imports and exports**

Pursuant to the Sugar Law, domestic sugar producers are protected against imports. Under the Law of Ukraine "On Customs Duty of Ukraine" dated 5 April 2001, the import duty is currently imposed on any imported sugar at the rate 50 per cent of the price, but no less than EUR 300 per tonne. This import duty is prohibitive, because the CMU aims to prevent import of raw sugar into Ukraine. The import duty for rye and barley is EUR 20 per tonne, for wheat – from EUR 0 to EUR 40 per tonne and for sunflower seeds – from 0 to 15 per cent of their value. Furthermore, grain imported into Ukraine is subject to mandatory certification.

Currently, Ukrainian sugar producers do not export any significant amounts of sugar, because all of the sugar produced is consumed in Ukraine.

Any shortage in the supply of sugar on the domestic market is compensated from time to time by imports of raw cane sugar, which are permitted by the special laws adopted annually by the Parliament of Ukraine. Such special laws strictly determine the quota of imported sugar and allow for substantially reduced import duty. Import of raw cane sugar was permitted in 1998 (300,000 tonnes at the import duty rate of 1 per cent of the price), 1999 (60,000 tonnes at the import duty rate of 1 per cent of the price), 2000 (260,000 tonnes at the import duty rate of 5 per cent of the price), 2001 (260,000 tonnes at the import duty rate of 5 per cent of the price), 2003 (360,000 tonnes at the import duty rate of 1 per cent of the price) and last time – in 2004 (125,000 tonnes at the rate €30 per 1 tonne). Import of the raw cane sugar within these special import quotas is subject to licensing by the Ministry of Economy of Ukraine.

## **Legislation of Ukraine related to Land and Real Property**

### **General**

Ukraine recognizes the private ownership of real estate. Ukraine's Constitution, together with its Civil Code, Land Code and other laws, uphold and protect the right to own private property. Currently the majority of land in Ukraine is not privately owned, but is still held by the State. See: "Risk Factors – Risks Related to Ukraine".

The Law of Ukraine "On Ownership", dated 7 February 1991, as amended (the "Law on Ownership") recognized private ownership of real property by Ukrainian residents, foreign individuals, foreign legal entities and others. The Law on Ownership 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. Moreover, the Ukrainian courts are responsible for protecting property rights.

Ukrainian law distinguishes between ownership rights with respect to land and buildings. These are treated separately so that, upon the transfer of ownership rights relating to a building, the ownership of the underlying land may or may not also transfer, depending on the agreement of the parties.

### **Legal developments affecting real estate**

On 25 October 2001, the Parliament of Ukraine adopted a new Land Code which came into effect on 1 January 2002. The Land Code introduced a general right to own land. Under prior law, only Ukrainian citizens were permitted to own land in Ukraine, and land sale transactions were permitted only under very limited circumstances. The Land Code also permitted the mortgage of privately-owned land.

The Land Code provides for three basic rights with respect to land: (i) the right of permanent use; (ii) lease rights; and (iii) servitudes (*i.e.*, easements). It also classifies land ownership among private and municipal and state ownership. The right of permanent use is only available to

enterprises and organisations which are under state or municipal ownership. Accordingly, all individuals and legal entities, who possessed perpetual use rights as of 1 January 2001, were required to re-register their rights as either ownership or lease rights by 1 January 2005. However, this requirement was recently invalidated by the Constitutional Court of Ukraine until the Parliament of Ukraine adopts the implementing legislation required for such re-registration.

Land is divided into various categories based upon its approved use, such as residential, industrial and agricultural. Residential land includes land plots for residential or public use. Industrial land is used for industrial, mining, transportation and other commercial enterprises. Agricultural land is to be used for farming and other agricultural purposes. Under Ukrainian law, land may only be used in accordance with its approved category of use.

Ukrainian legal entities with 100 per cent. foreign ownership (*i.e.*, wholly-owned subsidiaries) are presently prohibited from owning land. Therefore, such entities typically create two-tiered structures, whereby the foreign parent company establishes a Ukrainian subsidiary, which, in turn, creates a second-tier Ukrainian subsidiary to hold the property.

### ***Leasing of land in Ukraine***

All Ukrainian and foreign individuals, entities and states may lease land in Ukraine. The new Land Code establishes two types of land leases: short-term (up to five years) and long-term (up to 50 years, the maximum lease term permitted under Ukrainian law). It also allows subleasing arrangements, subject to the lessor's consent. 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 registration authorities. Land lease relations are regulated in more detail by the Law of Ukraine "On the Lease of Land", dated 6 October 1998, as amended (the "Land Lease Law").

According to the Land Lease Law, land lease agreements must be in writing and must contain the subject matter of the lease (*i.e.*, its location and size), the term of the agreement, the amount of the rent and the terms and means of payment, the purposes of the lease, the terms of maintenance of the leased property, the terms for the transferring of the land plot by the lessor to the lessee, the terms for the returning of the land plot by the lessee to the lessor, a description of all existing restrictions and encumbrances, and some other mandatory clauses. Every land lease agreement is required to be registered with the state authorities.

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 first refusal right in the event that the lessor seeks to sell the leased property. Under this right, the lessee must pay the price at which the land is offered for sale. If a property is auctioned by the lessor, the lessee's offer must match the highest bid in order for the lessee to be able to exercise its right of first refusal.

Under the Land Code, leased property must be sold by auction if it has no immovable property (*i.e.*, buildings or structures) located on it. Leased property, owned by the state or a municipality with completed buildings or structures, may, however, be sold without going to a public land auction, and the parties may agree on a market value at which the right of first refusal may be exercised.

The lessee has a pre-emptive right to extend the lease, provided it has fulfilled all of its obligations under the original lease. However, the Ukrainian courts have held that a lessee has no right to extend the lease in the event that the lessor decides to no longer lease the subject property.

The parties to a lease agreement are generally free to determine the amount and timing of the ground rent payments under the lease. The amount of the ground rent may be revised by the mutual consent of the parties to the lease.

With respect to privately owned agricultural land, it is recommended under Ukrainian legislation that the annual rent rate is not less than 1.5 per cent of the nominal monetary evaluation of the land plot in question. Although this provision is not mandatory, it is often observed in practice.

Ground rent relating to land held in state or municipal ownership must be paid in cash and may not be lower than the land tax for the same land, as calculated in accordance with the Law of Ukraine "On the Land Tax", dated 3 July 1992, as amended. In addition, for such properties, the ground rent for state or municipal land may not exceed 10 per cent of the market value of the particular land plot.

### ***State registration of rights to immovable property and of certain transactions***

Ownership rights to real property are perfected upon the registration of the sale and purchase agreement with the State Register of Transactions. In addition to the registration with the State Register of Transactions, the property rights to a building must also be registered with the local Bureau of Technical Inventory, while the property rights to land plots must also be registered with the local Department for Land Resources.

Information concerning encumbrances on real property is contained in the following State registers: (i) the Uniform Register of Prohibitions on the Alienation of Real Estate; (ii) the State Register of Mortgages; (iii) the Register of Encumbrances of Movable Property (in respect of tax liens); and (iv) the Land Cadastre. In the near future, the State Register of Rights to Immovable Property and Their Limitations is expected to come into existence. It will contain consolidated information on all property rights to real estate as well as the limitations of such rights.

***Land and real property taxation***

Owners of land and those with permanent rights to use land must pay a land tax, and lessees must pay the ground rent as set forth in the lease agreement. Currently, the land tax is 1 per cent per annum of the market value of the land, which is updated periodically. Tax is paid on a monthly basis at one-twelfth of the annual tax amount.

The determination of the market value of the 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 adjusted pursuant to a formula adopted by the CMU.

The market value of land is not uniform across Ukraine and may greatly differ from place to place. Furthermore, the valuation of land, which is the basis for the computation of the land tax, fluctuates from year to year.

## MANAGEMENT AND CORPORATE GOVERNANCE

We are a public company with limited liability (*naamloze vennootschap*) incorporated under Dutch law. Our statutory seat is in Amsterdam, the Netherlands, our registered address being Koningslaan 17, 1075 AA, Amsterdam, the Netherlands. Our Articles of Association (*statuten*), which are in force as at the date of this Prospectus, were executed by deed of June 9, 2006 before Mr. Mark Peter Bongard, Civil Law Notary at Amsterdam, The Netherlands. The certificate of no-objection of the Ministry of Justice relating to our incorporation was issued on 19 May 2006. The Articles of Association are attached to this Prospectus as Annex II.

The Board of Directors was established upon our incorporation, at which time all the members of the Board of Directors were appointed. We have a one-tier board structure consisting of executive and non-executive Board of Directors' members.

### Powers, Composition, and Functioning of the Board of Directors

The Board of Directors as a whole is charged with the Company's management. The Board of Directors is required to consist of at least one executive director A, one executive director B and one non-executive director C. All members of the Board of Directors may be appointed and/or dismissed by the General Meeting of Shareholders.

The Board of Directors may charge the executive director(s) A with the operational management of the Company, the preparation of the decision-making process of the Board of Directors and the implementation of the decision taken thereby. The executive director(s) A may subsequently determine which operational duties will be carried out by the executive director(s) B. The non-executive director(s) is charged with the supervision of the general policy and the fulfilment of duties by the executive directors and the general affairs of the Company.

Under the Articles of Association, the Board of Directors' decision must be approved by the General Meeting of Shareholders when they relate to, amongst others, the following matters:

- a transfer of the business of the Company to a third party;
- a termination of any long-term co-operation of the Company with another legal entity or company or as a fully liable partner in a limited or general partnership if such co-operation or termination is of far-reaching significance to the Company;
- an acquisition or disposal by the Company or by a subsidiary of the Company of a participation in the capital of another company with a value of at least one third of the amount of the assets according to the balance sheet in the most recently adopted annual accounts of the Company.

### Members of the Board of Directors

The following table sets out information with respect to each of the members of the Board of Directors, their respective ages, and their positions at the Company as of the date of this Prospectus.

| Name                   | Age | Nationality         | Position  |
|------------------------|-----|---------------------|---|
| Viktor Ivanchyk        | 50  | Ukrainian           | Executive Director A,<br>Chief Executive Officer                |
| Petro Rybin            | 49  | Ukrainian           | Executive Director A  |
| Marc van Campen        | 61  | Dutch               | Executive Director B  |
| Valery Korotkov        | 43  | Russian and British | Non-executive Director C,<br>Chairman of the Board of Directors |
| Wladyslaw Bartoszewski | 51  | Polish and British  | Non-executive Director C  |

The term of office of any member of the Board of Directors shall lapse on the day of the annual General Meeting of Shareholders to be held in 2010, unless such member has resigned or has been dismissed previously. Reappointment will be possible on each occasion for another maximum period of four years with the restriction that the non-executive Directors may only be reappointed for a maximum of three times.

#### **Viktor Ivanchyk**

Viktor Ivanchyk serves as an executive director A with the Company and the Chief Executive Officer. In 1993 he founded The Operating Company, whose General Director he has been since then. In August 2005 he became a Deputy Chairman of Council of the National Association of Sugar Producers of Ukraine "Ukrtsukor". Mr. Ivanchyk worked for 4 years for the Kyiv Aviation Industrial Association (KIAP0) and then served at the state service.

He graduated from Kharkiv Aviation Institute named after N. E. Zhukovsky (1979) and from the French Business School in Toulouse (1994). Since 2006 he has continued his studies at the International Management Institute (IMI Kyiv) on a Senior Executive MBA Programme.

As of the date of this Prospectus, Mr. Ivanchyk indirectly owns 50% of the shares in the Issuer through Albacon Ventures Ltd.

Mr. Ivanchyk has, in the previous five years, been a member of the governing bodies of the following entities: Astarta-Center OJSC and Poltavarybgosp OJSC. Mr. Ivanchyk is still holding the position in Astarta-Center OJSC.

### ***Petro Rybin***

Petro Rybin serves as an executive director A with the Company. Prior to joining us, Mr. Rybin worked for the Kyiv Aviation Industrial Association (KiAPO) (1982–1989) and held position of a deputy Director and then Director of youth scientific-technical center "Alternative" (1989–1996). In 1996 Mr. Rybin joined us and since that time he has worked on various positions in the Operating Company.

Mr. Rybin graduated from Dnietropetrovsk State University in 1980 and from All-Soviet Union Financial and Economic Institute (1991). In 2005 he took a course of the assets management in the Ukrainian institute for stock market development. Since 2006 he has continued his studies at the International Management Institute (IMI Kyiv) on a Senior Executive MBA Program.

Mr. Rybin has, in the previous five years, been a member of the governing bodies of the following entities: Trade House "APO "Tsukrovyk Poltavshyny" LLC and "APO "Tsukrovyk Poltavshyny", OJSC. Mr. Rybin is still holding the position in Trade House "APO "Tsukrovyk Poltavshyny" LLC.

### ***Marc van Campen***

Marc van Campen serves as an executive director B with the Company. Prior to joining us, Mr. Van Campen served in several positions with Océ Van der Grinten N.V. and most recently, until 2002, as a general counsel of Amstelland N.V. a Dutch company listed on the Amsterdam Stock Exchange and at that time one of the largest companies in the Netherlands in the field of construction and project development.

Mr. van Campen has, in the previous five years, been the General Counsel of NBM-Amstelland N.V., the Chairman of the Board of NBM-Amstelland Insurance AG, Zug (CH), Director at Montferland Beheer BV, Schoonhoven, Director at Nice Group BV, Amsterdam, Director at GMT (PEP com) BV, Amsterdam, the Director at Sympak International BV, Amsterdam, and at M.M.L.J. van Campen Stamrecht B.V. Mr. van Campen is still holding the positions in the following entities: Montferland Beheer BV, Nice Group BV, GMT (PEP com) BV, Sympak International BV, M.M.L.J. van Campen Stamrecht B.V.

### ***Valery Korotkov***

Valery Korotkov serves as a non-executive director C with the Company and the Chairman of the Board of Directors. From 1992 to 1999 Mr. Korotkov worked as a director for a number of companies, such as ROSMARK, MPVoil, CJSC "Rosneft-Zapad", "Rosagronefteproduct", CJSC "TNKinvestneft", Municipal Unitary Enterprise "Poklonnaya gora" and then for 6 years he was a deputy general director at the Financial Company "Agronefteproduct". In 2003 Mr. Korotkov became a co-owner of LLC firm "Astarta-Kyiv" and, as of the date of the Prospectus he indirectly owns 50% of the shares in the Issuer through Aluxes Holding Ltd. Since April 2005 he has been the deputy general director at "Rusmark-M" Ltd. based in Moscow.

Mr. Korotkov graduated from the Kharkov Institute of the Engineers of Communal Construction (1985). In 1990 he obtained the degree of Candidate of engineering sciences and in 2002 he graduated from the University College Kensington and obtained a degree of a Master of business administration.

Mr. Korotkov has, in the previous five years, been a member of the governing bodies of the following entities: Financial Company "Agronefteproduct", "Rusmark-M" Ltd. and Itera Invest Holding Ltd. Mr. Korotkov is still holding the positions in "Rusmark-M" Ltd. and Itera Invest Holding Ltd.

### ***Wladyslaw Bartoszewski***

Wladyslaw Bartoszewski, PhD, is graduate of the University of Warsaw and University of Cambridge. He works for Central Europe Trust Co. Ltd, an investment banking firm based in Warsaw and Moscow. Between 2000–2003 he was of head of Polish corporate finance operations of ING Barings, having joined from JP Morgan, where he worked from 1997 as a head of the Warsaw office. Between 1989 and 1990 was a lecturer in Russian, Soviet and East European studies at Oxford University, following which he joined Central Europe Trust until 1997.

Mr. Bartoszewski has, in the previous five years, been a member of the governing bodies of Central Europe Trust Company Limited. Mr. Bartoszewski is still holding the position in Central Europe Trust Company Limited.

### **Further Information on the Board of Directors as a Whole**

At the date of this Prospectus, no member of our Board of Directors has, in the previous five years, (i) been convicted of any offences relating to fraud; (ii) held an executive position at any company at the time of or immediately preceding any bankruptcy, receivership or liquidation; (iii) been subject to any official public sanction by any statutory or regulatory authority (including any designated professional body), and (iv) been the subject of any official public incrimination or been disqualified by the court from acting as a member of the administrator, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company. Except as disclosed in this Prospectus, no member of the Board of Directors has a conflict of interest (actual or potential) between his private interests and duties to the Company.

No member of the Board of Directors holds a supervisory or a non-executive position in another listed company or carries on principal activities outside the Company which are significant with respect the Company.

No member of the Board of Directors has a service contract with the Company or its subsidiary that would provide for any benefits upon termination of employment.

### **Remuneration**

The general policy with regard to the remuneration of members of the Board of Directors shall be adopted by the General Meeting of Shareholders. The current remuneration policy will be adopted by the General Meeting of Shareholders not later than at the first meeting after the listing of the Shares on the WSE.

The objective of our remuneration policy is to provide a compensation programme that allows us to attract, retain and motivate members of the Board of Directors who have the character traits, skills and background to successfully lead and manage the Company.

As the Issuer has only recently been established and each member of the Board of Directors has been appointed in 2006, the Issuer has not paid historically any remuneration to members of the Board of Directors.

Remuneration, including salary and benefits, of key management of LLC Firm "Astarta-Kyiv" in 2003, 2004 and 2005 was respectively EUR 41,000, EUR 73,000 and EUR 90,000.

### **Indemnity**

Current members of the Board of Directors shall be reimbursed for litigation expenses and any damages they are ordered to pay in relation to acts or omissions in the performance of their duties, unless such acts or omissions amount to wilful misconduct or recklessness, unless this would not be reasonable and fair. In addition to compensation for such litigation expenses, we provide the executive Director B and the non-executive Directors with protection through a director's insurance policy.

### **Management share option plan**

We do not currently have any arrangements for the involvement of our senior management or employees in our share capital. However, we intend to implement a management share option plan following completion of the Offering, and expect that this, once approved, may involve the issue of new shares and/or the purchase of the Shares in the market. For the purposes of the foregoing, each of such issue of new shares and/or repurchase of our own Shares would be limited to a number of shares representing 3 per cent of our share capital.

We expect that share options will be granted to approximately 100 key employees of our Group. The administration of the share option plan will be undertaken by our Board of Directors. Any award of share options to the members of our Board of Directors will be approved by the majority of votes of non-executive Directors, and any award of share options to our senior management or our employees will be granted by our Board of Directors, subject to the approval of non-executive Directors. No share options will be granted to non-executive Directors. We expect that share options will be issued at the value corresponding to the market value of our Shares at the time of grant of the options.

Prior approval of any such share option plan will be sought from our shareholders at the General Meeting of Shareholders to be held after completion of the Offering.

## **Corporate Governance**

### **Dutch Corporate Governance Code**

On 9 December 2003, a committee commissioned by the Dutch Government (*Commissie Tabaksblat*) published a Dutch corporate governance code (the "Dutch Corporate Governance Code"). The Dutch Corporate Governance Code contains 21 principles and 113 best practice provisions for management boards, supervisory boards, shareholders and general meetings of shareholders, financial reporting, auditors, disclosure, compliance and enforcement standards. The provisions of the Dutch Corporate Governance Code took effect on 1 January 2004 and apply to annual reports for financial years beginning on or after 1 January 2004. Dutch companies whose shares are listed on a government-recognised stock exchange, whether in The Netherlands or elsewhere, are required under Dutch law to disclose in their annual reports whether or not they apply the provisions of the Dutch Corporate Governance Code. If a company does not apply the best practice provisions of the Dutch Corporate Governance Code, it must explain the reasons why it does not apply them.

### **Application of the Dutch Corporate Governance Code**

Most Ukrainian companies do not have corporate governance procedures that are in line with best international practice standards. The concept of fiduciary duties of management or members of the board to their companies or shareholders is not as developed in Ukraine as it is in the United States or Western Europe. We acknowledge the importance of good corporate governance. We have reviewed the Dutch Corporate Governance Code, generally agree with its basic provisions, and have taken or will take any further steps we consider appropriate to implement the Dutch Corporate Governance Code. However, as we anticipate that most of our European shareholder base will be located in Poland following the Offering, we have decided to first aim to comply with the principles of corporate governance of the WSE as described in "*Corporate Governance Rules of the WSE*" below.

Since various Corporate Governance Rules of the WSE are similar to rules provided under the Dutch Corporate Governance Code, the Dutch corporate governance regime has been partially complied with. As a result of this, *inter alia*, the following Dutch rules have been implemented in the Company's Articles of Association:

- Division of tasks of the Board of Directors;
- 4 year terms of the executive Directors and of the non-executive Directors;
- Chairman of the Board of Directors is a non-executive director and is not charged with the day to day management of the Company;
- Discharge of directors, appropriation of profit and proposal to distribute dividends are subject to approval by the General Meeting of Shareholders.

In case of any discrepancies between Polish and Dutch corporate governance rules, Polish rules have been followed.

Besides the implementation of corporate governance rules in the Company's Articles of Association, several rules are still being considered by the Company, such as the establishment of various committees as mentioned in both the Dutch Corporate Governance Code and Polish Corporate Governance Rules of the WSE.

#### **Corporate Governance Rules of the WSE**

Pursuant to the WSE Rules, and in connection with its application for the admission of its Shares to trading on the WSE, the Company is required to declare which of the Polish principles of corporate governance contained in "Best Practices in Public Companies in 2005" (the "Corporate Governance Rules of the WSE") it intends to comply with, as well as to list those principles which it does not intend to comply with, and the reasons for such non-compliance.

We intend to comply with all principles of the Corporate Governance Rules of the WSE approved by the WSE. However, certain principles will apply to us only to the extent allowed by Dutch law and subject to our corporate structure. In particular, we will not have two separate governing bodies (supervisory board and management board) which are obligatory in Polish joint stock companies. Instead, our Board of Directors, comprising both Executive and Non-Executive Directors, will perform the combined roles of a supervisory board and a management board in a Polish company. As a result, those principles of the Corporate Governance Rules of the WSE which refer to relations between supervisory board and management board will be applied by us not directly, but accordingly, while maintaining the spirit of these principles. In addition, our compliance with certain rules will be limited by provisions of Dutch law. Therefore, the by-laws of our General Meeting of Shareholders will not include provisions on elections by separate groups of shareholders (Rule 6) because Dutch law does not provide for group elections. Chairman of the General Meeting of Shareholders will not be elected at the beginning of each General Meeting of Shareholders (Rule 7) because Dutch law requires that general meetings are chaired by chairman of the board of directors. No reports will be provided by a supervisory board member delegated by a group of shareholders (Rule 30) because Dutch law does not provide for delegation of a board member by a group of shareholders.

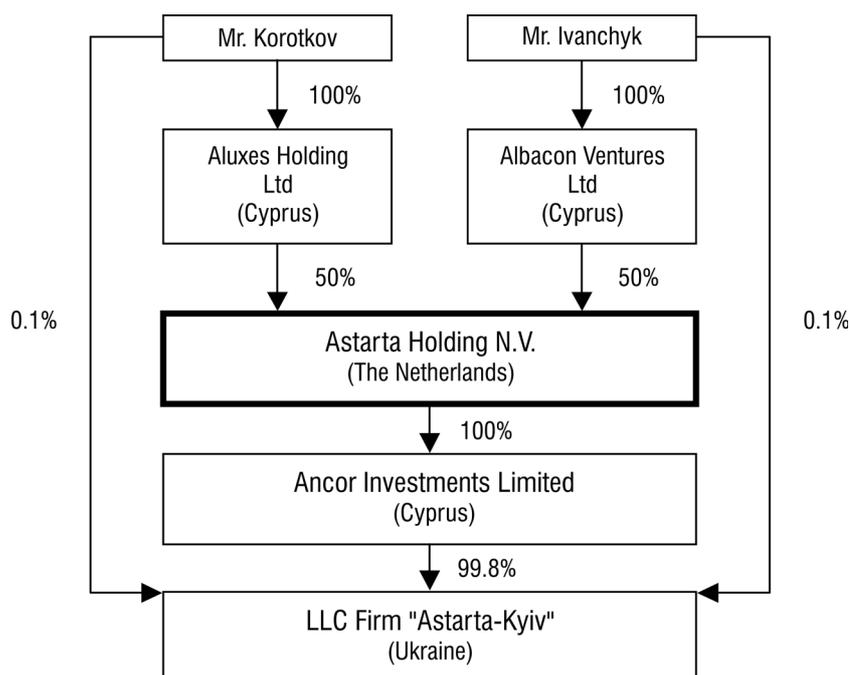
Detailed information regarding non-compliance, as well as additional explanations regarding partial compliance with Certain Corporate Governance Rules of the WSE due to incompatibilities with Dutch law, will be included in the full text of the Company's declaration regarding Corporate Governance Rules of the WSE, which will be filed with the WSE at the time of our application for listing and will be available on our website ([www.astartakiev.com](http://www.astartakiev.com)).

## MAJOR SHAREHOLDERS

The ultimate beneficial owners of 100% of shares in Astarta Holding N.V. are Mr. Valery Korotkov, a citizen of the United Kingdom and of the Russian Federation, and Mr. Viktor Ivanchyk, a citizen of Ukraine (together the "Indirect Shareholders"). Each of the Indirect Shareholders indirectly holds 50% of the Shares in Astarta Holding N.V.

Mr. Valery Korotkov holds 50% of Shares in Astarta Holding N.V. through Aluxes Holding Ltd., a limited liability established under the laws of Cyprus on April 8, 2006 with its address at Neocleous House, 199 Arch. Makariou III Ave., 3030 Limassol, Cyprus. Mr. Viktor Ivanchyk holds the remaining of 50% of Shares in Astarta Holding N.V. through Albacon Ventures Ltd., a limited liability established under the laws of Cyprus on April 7, 2006 with its address at 1, Lampousas Street, 1095 Nicosia, Cyprus. Both companies ("Selling Shareholders") are special purpose holding companies and do not have any operations other than holding shares in the Issuer.

As shown in the chart below, the Issuer holds shares in the Operating Company, an Ukrainian holding company, through Ancor Investments Limited, special purpose limited liability established under the laws of Cyprus on June 9, 2006 and with its address at 1 Lampousas Street, 1095 Nicosia, Cyprus. Holding shares through the Cyprus entity allows the Company to benefit from Ukrainian withholding tax exemption on dividends payable by the Ukrainian Operating Company, see "*Material Tax Consideration to Investors – Taxation in Ukraine – Ukrainian Withholding Tax*". Ancor Investments Limited holds 99.8% in LLC Firm "Astarta-Kyiv", while the remaining 0.2% are held by the Indirect Shareholders in equal proportions. Under the Civil Code of Ukraine, a legal entity (e.g., Ancor Investments Limited), which has only one shareholder (e.g., Astarta Holding N.V.), may not itself establish or acquire another legal entity (e.g., LLC Firm "Astarta-Kyiv"), in which the first legal entity (e.g., Ancor Investments Limited) will be the only shareholder and will hold 100% of shares or participatory interests. The fact that the Indirect Shareholders hold directly 0.2% of participatory interests in LLC Firm "Astarta-Kyiv" permits the Company to comply with the above-described formal requirements of the applicable Ukrainian legislation.



### Obligations to Disclose Holdings in the Company

#### The Dutch Disclosure Act

The Disclosure of Major Holdings in Listed Companies Act 1996 (*Wet melding zeggenschap in ter beurze genoteerde vennootschappen 1996*) (the "Dutch Disclosure Act") requires persons directly or indirectly acquiring or disposing of a (potential) capital interest and/or voting rights in a public limited liability company (*naamloze vennootschap*) incorporated under the laws of The Netherlands and which has an official listing on a stock exchange within the European Economic Area (a "DDA-company"), to give written notice of such acquisition or disposal if, as a result of such acquisition or disposal, that person's percentage capital interest and/or voting rights falls in a different bandwidth to that held by such person prior to such acquisition or disposal. The bandwidths set by the Dutch Disclosure Act are 0–5%, 5–10%, 10–25%, 25–50%, 50–66  $\frac{2}{3}$ % and over 66  $\frac{2}{3}$ %. Notification must be given to the DDA-company to which the notification relates and the AFM.

The notifications are published through advertisements in the Dutch daily newspaper *Het Financieele Dagblad* and on the website of the AFM. The AFM keeps a public register of all notifications made under the Dutch Disclosure Act.

Pursuant to the Dutch Disclosure Act, each person whose holding of capital interest or voting rights in us amounts to 5% or more at the time of the Admission, must notify us and the AFM within a four-week period after the Admission.

In addition, the Dutch Disclosure Act requires our managing directors to give written notification of the number of shares they hold and voting rights they have in us and all changes thereto.

Violation of the obligations of the Dutch Disclosure Act constitutes an economic offence and may lead to criminal prosecution and administrative sanctions being imposed. In addition, a civil court can impose measures against any person who fails to notify or incorrectly notifies us and/or the AFM of matters required to be correctly notified pursuant to the Dutch Disclosure Act. The measures that a civil court may impose include:

- an order requiring the person violating the Dutch Disclosure Act to make appropriate disclosure;
- suspension of voting rights in respect of such person's Shares for a period of up to three years as determined by the court;
- nullification of a resolution adopted by the General Meeting of Shareholders, if the court determines that the resolution would not have been adopted but for the exercise of the voting rights of the person who is obliged to notify, or suspension of a resolution until the court makes a decision about such nullification; and
- an order to the person violating the Dutch Disclosure Act to refrain, during a period of up to five years as determined by the court, from acquiring our shares and/or voting rights in our shares.

#### ***The Dutch Securities Act***

Pursuant to the Dutch Securities Act, the following persons (so-called insiders) are in principle required to notify the AFM of the existence of transactions conducted on their own account relating to our shares or in securities which value is determined by the value of our shares:

- a) members of our administrative, management or supervisory bodies;
- b) other persons discharging day-to-day (co)managerial responsibilities or having the authority to make decisions affecting our future developments and business prospects and who has regularly access to inside information relating, directly or indirectly, to us; and
- c) persons closely associated with a person as referred to under a) or b) being:
  - (i) the spouse of such person or any partner considered by national law as equivalent to the spouse;
  - (ii) according to national law, dependent children of such person;
  - (iii) other relatives of such person, who have shared the same household as that person for at least one year on the date of the transaction concerned;
  - (iv) any legal person, trust or partnership, whose managerial responsibilities are discharged by a person referred to under a) or b) or under c) i, ii, or iii, or which is directly or indirectly controlled by such person, or that is set up for the benefit of such person, or whose economic interests are substantially equivalent to those of such person.

The AFM needs to be notified of transactions relating to our Shares or securities which have a value that is determined by the value of our Shares within five days following the transaction date. Notification may be postponed until the date the value of the transaction amounts to € 5,000 or more per calendar year.

The provisions of the Dutch Securities Act regarding insider trading contain also the obligation for us to have a code of conduct in respect of the reporting and regulation of transactions in our securities.

#### ***Polish large shareholding reporting requirements***

Under the Act on Public Offerings shareholders (*i.e.*, persons registered as holders of securities accounts on which the securities concerned are registered) are required to report a large shareholding in listed companies.

#### ***Calculation of ownership percentages***

For the purpose of calculating a large shareholding the Act on Public Offerings refers to the voting rights held by each shareholder (*i.e.*, the number of votes held in relation to the total number of votes at the shareholders' meeting), and not to the share percentage held in the listed company's share capital. Voting shares of all classes are aggregated. For the purposes of calculating the number of votes, it is assumed that all shares give full voting rights, even if such voting rights are restricted or excluded by an agreement, or by the articles of association of a listed company or by applicable laws.

### Reporting thresholds

In accordance with Art. 69 of the Act on Public Offerings, a shareholder in a listed company, who individually or jointly with other entities:

- has reached or exceeded 5%, 10%, 20%, 25%, 33%, 50% or 75% of voting rights in a listed company;
- held shares giving at least 5%, 10%, 20%, 25%, 33%, 50% or 75% of voting rights in a publicly-traded company and as a result of a reduction of its equity interest achieved or reduced its interest below 5%, 10%, 20%, 25%, 33%, 50% or 75% of voting rights in a listed company;
- held over 10% of voting rights and this shareholding has changed by at least 2%;
- held over 33% of voting rights and this share has changed by at least 1%;

is required to notify both the PSEC and the respective listed company of the fact.

Such notification should be filed within four days from (i) the date of the occurrence of a change in such a shareholder's shareholding in voting rights, or (ii) the date on which the shareholder becomes, or by exercising due care could have become aware of such change.

The reporting requirements are not triggered by day-trading activities, *i.e.* when a shareholder engaged in a number of transactions during a trading day but upon the settlement of transactions made by a shareholder on a single day, there was no change in the shareholding or the change did not result in reaching or exceeding any threshold which triggers the reporting requirement.

The large shareholding notification requirement applies also if:

- the shares have been pledged or are subject to other security interest, unless the voting rights resulting from those shares have been transferred to the beneficiary of the security interest and that beneficiary has stated its intention to exercise the voting rights;
- a person other than the shareholder has a personal and lifelong economic benefit from the rights from shares;
- shares are deposited or registered with an entity which may dispose of them at its own discretion;
- a shareholder gains or exceeds the respective threshold as a result of legal occurrence other than purchase transaction (*e.g.*, inheritance).

The notification should provide the following information:

- the date and type of event which resulted in the change of shareholding;
- the original shareholding in the company, *i.e.*, (i) the number of shares held before the change in the shareholding occurred, (ii) the percentage of shares held in the company's share capital, (iii) the number of voting rights, as well as (iv) the total number, as a percentage, of votes held in the public company;
- the current shareholding in the company, *i.e.* (i) the number of shares held by the shareholder after the change in the shareholding occurred, (ii) the percentage of shares held in the company's share capital, (iii) the number of voting rights, as well as (iv) the total number, as a percentage, of votes held in the public company.

Furthermore, the notification submitted in connection with reaching or exceeding 10% of the voting rights should also contain information on: (i) whether the shareholder intends to increase further its shareholding within the next 12 months, and (ii) the purpose of such an increase. If the intention or the purpose of the acquisition changes after notification, the shareholder must immediately, but in no event later than 3 days following the change, notify the PSEC and the relevant public company.

Once a listed company receives a notification from a shareholder, the company is obliged to forward it to the WSE (or other market on which the shares are traded) and to the Polish Press Agency (the "PAP"). In consequence the large shareholding is disclosed to the public. A listed company may however, upon PSEC approval, withdraw the disclosure of the shareholder's notification, if such disclosure: (i) could be contrary to the public interest, or (ii) could seriously affect the company's interests, provided that investors are not misled by that non-disclosure when assessing the value of securities.

Shareholdings of various legally separate parties must be aggregated for the purpose of large shareholding notifications if such parties are related or are acting in concert. The concept of "related parties" and "parties acting in concert" is broad. The following entities are regarded as related parties or parties acting in concert:

- affiliates;
- parties who are bound by an agreement (including an oral agreement) regarding joint acquisition of shares in a listed company;
- parties who are bound by an agreement (including an oral agreement) regarding voting at the shareholders' meeting on material matters of a listed company;
- investment funds (Polish or foreign) managed by the same investment manager;
- portfolios managed by the same investment manager if the manager may exercise votes resulting from the managed shares;
- agents holding shares on behalf of, or for the benefit of a principal;

- parties who exercise discretionary voting power on behalf of a principal;
- brokers who act as proxies for their clients and exercise discretionary voting power;
- family members (if the shareholder is an individual).

The reporting requirements also apply to an entity that reaches or exceeds the above-described thresholds by becoming a parent company of an entity that directly holds shares in a listed company.

In accordance with Art. 88 of the Act on Public Offerings the following instruments need to be disclosed as well:

- shares in the equity of listed companies;
- bonds convertible into shares in listed companies;
- depository receipts based on shares in listed companies;
- other securities which confer a right to acquire shares in listed companies.

All those securities are deemed to confer the right to such a share in the total number of voting rights as their holder may come to hold upon conversion of the securities into shares.

## RELATED PARTY TRANSACTIONS

### Reorganisation

In 2006, in preparation for this Offering and for various other corporate purposes, we have completed the reorganisation to restructure our corporate structure. Our shareholding structure following the reorganisation is described in detail under "*Major Shareholders*".

### Loans and Guarantees

In the past, our Indirect Shareholders and their related entities provided or took loans from the Company. There are currently no outstanding loans granted by the Company to our shareholders and Board of Directors' members. As at May 31, 2006 two companies (Lakemoy Holding Company and Eternal Ltd.), both companies controlled by Mr. Valery Korotkov, have a receivable of UAH 7.7 million (EUR 1.187 million) towards the Company under loans granted to the Company. The loan bears interest at 10 per cent per annum which is below the current market rates in Ukraine. The loan is repayable in December 2009 but will be repaid by us in December 2006.

In 2005, one of the Group companies, LLC "Troitska" guaranteed repayment of interest free bonds issued by a related party company OJSC Firm "Astarta-Tsenter", controlled by the Indirect Shareholders, by pledging all its assets. The nominal value of bonds was UAH 12.042 million (EUR 2.017 million).

### Offering of the Shares

We have entered into an agreement with the Selling Shareholders, under which:

- the Selling Shareholders and we undertake to offer the Shares offered in the Offering on behalf of the Selling Shareholders;
- we agree to apply for the listing of the Shares on the WSE.

Costs related to the Offering will be shared by us with the Selling Shareholders, pro rata to the number of New Shares and Sale Shares sold in the Offering.

### Other Related Party Transactions

The Group performs transactions with related parties in the ordinary course of business. Related parties comprise the Group parent's associates, the shareholders, companies are under common control of the Group's controlling owners, key management personnel of the Group and their close family members, and companies that are controlled or significantly influenced by shareholders. Prices for related party transactions are determined when these transactions are to be effected. The terms of some related party transactions may differ from the market terms. We believe that no transaction with related parties has a material effect on our business.

## **DIVIDEND POLICY**

Our general dividend policy following the Offering is to pay dividends at levels consistent with our growth and development plans, while maintaining a reasonable level of liquidity. In the light of the above, the current intention of our Board of Directors is to recommend to the General Meeting of Shareholders that no dividend is declared and paid until the approval by the General Meeting of Shareholders of the financial statements for the year ended 31 December 2008.

Our dividend policy will, however, be reviewed from time to time and payment of any future dividends will be effectively at the discretion of our Board of Directors and the General Meeting of Shareholders after taking into account various factors including our business prospects, future earnings, cash requirements, financial position, expansion plans and the requirements of Dutch law. In addition, payment of future dividends may be made only if our shareholders' equity exceeds the sum of our called up and paid-in share capital plus the reserve required to be maintained by law and by our Articles of Association.

All our shares, including the Offer Shares carry equal dividend rights.

## THE SHARES

Set forth below is the information concerning our share capital and related summary information concerning the material provisions of our Articles of Association and applicable Dutch law. Because it is a summary, it does not contain all of the information in the Articles of Association and is qualified in its entirety by reference to our Articles of Association which are attached hereto as Annex II and the Dutch Civil Code. See also: "*Management and Corporate Governance*".

Our authorized share capital as of the date of this Prospectus is EUR 300,000, divided into 30,000,000 Shares, each with a nominal value of EUR 0.01. Our issued share capital as of the date of this Prospectus is EUR 200,000, divided into 20,000,000 Shares, each with a nominal value of EUR 0.01. All of the issued Shares are paid-up in full. In connection with the Offering, our Board of Directors will issue up to 6,700,000 New Shares, under exclusion of pre-emptive rights of the existing shareholders (*voorkeursrechten*, as contemplated by section 2:96a of the Dutch Civil Code and article 8 of the Articles of Association).

### Voting Rights

At the General Meeting of Shareholders, each Share confers the right to cast one vote. Each shareholder is entitled to attend the General Meeting of Shareholders either in person or through a written proxy, and to address such meeting and exercise voting rights, in accordance with our Articles of Association.

The annual General Meeting of Shareholders shall be held within six months after the end of each financial year. The General Meetings of Shareholders may be convened by the Board of Directors, subject to the time limit stipulated in our Articles of Association. Shareholders that represent alone or in aggregate at least 10% of our issued share capital may, pursuant to the Dutch Civil Code, request that a General Meeting of Shareholders be convened. An extraordinary General Meeting of Shareholders can be held whenever the Board of Directors deems it necessary. The Board of Directors as well as shareholders and others entitled to attend the General Meeting of Shareholders that hold Shares representing at least one hundred (1/100) of the issued capital may determine the items on the agenda of such meeting.

At the annual General Meeting of Shareholders shall consider the following matters:

- a written annual report prepared by the Board of Directors;
- an adoption of the annual accounts;
- the Company's reserves and dividend policy and any proposal to pay dividends;
- in connection with the adoption of the annual report, a formal release of the Board of Directors from legal liability under Dutch law for their business role over the previous year;
- an appointment and dismissal of Board of Directors' members;
- any proposals placed on the agenda by the Board of Directors or shareholders.

Unless otherwise required by the Articles of Association or Dutch law, all resolutions of the General Meeting of Shareholders shall in principle be adopted by an absolute majority of votes cast, unless it concerns certain explicitly described matter, in which case a super majority is required, which, amongst others, include:

- limitation or exclusion of pre-emptive rights or designation of the Board of Directors as the authorised corporate body to adopt a resolution on limitation or exclusion of pre-emptive rights;
- reduction of the Company's share capital; and
- approval of certain Board of Directors' resolutions (see: "*Management and Corporate Governance*").

We will publish a notice of each General Meeting of Shareholders in a national daily newspaper distributed throughout the Netherlands and Poland as well as by way of a Current Report.

A shareholder shall have the right to vote Shares that are subject to a right of usufruct (*vruchtgebruik*) or a right of pledge. The usufructuary or the pledgee shall, however, have the right to vote Shares if so determined upon the establishment of the usufruct or pledge.

All shares in the Company carry the same voting rights.

### Dividends and Other Distributions

Each year, the Board of Directors shall determine which part of the Company's profits for the year, if any, shall be placed in a reserve account. The remaining profits, if any, shall be available to our General Meeting of Shareholders for distribution as dividend on the Shares or be further added to the reserves or for such other purpose within the objects of the Company as the meeting shall decide.

Distributions to shareholders may only be made insofar as our shareholders' equity exceeds the sum of the paid up and called up share capital and the reserves required to be maintained by applicable law and our Articles of Association. Any distribution of profit through a dividend may only be made after the adoption of the financial statements by the General Meeting of Shareholders.

The General Meeting of Shareholders may decide to announce one or more interim dividend, as permitted under applicable law and our Articles of Association.

The General Meeting of Shareholders may decide that a dividend distribution shall be made wholly or partly in the form of our Shares.

Distributions are payable as of the date determined by the General Meeting of Shareholders or else immediately upon declaration. Distributions that have not been claimed within five years as from the date that they have become available shall lapse in favour of the Company. See also: "Dividend Policy".

### **Form and Transfer of Shares**

Our Shares may generally be in registered or bearer form. However, for the purposes of listing on the WSE all our Shares will be registered with the NDS, the central securities depository and clearinghouse in Poland and no physical share certificates will be issued to shareholders. The Shares, while registered with the NSD will take the bearer form and shareholding will be evidenced by reference to securities accounts held for the shareholder by members of the NDS (e.g., brokers or custodians). Transfer of Shares takes place through the facilities of the NDS.

### **Issue of Shares and Pre-emptive Rights**

Our Shares may be issued pursuant to a resolution of the General Meeting of Shareholders. The General Meeting of Shareholders may also delegate the authority to issue new Shares to the Board of Directors for a renewable period of five years. The General Meeting of Shareholders, pursuant to its meeting held in Amsterdam on July 10, 2006, authorised the Board of Directors to issue a definite number of Shares, up to the current authorised share capital of EUR 300,000 for a definite period until July 9, 2007.

Each holder of Shares shall have pre-emptive rights to subscribe for any issue of Shares pro rata to the aggregate amount of such holder's existing holding of the Shares. Each holder shall, however, have no pre-emptive right on Shares issued for a non-cash contribution. In addition, each shareholder shall have no pre-emptive right with respect to Shares issued to our or our Subsidiaries' employees or to a person who exercises a previously acquired right to subscribe for Shares.

Pre-emptive rights may be restricted or excluded by a resolution of the General Meeting of Shareholders, or by the Board of Directors if so delegated. This shall apply mutatis mutandis to the granting of rights to subscribe for Shares, but shall not be applicable to the issue of Shares or persons exercising a previously granted right to subscribe for Shares.

At present, the Company does not have any plans regarding future issues of shares after the Offering, except for the issue of shares in connection with the management share option plan. See: "*Management and Corporate Governance – Management Share Option Plan*".

### **Repurchase of our Own Shares**

We may acquire fully paid-up Shares at any time for no consideration, or, subject to certain provisions of Dutch law and our Articles of Association, if (i) our shareholders' equity minus the payment required to make the acquisition, does not fall below the sum of called-up and paid-up share capital and any statutory reserves, and (ii) we and our subsidiaries would thereafter not hold Shares or hold a pledge on Shares with an aggregate nominal value exceeding 10% of its issued share capital.

An acquisition of Shares for a consideration should be authorised by the General Meeting of Shareholders. Such authorisation may apply for a maximum period of 18 months and must specify the number of Shares that may be acquired, the manner of this acquisition and the price limits within which the Shares may be acquired. Any Shares held by us in our own capital may not be voted or counted for quorum purposes.

### **Capital Reduction**

The General Meeting of Shareholders may, subject to Dutch law and our Articles of Association resolve to reduce the issued share capital. A resolution of the General Meeting of Shareholders to reduce the issued share capital requires a majority of at least 75% of the votes cast.

### **Annual Accounts**

Annually, and within five months after the end of our financial year (unless the General Meeting of Shareholders has extended this period by a maximum of six months on account of special circumstances), the Board of Directors is required to prepare the statutory financial statements, which must be accompanied by an annual report and an auditor's report. All Board of Directors' members must sign the financial statements.

The financial statements, the annual report, and the auditor's report must be made available to the shareholders for review as from the day of the notice convening the annual General Meeting of Shareholders. The financial statements shall be adopted by the General Meeting of Shareholders.

## Liquidation Rights

In the event of our dissolution, we must be liquidated according to applicable Dutch law. During liquidation, our Articles of Association shall remain in force insofar as possible. The balance of our equity remaining after the payment of debts (and the cost of liquidation) shall be distributed to our shareholders pro rata to the aggregate amount of Shares held by each shareholder.

## Dutch Squeeze-out Procedure

If a person or company or a group of companies (the "Controlling Entity") holds a total of at least 95% of a company's issued share capital by nominal value for its own account, Dutch law permits the Controlling Entity to acquire the remaining ordinary shares in the controlled entity by initiating proceedings against the holders of the remaining ordinary shares. The price to be paid for such ordinary shares will be determined by the Enterprise Chamber of the Amsterdam Court of Appeal. A shareholder who holds less than 95% of the ordinary shares, but in practice controls the controlled entity's general meeting of shareholders, could attempt through a legal merger with another company, by subscribing to additional ordinary shares in the controlled entity (for example, in exchange for a contribution of part of its own business), or through other forms of reorganization to raise its interest to 95% or to obtain through other means full ownership of the business of the controlled entity.

## Execution of Corporate Rights by Investors with respect to our Shares

### *Confirmation of ownership of the Shares*

In the case of shareholders, because of the principles of trading on the regulated market and the dematerialisation of securities in Poland, the document confirming the ownership of the Share is the registered depository certificate issued in particular for the purpose of participation in the General Meetings of Shareholders. Such a certificate is issued by the broker or the custodian with whom the relevant shareholder has a securities account. The registered depository certificate confirms that the shares have been blocked for the duration of the General Meeting of Shareholders and at least 7 days ahead of it.

### *Dividends*

It is expected that the dividends (if any) will be paid through the NDS. The Company will transfer the dividend, less the tax due under Dutch law, to the NDS on the dividend payment date. The NDS will pay that amount to the accounts of its members (investment firms and custodians) that will then pay the dividend directly to the shareholders. The funds will be payable in EUR or in PLN. The NDS will distribute successive dividends (if any) in accordance with the regulations prevailing on the Polish capital market.

### *Voting at the General Meetings of Shareholders*

For a general description of the provisions of Dutch law relating to the invitation to, and participation in shareholders' meetings, please see: "Voting Rights" above.

The Company envisages that, regardless of the Dutch corporate law requirements, the information concerning the dates and places of its General Meetings of Shareholders will also be announced in the form of a Current Report and a press release in Poland.

Under the Articles of Association the General Meeting of Shareholders may only be held in the place where the Company's registered office is situated, in Schiphol or any other place within the Netherlands agreed upon by the Board of Directors. In the event the General Meeting of Shareholders is held in other places, including places outside the Netherlands, valid resolutions can only be taken provided that the entire share capital is represented. Holders of Shares may take part in the General Meeting of Shareholders and vote in person, by a proxy attending the meeting in person or by mail by completing and returning the proxy. The Company will publish in Poland information of any General Meeting of Shareholders at least 30 days prior to the date of a given General Meeting of Shareholders, by filing with the PSEC, the WSE and the PAP a Current Report containing a Polish translation of invitation to the General Meeting of Shareholders with agenda of the meeting and information on the proxy voting procedure. Invitation to the General Meeting of Shareholders, together with any accompanying documents, will also be published in Dutch and Polish on the website of the Company. No resolution of the General Meeting of Shareholders may be adopted on a matter not included in the agenda, except where the entire share capital is represented at the General Meeting of Shareholders. Under Dutch law there is no requirement that the content of draft resolutions which are to be adopted at the General Meeting of Shareholders must be disclosed. However, the Company will present draft resolutions that are to be adopted at the General Meeting of Shareholders within a proper period, not later than 7 days prior to the date of the General Meeting of Shareholders, by way of a Current Report.

A natural or legal person that may be appointed by the shareholders to act as a proxy for the purpose of voting at the General Meeting of Shareholders and that will be given a voting instruction shall be indicated by the Company in the invitation to the General Meeting of Shareholders. The voting instruction card should be accompanied by a depository certificate issued by the broker or custodian maintaining the securities account on which the Shares held by such voting shareholder are registered. The depository certificate should contain, *inter alia*, the name of the shareholder, the number of Shares held, as well as a statement of the broker or the custodian that the Shares will have been blocked in the securities account until the date of the General Meeting of Shareholders indicated in the Current Report containing the invitation to the General Meeting of Shareholders. The voting instruction card may be in Polish. It is an additional option for a shareholder to appoint a proxy indicated by the Company. Each shareholder may take part in the General Meeting of Shareholders personally or may as well appoint

its individual proxy. The shareholder may as well on each occasion both before and in the middle of the General Meeting of Shareholders revoke the authorisation given to the proxy indicated by the Company. The Company will bear the costs of the proxy indicated by the Company.

The proxy indicated by the Company will follow the voting instructions of a shareholder as an individual proxy of each shareholder that has granted the authorization to him. The shareholder may also send the voting instruction card or abstain from voting in particular resolutions. Abstentions will be excluded from the vote, but they will count for purposes of determining whether a quorum is present. The proxy may be revoked at any time prior to its exercise by mailing or personal delivery of a revocation notice to the address indicated in the invitation to the General Meeting of Shareholders, provided that the revocation notice is received at least two business days prior to the General Meeting of Shareholders. Such term will be determined in accordance with the relevant provisions of Polish law. The proxy as well should receive the revocation notice. A Shareholder may also revoke the voting instruction by voting in person at the General Meeting of Shareholders. In the event that during the General Meeting of Shareholders the content of a draft resolution has been changed, the proxy will vote in a manner which, in his/her opinion, is the closest to the intentions of the principal. If due to mistake or malicious intentions a proxy while voting on behalf of the shareholder does not follow the shareholder's instruction, such vote will be valid and the shareholder may demand the redress of a damaged from such a proxy. Even though the Company designated a proxy, a shareholder may attend the General Meeting of Shareholders and vote on it by itself.

The shareholders may request a copy of the invitation to the General Meeting of Shareholders, together with any accompanying documents, free of charge, by sending a request to the Investors Relations Office of the Company at its registered office.

### **Pre-meetings**

The Company intends to hold in Poland preliminary meetings with shareholders ("Pre-Meeting") not more than 10 business days and not less than 1 business day prior to the date of each General Meeting of Shareholders. The agenda of the Pre-Meeting will be identical with the agenda of the General Meeting of Shareholders which follows the Pre-Meeting. Invitation to the Pre-Meeting will be published in Poland by way of a press release and a Current Report. The invitation to a Pre-Meeting may be published simultaneously with the invitation to the General Meeting of Shareholders.

Shareholders may participate, ask questions, review documents and vote on the Pre-Meetings on terms identical to those applicable to the General Meeting of Shareholders. Shareholders present or represented at the Pre-Meeting will be able to appoint proxies (indicated by the Board of Directors) to cast on behalf of shareholders votes at the General Meeting of Shareholders which follows the Pre-Meeting.

### **Pre-emptive rights**

For a general description of the provisions of Dutch law relating to the execution of subscription rights, see: "*Issue of Shares and Pre-emptive Rights*".

If the Company decides to issue new Shares in the future and does not waive the pre-emptive rights of existing shareholders then the Company will publish the decision by placing an announcement in the *Staatscourant* (the Dutch official gazette) and simultaneously in a Dutch and a Polish newspaper of nationwide circulation. In addition, the decision will be published in Poland as a Current Report filed with the PSEC, the WSE and the PPA. The announcement will specify the period in which the pre-emptive right may be exercised. Such period may not be shorter than two weeks from the day of publication in the *Staatscourant*. Dutch law does not provide for any procedure for determining the pre-emptive right exercise date and such date is always defined in the relevant resolution on the issue of shares. The Company will agree upon the draft resolution regarding issue of new shares, which will be offered as a result of the exercise of pre-emptive right, with the NDS and the WSE. The announcement will also specify the details regarding procedure for exercise of the pre-emptive rights. The pre-emptive right is exercised by placing an order with the Company and paying for the newly issued shares. If the Company decides to apply for admission of newly issued shares to trading on a regulated market in Poland then the pre-emptive rights will be exercised, and the payment for new shares will be made, in accordance with the rules of the WSE and of the NDS. Under Dutch law pre-emptive rights are transferable and tradable property rights.

### **Challenging resolutions of general meetings of shareholders**

Under Dutch law and the conflict of law rules, a resolution of the general meeting of shareholders of a Dutch company may only be appealed to a Dutch court in accordance with the Dutch company and civil proceedings law.

Pursuant to Dutch law, a resolution of the general meeting of shareholders may be appealed by each shareholder regardless of the number of shares held by him, if the resolution is (i) in conflict with the statutory law, provisions of the articles of association on the proceedings for taking resolutions, (ii) in conflict with principles of reasonableness and fairness as set forth in Art. 2.8 of the Dutch Civil Code; or (iii) in conflict with the internal regulation of the company itself (*inter alia* the articles of association). Art. 2.8 of the Dutch Civil Code includes a general clause which appeals for the exercise of corporate rights and obligations in compliance with principles of reasonableness and fairness.

The appeal should be filed with a district court having jurisdiction over the relevant company's seat within the period of one year starting from a day of the publishing of such a resolution. In case of Astarta the competent court is the District Court of Amsterdam, the Netherlands. The plaintiff should show a legal interest in appealing against resolution. Under Dutch civil proceedings rules, the appeal should be filed in the Dutch language and should be signed by an attorney qualified to practice in the Netherlands. Generally, the appeal will be subject to court fees. If the court finds in favour of the appealing shareholder than the resolution will be nullified (*vernietigd*).

Similarly, under Dutch law each shareholder also has a right to appeal any action of other governing bodies (*i.e.*, the Board of Directors) on the same grounds as specified above. The same appeal procedure will apply.

**Polish foreign exchange regulations**

Under the Polish Foreign Exchange Law, certain Polish residents holding shares in a foreign company, including the Shares, are obliged to report their shareholdings to the National Bank of Poland. Institutional investors (securities and commodity brokers, investment funds, general and employee pension funds, insurance companies) are obliged to file the reports on a quarterly basis, within 20 days after the end of calendar quarter. Other investors are obliged to file the reports on an annual basis, within 30 days after the end of calendar year, if at the end of a calendar year they hold the Shares of value exceeding 10,000 EUR or equivalent. The reports are filed on special forms available at the website of the National Bank of Poland ([www.nbp.pl](http://www.nbp.pl)).

## WARSAW STOCK EXCHANGE

We intend to apply for the admission of all our Shares to trading on the WSE and to list our Shares on the main market of the WSE. Due to listing and trading of our Shares on the WSE, we will be subject to certain Polish securities regulations, in particular with regard to disclosure of information, and will also be subject to supervision of the relevant Polish authorities in these areas.

### Regulation of the Polish Securities Market

Although we have a registered office in The Netherlands, and are therefore, governed by Dutch law, our Shares will be listed on a regulated market in Poland and therefore certain Polish legal considerations may also be relevant, especially with regard to the rights and obligations arising out of trading in the Shares and the rights and obligations of shareholders.

In particular, we will be subject to the regulations acts which constitute the framework of Polish capital market and contain provisions relating to securities listed in Poland and their issuers:

- the Act on Trading in Financial Instruments;
- the Act on Supervision over the Capital Market; and
- the Act on Public Offerings, Admission Financial Instruments into an Organized Trading System and on Listed Companies.

### Trading and Settlement

Shares and other equity securities listed on the WSE are quoted in PLN per share. The electronic trading system used by the WSE is WARSET, a trading system similar to those used on Euronext, in Chicago and Singapore. The settlement system uses automated netting procedures and daily mark-to-market evaluation of collateral requirements to reduce transfer costs.

Trading in securities can be suspended by the WSE if a given listed company violates the binding regulations or upon the PSEC request if orderly stock exchange trading is endangered or if its suspension is necessary in order to protect interests of investors. The electronic system provides for automatic volatility interruptions and market order interruptions during continuous auctions and for automatic volatility interruptions during continuous trading.

The settlement of the transactions (on spot and forward markets) concluded on the WSE takes place outside the WSE through the NDS.

### Listed Securities in Book-entry Form

In accordance with Article 5 of the Act on Trading in Financial Instruments, securities admitted to trading on a regulated market in Poland (such as the WSE) cease to have a documentary form and exist only as book entries ("dematerialised securities"). In the case of securities offered to the public, which after public offering will not be traded on a regulated market, as well as in the case of securities traded exclusively on an alternative trading system, their issuer may determine, on its own discretion, whether to issue securities in a documentary form or as book entries. The rights to dematerialised securities are created upon first registration of a security in a securities account. Generally, securities accounts are operated by: brokerage houses, banks conducting brokerage activities, custodian banks, foreign investment firms, foreign legal entities conducting brokerage activity in Poland in the form of a branch office, the National Deposit of Securities, and the National Bank of Poland. A holder of the securities account may demand that a depository certificate be issued in his/her name. Such a certificate is issued separately for each type of security registered on the account and serves as a basis for the exercise by the holder of the securities account of all rights arising from securities set forth in the certificate which cannot be exercised exclusively on the basis of securities account records.

Transfer of dematerialized securities becomes effective once the appropriate record has been made in the relevant securities account.

### Tender Offer Obligations

In accordance with section 1 of Article 72 of the Act on Public Offerings, any acquisition by a shareholder who holds shares entitling it to less than 33% in a listed company, in secondary trading and within a period of less than 60 days, of listed shares leading to the increase of its share in the total number of voting rights by more than 10% of the total number of votes at a shareholders' meeting, shall be effected exclusively through a public tender offer.

Furthermore, any acquisition by a shareholder who holds shares entitling it to at least 33% in a listed company, in secondary trading and within a period of less than 12 months, of listed shares leading to the increase of its share in the total number of voting rights by more than 5% of the total number of votes at a shareholders' meeting, shall be effected exclusively through a public tender offer. Additionally, a shareholder must launch a mandatory public tender in the following circumstances:

- a shareholder that wishes to cross the 33% voting rights threshold is obliged to launch a public tender for shares that will entitle it to hold 66% of votes; and
- a shareholder that wishes to cross the 66% voting rights threshold is obliged to launch a public tender for all the remaining shares in a listed company.

Except for the cases indicated below, crossing the 33% or 66% thresholds requires that a mandatory public tender be launched.

If the indicated thresholds are exceeded due to acquisition of shares in a public offering, in-kind contribution, merger or division of a company, change of the articles of association) of the company or legal occurrence other than a purchase transaction, the shareholder either has to:

- launch a respective public tender, or
- sell the appropriate amount of shares so that the number of votes to which the shareholder is entitled is no more than 33% or 66% of votes respectively.

If during the 6-month period following the "66% mandatory tender offer", the shareholder who launched the tender offer (or its subsidiaries, dominant entity or entities acting in concert) pays a higher price for shares than it offered in the tender offer, it will be obliged to pay the difference to all entities that have sold shares in the "66% mandatory tender offer".

A shareholder launching a tender offer must provide a security for 100% of the value of the shares which are to be purchased. The tender offer must be carried out through an entity authorized to conduct brokerage activities in Poland. The rules of determining the tender price are set out in detail in Article 79 of the Act on Public Offerings.

### **Sanctions for Violation of Regulations Governing Large Shareholdings**

The exercise of voting rights resulting from shares acquired in violation of: (i) the large shareholding reporting obligations (See: "*Major Shareholders – Polish large shareholding reporting requirements*"), (ii) public tender requirements when a shareholder wishes to cross the 33% voting rights threshold or increases its voting rights by more than 10% or 5%, respectively, in the circumstances described above, is invalid, which means that votes that are exercised in breach of the above-mentioned requirements will be not counted when establishing the result of the vote on a resolution of the shareholders' meeting.

Violation of the mandatory tender offer requirement when a shareholder wishes to cross the 66% voting rights threshold results in invalidity of the exercise of voting rights attached to all the shares held by a given shareholder.

Additionally, a shareholder who violates any requirement of the securities regulations described above may be subject to a fine of up to PLN 1.0 million.

### **Disclosure Obligations**

Once the Shares have been admitted to trading on the WSE, we will be required to comply with certain disclosure obligations regarding the publication of information under Polish and Dutch law. Such obligations include:

- (i) the disclosure of inside information (*e.g.*, any events that may substantially affect the price or the value of the shares), and
- (ii) publication of current and periodic information.

All information will be in Polish and English. The Company intends to disseminate current and periodic reports using the ESPI system (the electronic disclosure system for issuers listed in Poland).

## THE OFFERING

### General

We are offering up to 6,700,000 ordinary shares to be newly issued (the "New Shares") in our share capital under Dutch law, with a nominal value of EUR 0.01 each, against an issue price (the "Offer Price") which shall be determined through bookbuilding. In addition, Albacon Ventures Limited, a company organised under the laws of Cyprus, with address at 1, Lampousas Street, 1095 Nicosia, Cyprus, and Aluxes Holding Limited, a company organised under the laws of Cyprus, with address at Neocleous House, 199 Arch. Makariou III Ave., 3030 Limassol, Cyprus, the current holders in total of 100% of shares in the Issuer (the "Selling Shareholders"), are offering in total up to 900,000 of our existing shares (the "Sale Shares" and, together with the New Shares, the "Offer Shares"), at the same Offer Price. The number of Sale Shares sold by each Selling Shareholder will be equal.

Final number of the Offer Shares, the New Shares and the Sale Shares to be placed in the Offering will be determined by us and the Selling Shareholders on the Allotment Date, in a manner described below, however only after the Offer Price is set. The final number of the Offer Shares will not be higher than 7,600,000. When determining the final number of the Offer Shares we will in the first instance seek to ensure that the proceeds from the placement of the New Shares reach the amount referred to in the "Use of Proceeds" section herein and then that the free float of our Shares reaches approximately 25% of all Shares issued.

The Offer Price will be set in Polish zloty, being the quotation currency of the WSE, at which we wish to list our Shares.

The Offering consists of a public offering in Poland and an international private placement to institutional investors in certain jurisdictions outside of Poland. No public offering in the Netherlands will take place, however for the purpose of public offering in Poland we took and will take certain actions in the Netherlands as our home Member State.

For information on applicable selling restrictions in respect of the Shares, please refer to "*Selling Restrictions*".

For information regarding the rights pertaining to the Shares, please refer to "*The Shares*".

### Timetable of the Offering

The timetable below lists certain (expected) key dates relating to the Offering. All times and dates referred to in this timetable may be adjusted by us. Should we decide to adjust the dates set out in the timetable, we will notify the AFM and the PSEC and publish such fact by way of a press release in Poland and in the same manner as the Prospectus. Any other alterations will be published in a press release in Poland and in the same way as this Prospectus has been published and, should it be required by law, in a supplement to this Prospectus.

|   |                               |
|---|-------------------------------|
| Announcement of the Price Range (if any)                                  | Not later than 26 July 2006   |
| Subscription Period and Book-building*                                    | From 26 July to 2 August 2006 |
| Allotment Date and Pricing  | 2 August 2006                 |
| Settlement Date   | 7 August 2006                 |
| Listing Date (listing of, and start of trading in, the Shares on the WSE) | about 11 August 2006          |

\* *Subscriptions in the Retail Investors Tranche will be accepted on 2 August 2006 only until 16.00 Warsaw time. Bookbuilding for the Institutional Investors will finish the same day at 18.00 Warsaw time.*

The Maximum Price at which the Offer Price may be set is PLN 27.20 per Offer Share. The Maximum Price does not necessarily reflect the actual level at which the Offer Price will be set.

Prior to the subscription, we may announce, upon advice of the Managers, a price range for the Offering (the "Price Range"). The Price Range, if any, will be announced through a press release in Poland and in the same way as this Prospectus. Top end of the Price Range will not be higher than the Maximum Price. During the Subscription Period, a book-building process amongst Institutional Investors invited by the Managers will take place, during which such Institutional Investors, interested in subscribing for the Offer Shares will indicate the number of the Offer Shares they will be willing to acquire and the price, within the previously announced Price Range, if such Price Range has been announced, and in any case not higher than the Maximum Price. Retail investors will not participate in the book-building process.

Institutional Investors should contact the Managers to discuss actions required to participate in the Offering. For further information regarding the subscription process, please refer to "*Plan of Distribution*".

The Offer Price will be determined jointly by the Issuer and by the Selling Shareholders upon recommendation of the Managers and will not be higher than the Maximum Price. The Offer Price will take into account results of the book-building amongst the Institutional Investors. The Offer Price will be expressed in PLN and will be the same for the New Shares and the Sale Shares. We will publicise the Offer Price through a press release in Poland and in the same manner as this Prospectus and by way of the Current Report.

## Claw-Back

Until completion of the book-building process we and the Selling Shareholders reserve the right to allocate in total a smaller number of Shares than the total number of Offer Shares. Should that happen, we will in the first instance allocate the New Shares and the Sale Shares will be allocated only after all New Shares have been allocated. It may also happen that the Selling Shareholders will not sell any Sale Shares. The Sale Shares will be allocated in such a way so that the number of Sale Shares sold by each Selling Shareholder is equal. As a result of allocation, all of the Offer Shares ultimately offered for subscription and for sale may be sold or subscribed in the Institutional Investors Tranche only or in the Retail Investors Tranche only.

## Supplements to the Prospectus

Any significant change to this Prospectus will be communicated through a supplement to the Prospectus, should it be required by law. In case the supplement is published after commencement of the Subscription Period and relates to events or circumstances which occurred prior to the Allotment Date, investors who have placed their subscription orders before publication of the supplement will have a right to withdraw their subscriptions within two business days from the publication of the supplement.

## Cancellation of the Offering

We may cancel the Offering, upon recommendation of the Managers, at any time prior to opening of the Subscription Period. We may also change the dates of opening and closing of the Subscription Period, or decide that the Offering will be postponed and that new dates of the Offering will be provided by us later. Information on change of dates or suspension of the Offering will be published in the form of supplement to the Prospectus.

We may also cancel the Offering, upon recommendation of the Managers, at any time after opening of the Subscription Period, but before announcement of the Offer Price if we consider it impracticable or inadvisable to proceed with the Offering. Such reasons include, but are not limited to: (i) suspension or material limitation in trading in securities generally on the Warsaw Stock Exchange; (ii) sudden and material adverse change in the economic or political situation in Poland, Ukraine or worldwide; (iii) a material loss or interference with our business; (iv) insufficient, in the opinion of the Issuer or the Managers, expected free float of our Shares on the WSE or (v) any change or development in or affecting the general affairs, management, financial position, shareholders' equity or results of our operations or the operations of our subsidiaries in a material adverse way. In such event, subscriptions for the Offer Shares that have been made will be disregarded, and any subscription payments made will be returned without interest or any other compensation. All dealings in the Shares prior to the listing are at the sole risk of the investor concerned.

Any decision on cancellation of the Offering will be published by way of a press release in Poland and in the same manner as the Prospectus.

The Offering may not be cancelled or suspended after dealing in Shares on the Warsaw Stock Exchange has begun.

## Listing and Trading

We are planning to apply for admission to listing and trading on the main market of the WSE of all of our Shares, including the Offer Shares, immediately after the Settlement Date. We believe that the approval for the admission to listing and trading will be granted on or about 10 August 2006 and listing itself will be effected on or about 11 August 2006, or as soon as possible thereafter, barring unforeseen circumstances.

## Listing Agent

We have appointed ING Securities S.A. to act as our listing agent with respect to the Shares for the purposes of admission to trading on the main market of the WSE.

Investors should consider that since under Dutch law, no registration process is needed in order to validly issue any shares, our New Shares will be eligible for a listing application upon payment by investors, on par with our remaining Shares – consequently, we will not be seeking to apply for listing of any temporary share receipts, such as "rights to shares" (*prawa do akcji*) within the meaning of the Act on Trading in Financial Instruments.

At present we do not intend to seek listing of our Shares at any stock exchange other than the WSE.

## Registration of Shares

In accordance with applicable regulations, all the Offer Shares will be registered with and cleared through the NDS (*Krajowy Depozyt Papierów Wartościowych S.A.*) which is a Polish central clearinghouse and depository of securities with its seat at ul. Książęca 4, 00-498 Warsaw, Poland. Delivery of the Shares will be made through the facilities of the NDS. As of the date of publication of the Prospectus, all of our existing Shares have been assigned ISIN code: NL0000686509 and we have applied for their registration with the NDS. Whilst the ISIN code for the New Shares has not been assigned yet, we will submit a relevant application as soon as practicable after allotment of the Shares. We believe that the New Shares will be assigned the same ISIN code as our existing Shares, that is: NL0000686509.

## Payment and Delivery

Payment for the Offer Shares will take place in a manner described in "*Plan of Distribution*". Delivery of the Offer Shares will be made on or about 7 August 2006 or as soon as practicable thereafter (the "Settlement Date") through the facilities of the NDS.

## **USE OF PROCEEDS**

Based on the Maximum Price, we may raise up to approximately PLN 182.2 million (EUR 45.2 million) of gross proceeds from the issue of New Shares in the Offering. The net proceeds which we will receive from the issue of New Shares in the Offering are estimated to be up to approximately PLN 170.1 million (EUR 42.2 million) after deducting the estimated commissions, costs and expenses in the amount of approximately PLN 12.1 million (EUR 3.0 million), based on the Maximum Price. We will publish final details of the net proceeds within two weeks of the Settlement Date by way of a press release and a Current Report.

We intend to use at least approximately one-third of the net proceeds received from the Offering of the New Shares for (i) purchasing additional modern machinery and technology for sugar beet cultivation, (ii) further modernization of our existing sugar plants in order to bring them fully in line with the EU technical standards, (iii) continuous market expansion in Ukraine, including acquisition of additional sugar plants.

To the extent the net proceeds of the Offering of the New Shares are not invested in any way described above they will otherwise be used for (i) supporting our working capital needs and optimising cost and size of our debt obligations, (ii) taking advantage of other opportunities in the agricultural and food processing business in Ukraine which may create shareholder value and (iii) for general corporate purposes.

We will not receive any proceeds from the sale of the Sale Shares. The proceeds from the sale of the Sale Shares, if any, shall in whole accrue to the Selling Shareholders.

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## PLAN OF DISTRIBUTION

We and the Selling Shareholders are offering the Offer Shares in a public offering on the territory of the Republic of Poland and in a private placement in certain jurisdictions outside of Poland. For further information about the selling restrictions please refer to "*Selling Restrictions*".

The Offer Shares are being offered in two tranches: a Retail Investors Tranche and an Institutional Investors Tranche. The number of Offer Shares to be allocated under the respective tranches will be determined on the Allotment Date, based on results of the book-building. However, the Retail Investors Tranche is expected to be not less than 20% of Offer Shares, provided that the retail investors have placed subscription orders for at least such number of Offer Shares at prices equal to or higher than the Offer Price. We will publicise the final number of allocated Offer Shares, and the final number of the Offer Shares allocated in each of the Tranches through a press release in Poland and by way of a Current Report.

### Eligible Investors

The Offer Shares in the Retail Investors Tranche may be acquired, solely on the territory of the Republic of Poland, by any individuals, both Polish residents and non-residents, except for U.S. persons, as defined in Regulation S. Non-resident foreign retail investors that intend to acquire the Offer Shares should acquaint themselves with the relevant laws of their countries of residence.

The Offer Shares in the Institutional Investors Tranche may be acquired by corporate entities (legal persons) and non-corporate entities, other than individuals, having their registered office in the territory of the Republic of Poland or outside the territory of the Republic of Poland, except for U.S. persons, as defined in Regulation S.

Entities managing portfolios of securities on behalf of their clients should liaise with the Managers in order to discuss actions required to place subscription orders for their clients.

To the best of our knowledge, neither the Selling Shareholders, nor any members of our management and our statutory bodies contemplate to purchase any Offer Shares in the Offering.

### Share Allotments

The minimum allotment in the Offering will be one Share, regardless of how and through whom the subscription order is placed provided however that such an investor gets any share allocation at all. Neither we, nor the Selling Shareholders will give preferential treatment to or discriminate against any investors or groups of investors who will place orders in the Retail Investors Tranche. In case of any oversubscription in the Retail Investors Tranche, we and the Selling Shareholders will reduce the allocations pro-rata, regardless of the price proposed by a given Retail Investor, as long as such price is not lower than the Offer Price. Retail Investors should note that subscription orders placed at a price lower than the Offer Price will be disregarded and fractional allocations (after the proportional reduction, if any) will be rounded. Any unallocated Offer Shares in the Retail Investors Tranche will then be allocated in succession to the remaining orders, from the largest to the smallest, with any remaining shares allocated by the Managers at their discretion.

We and the Selling Shareholders will allocate the Offer Shares in the Institutional Investors Tranche in the first instance to those of the institutional investors who (i) will be invited by the Managers to participate in the bookbuilding, (ii) will subscribe for the Shares for a price not lower than the Offer Price, and (iii) will be included in the allotment list prepared by us and the Selling Shareholders upon consultation with the Managers (the "Allotment List"). The allocation in the Institutional Investors' Tranche will be done discretionally by us and the Selling Shareholders, upon the consultation with the Managers.

We will publicise the results of the Offering, including in particular the Offer Price and the number of the Offer Shares in each of the Tranches, promptly upon allotment, by means of a press release in Poland and by way of a Current Report.

Institutional investors will be notified about their allocations by the Managers. Retail investors will receive relevant notifications in accordance with the regulations of their brokerage accounts.

### Subscription and Payment of the Offer Price

Retail investors, placing subscription orders in the Retail Investors Tranche will be required to propose a price per Offer Share, within the previously announced Price Range (or, if the Price Range has not been announced, a price not higher than the Maximum Price) they are prepared to pay. Retail investors will be required to simultaneously pay in an amount of money (either in cash or by wire transfer), equal to the product of the number of the Offer Shares they wish to buy and the price they proposed. Any overpayments (either as a result of the Offer Price being higher than the price proposed, or as a result of any proportional reduction in case of oversubscription) will be returned within 7 business days of the Settlement Date without any interest or any other compensation.

Institutional investors, which will be included on the Allotment List, will be required to pay amounts corresponding with the number of the Shares that was allocated to them and the Offer Price not later than on the Settlement Date.

Payment details in the Retail Investors Tranche for the Offer Shares will be publicised by the Polish Manager not later than on the first day of the Subscription Period.

Investors have a right to place multiple subscriptions (also at various price levels), provided the aggregate number of the Offer Shares subscribed by one investor is not greater than the total number of the Offer Shares. Orders covering a larger number of the Offer Shares will be deemed to have been made for all Offer Shares. Until the end of the Subscription Period, orders may be withdrawn and/or modified.

Subscription orders for the Offer Shares in the Retail Investors Tranche may be only placed in the Polish Manager's customer service points or any other place that may be publicly communicated by the Polish Manager before the end of the Subscription Period. Retail investors who, at the time of the Offering, will have a brokerage and cash account open with the Polish Manager, may place their orders by telephone, fax or through the internet, provided that their agreements for provision of brokerage services so permit, and pursuant to the terms of such agreements.

Subscription orders in the Retail Investors' Tranche will be accepted only from prospective investors, who at the time of order placement before the end of the Subscription Period, will have opened securities accounts with entities of their choice, licensed to provide such services within the territory of the Republic of Poland. The Polish Manager agreed to make every effort to open such accounts promptly, subject to its internal regulations.

Institutional investors should contact the Managers to discuss technical details for placing their subscription orders in the Institutional Investors Tranche.

By placing subscription orders, each of the prospective investors will be deemed to have read the Prospectus, accepted the terms of the Offering, consented to being awarded a lower number of the Offer Shares than the number specified in such investor's orders, or to not being awarded any Offer Shares at all, pursuant to the terms and conditions set forth in the Prospectus.

Investors should be aware that they may receive various numbers of the New Shares and the Sale Shares as a proportion of their total allocation of the Offer Shares.

Investor may be allocated New Shares only, Sale Shares only or both. All Shares have equal rights and will be delivered to investors at the same time. We will attempt to allocate first the New Shares, and the Sale Shares will be allocated only after all New Shares have been allocated.

## PLACING AND UNDERWRITING

We and the Selling Shareholders intend to enter, on or about the Allotment Date, into an underwriting agreement (the "Underwriting Agreement") in respect of the Offering with the Managers, in which the Global Coordinator and Bookrunner will commit, on a best efforts basis, to procure subscribers for, or failing that, to subscribe in its own name and pay for, the Offer Shares at the Offer Price. The Polish Manager will not underwrite any portion of the Offering. The underwriting commitment is summarised below:

|  |      |
|--|------|
| ING Bank N.V., London Branch, 60 London Wall, London EC2M 5TQ, England | 100% |
| Total  | 100% |

### Lock up Agreements

Except for the issue of the New Shares and of the Shares to be issued under the management share option plan (See: "*Management and Corporate Governance*"), we have agreed that in the period of twelve (12) months from the Settlement Date, we will not, without the prior written consent of the Global Coordinator and Bookrunner, which consent shall not be unreasonably withheld, propose or otherwise support an offering of any of our Shares, announce any intention to offer new shares and/or to issue any securities convertible into our Shares or securities that in any other manner represent the right to acquire our Shares, or conclude any transaction (including any transaction involving derivatives) whose economic effect would be similar to the effect of selling our Shares.

Furthermore, the Selling Shareholders (who, excluding the New Shares, as of the date hereof, hold in total 100% of our share capital) agreed that each of them in the period of twelve (12) months from the Settlement Date shall not: (i) sell or announce an intention to sell any of our Shares they will hold as of the Settlement Date (excluding the Sale Shares), (ii) issue any securities exchangeable into our Shares, (iii) issue any securities that in any other manner represent the right to acquire our Shares, as well as not (iv) conclude any transaction (including any transaction involving derivatives) whose economic effect would be similar to the effect of selling our Shares, without the prior consent of the Global Coordinator and Bookrunner, which consent shall not be unreasonably withheld. In addition, the Selling Shareholders undertook not to propose, vote in favour of or otherwise support: (i) any increase of our share capital, (ii) any issuance of securities convertible into our Shares or (iii) any issuance of any other securities that in any other manner represent the right to acquire our Shares, as well as not (iv) to conclude any transaction (including any transaction involving derivatives) whose economic effect would be similar to the effect of causing us to issue such instruments, except in connection the management share option plan (See: "*Management and Corporate Governance*").

### Fees

In connection with the Offering, Astarta and the Selling Shareholders have agreed to pay a fee of up to 6% of the gross proceeds from the placement and sale of the Offer Shares, pro rata to the number of the New Shares and the Sale Shares in the Offering.

Astarta and the Selling Shareholders have agreed to pay all commissions and expenses in connection with the Offering. However, investors will bear their own costs connected with the evaluation and participation in the Offering.

### Conditions of the Underwriting Commitment

The Underwriting Agreement will provide that the obligations of the Managers are subject to customary conditions precedent. The Underwriting Agreement will also provide that the Global Coordinator and Bookrunner may terminate the Underwriting Agreement upon the occurrence of certain circumstances.

If any or all of the conditions referred to above are not met or waived, or if any of the circumstances referred to above occur prior to payment for and delivery of the Offer Shares, the Global Coordinator and Bookrunner may, at its sole discretion, terminate the Underwriting Agreement and its obligation to subscribe for any Offer Shares will lapse.

### Dilution

Upon completion of the Offering the amount and percentage of the immediate dilution of our Shares will be as follows, assuming all New Shares are subscribed and issued and all Sale Shares are sold:

|  |            |        |
|--|------------|--------|
| Existing Shares held by the Selling Shareholders | 19,100,000 | 71.5%  |
| Sale Shares                                      | 900,000    | 3.4%   |
| New Shares                                       | 6,700,000  | 25.1%  |
| Total  | 26,700,000 | 100.0% |

### Other Relationships

So far the Managers and their respective affiliates have not engaged, but may in the future engage, in, any investment banking and other commercial dealings in the ordinary course of business with the Company, the Selling Shareholders, Astarta-Kyiv and any of their respective affiliates save for agreements related to preparation of the Offering.

## SELLING RESTRICTIONS

No action has been taken by us, the Selling Shareholders or the Managers that would permit, other than under the Offering, an offer of the Offer Shares or possession or distribution of this Prospectus or any other offering material in any jurisdiction where action for that purpose is required.

### No Public Offering Outside Poland

No action has been or will be taken by us, the Selling Shareholders or the Managers in any jurisdiction other than Poland that would permit a public offering of the Offer Shares, or the possession or distribution of this Prospectus or any other offering material relating to us or the Shares in any jurisdiction where action for that purpose is required. Accordingly, the Shares may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisements in connection with the Shares may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of any such country or jurisdiction.

The distribution of this Prospectus and the offer of the Offer Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions, including those in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdictions.

### European Economic Area

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Manager has represented and agreed that it has not made and will not make an offer of Shares to the public in that Relevant Member State prior to the publication of a Prospectus in relation to the Shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may make an offer of Shares to the public in that Relevant Member State under the following exemptions under the Prospectus Directive, if such exemption have been implemented in that Relevant Member State:

- to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) total balance sheet assets of more than EUR 43,000,000 and (3) an annual net turnover of more than EUR 50,000,000, as shown in its last annual or consolidated accounts;
- to fewer than 100 natural or legal persons in such Relevant Member State or to fewer than 100 natural or legal persons in all Member States, depending on the method of calculation provided for under applicable regulations of such Relevant Member State.
- in any other circumstances which do not require the publication by us of a Prospectus or obtaining any approvals pursuant to the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Shares to the public" in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe the Offer Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive.

### United Kingdom

Neither this Prospectus nor any other offering material has been submitted to the clearance procedures of the Financial Services Authority in the United Kingdom. The Offer Shares have not been offered or sold and, prior to the expiry of a period of six months from the sale of the Offer Shares, will not be offered or sold to persons in the United Kingdom except to "qualified investors" as defined in section 86 of the Financial Services and Markets Act 2000 (the "FSMA"). Each Manager will represent, warrant and agree that: (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; (ii) it has not offered or sold and will not offer or sell the Offer Shares other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses; (iii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received by it in connection with the issue or sale of the Shares in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or in respect of which an exemption (as set out in the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005) applies; and (iv) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Shares in, from or otherwise involving the United Kingdom.

## France

Neither this Prospectus nor any other material relating to the Offering has been submitted for clearance by the Autorité des Marchés Financiers in France. The Offer Shares have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France. Neither this Prospectus nor any other documents or materials relating to the Offering or the Offer Shares has been or will be (i) released, issued, distributed, or caused to be released, issued or distributed, to the public in France or (ii) used in connection with any offer, sale or distribution of the Offer Shares to the public in France. Such offers, sales and distributions may be made in France only to (i) providers of investment services relating to portfolio management for the account of third parties, and/or (ii) qualified investors (*investisseurs qualifiés*) investing for their own account, all as defined in, and in accordance with Article L.411-2 of the French Code monétaire et financier. Investors in France and persons who come into possession of this Prospectus or any other documents or materials relating to the Offering or the Offer Shares are required to inform themselves about and observe any such restrictions.

## United States

THE SHARES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN TRANSACTIONS NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THE SHARES ARE BEING OFFERED AND SOLD OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S.

## Canada

This Prospectus is not, and under no circumstances is to be construed as, a Prospectus, an advertisement or a public offering of the securities described herein in any province or territory of Canada. No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein, and any representation to the contrary is an offence.

## Japan

The Shares have not been and will not be registered under the Securities and Exchange Law of Japan (Law No. 25 of 1948, as amended), and are not being offered or sold and may not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan (which term as used herein includes any corporation or other entity organised under the laws of Japan), or to others for offering or sale, directly or indirectly, in Japan or to, or for the account of, any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and (ii) in compliance with any other applicable requirements of Japanese law.

## Ukraine

The Offering of Shares have not been approved by the Ukrainian Securities and Stock Market State Commission and the Shares may not be offered or sold for circulation on any Ukrainian stock exchange or in the electronic securities trading systems or by any other means that would constitute selling efforts on the Ukraine.

## MATERIAL TAX CONSIDERATIONS TO INVESTORS

The information set out below describes the principle Dutch, Ukrainian and Polish tax consequences of the acquisition, holding and disposal of the Shares and is included for general information only. This summary does not purport to be a comprehensive description of all Dutch, Ukrainian or Polish tax considerations that may be relevant to a decision to acquire, to hold or to dispose of our Shares. Each prospective investor should consult a professional tax advisor regarding tax consequences of acquiring, holding and disposing of our Shares under the laws of their country and/or state of citizenship, domicile or residence.

This summary is based on tax legislation, published case law, treaties, rules, regulations and similar documentation, in force as of the date of this Prospectus, without prejudice to any amendments introduced at a later date and implemented with retroactive effect and does not apply to persons who directly or indirectly alone control more than 5% or together with one or more associated or connected persons control more than 10% in our share capital.

### Taxation in The Netherlands

#### *Withholding tax*

Dividends distributed by us generally are subject to Dutch dividend withholding tax at a rate of 25%. The expression "dividends distributed" includes, among others, (i) distributions in cash or in kind, (ii) liquidation proceeds, proceeds of redemption of the Shares, or proceeds of the repurchase of the Shares by us or one of our subsidiaries or other affiliated entities to extent such proceeds exceed the average paid-in capital of the Shares recognised for Dutch dividend withholding tax purposes, (iii) an amount equal to the par value of the Shares issued or an increase of the par value of the Shares, to the extent that it does not appear that a contribution, recognized for the purposes of Dutch dividend withholding tax, has been made or will be made, and (iv) partial repayment of the paid-in capital, recognised for Dutch dividend withholding tax purposes, if and to the extent that we have net profits (*zuivere winst*), unless the holders of our Shares have resolved in advance at a general meeting to make such repayment and the par value of the Shares concerned has been reduced by an equal amount by way of an amendment of our Articles of Association.

#### *Dutch Resident Individuals*

A holder of our Shares who is, or who is deemed to be, a resident of The Netherlands or, if he is an individual who has opt to be taxed under the rules of the Dutch Income Tax Act 2001 (*Wet Inkomstenbelasting 2001*) as they apply to residents of The Netherlands, can generally credit the Dutch dividend withholding tax against his Dutch income tax or Dutch corporate income tax liability and is generally entitled to a refund of dividend withholding taxes exceeding his aggregate Dutch income tax or Dutch corporate income tax liability, provided certain conditions are met, unless such holder of our Shares is not considered to be the beneficial owner of the dividends. In general, we will be required to remit all amounts withheld as Dutch dividend withholding tax to the Dutch tax authorities.

#### *Non-Dutch Resident Holders*

A holder of our Shares who is not treated as a resident of The Netherlands for purposes of Dutch taxation and who is considered to be a resident of The Netherlands Antilles or Aruba under the provisions of the Tax Convention for the Kingdom of The Netherlands (*Belastingregeling voor het Koninkrijk*), or who is considered to be a resident of a country other than The Netherlands under the provisions of a double taxation convention The Netherlands has concluded with such country, depending on the terms of that double taxation convention, be eligible for a full or partial exemption from, or refund of, Dutch dividend withholding tax. In addition, subject to certain conditions and based on Dutch legislation implementing the Parent Subsidiary Directive (Directive 90/435/EEG) an exemption from Dutch dividend withholding tax will generally apply to dividends distributed to certain entities that are resident of another EU member state.

#### *Anti-dividend stripping legislation*

In The Netherlands, legislation exists pursuant to which a reduction, exemption, credit or refund of Dutch dividend withholding tax is denied if the recipient of the dividend is not considered to be the beneficial owner. This anti-dividend stripping legislation generally targets situations in which a shareholder retains its economic interest in shares but reduces the withholding cost on dividends by a transaction with another party. It is not required for these rules to apply that the recipient of the dividends is aware that a dividend stripping transaction took place. The Dutch State Secretary of Finance takes the position that the definition of beneficial ownership introduced by this legislation should also be applied in the context of a double taxation convention.

### **Taxes on income and capital gains**

#### *Dutch Resident Individuals*

Individuals who are resident or deemed to be resident of The Netherlands for Dutch tax purposes, including individuals who have opted to be taxed as a resident of The Netherlands for the purposes of the Dutch Income Tax Act 2001 (*Wet Inkomstenbelasting 2001*), are in general annually taxed on deemed income in the amount of 4% of their average net wealth for the year at an income tax rate of 30% ("box 3 taxation").

The net wealth for a certain year is calculated as the average of (i) the fair market value of portfolio investments (not including business assets or substantial shareholdings) less the qualifying liabilities at the beginning of that year and (ii) the fair market value of portfolio investments

less the qualifying liabilities at the end of that year. The Shares are included as investment assets. An annual threshold of € 19,698 of net wealth is generally available for each Dutch resident individual taxpayer. Because of the fixed yield of 4%, the actual benefits derived from the net portfolio investments, including any actual distributions on the Shares and actual capital gains realised upon the disposal of the Shares, are irrelevant.

However, the following exceptions apply to the above general rule:

- if the Shares are attributable to an enterprise from which a Dutch resident individual derives a share of the profit, whether as an entrepreneur (*ondernemer*) or as a person who is entitled to the net worth of such enterprise, without being an entrepreneur or a shareholder, as defined in the Dutch Income Tax Act 2001, any benefit derived or deemed to be derived from the net investment assets, including any income and capital gains realised on the disposal of the Shares, will be subject to income tax at a progressive rate with a maximum of 52% ("box 1 taxation");
- if the holding and/or disposal of the Shares qualify as income from 'miscellaneous activities' (*resultaat uit overige werkzaamheden*), any benefit deriving from these Shares will be subject to income tax at a progressive rate with a maximum of 52% ("box 1 taxation"). The holding and/or disposal can be treated as 'miscellaneous activities' in the event that the management of the portfolio of which our Shares form part exceeds regular active portfolio management, among others in the event that the holder of our Shares has privileged information regarding the Shares.

#### *Dutch Resident Entities*

Corporate and quasi corporate entities (including but not limited to non-transparent partnerships, foundations and non-transparent mutual funds for joint account (*open fondsen voor gemene rekening*), associations) which are taxable under the Dutch Corporate Income Tax Act 1969 (*Wet op de Venootschapsbelasting 1969*) and are resident or deemed to be resident of The Netherlands for purposes of Dutch tax are, in principle, subject to Dutch corporate income tax at the statutory rate of 29.6%, with a rate of 25.5% applying to the first € 22,689 of taxable profits. These rates will be decreased to 29.1% – 24.5% as from 1 January 2007.

Any benefit derived or deemed to be derived from our Shares held by Dutch-resident entities, including any actual distributions on the Shares and actual capital gains realised upon the disposal thereof, will generally be subject to corporate income tax, unless the Dutch participation exemption (*deelnemingsvrijstelling*) applies or unless the benefit is deemed to be included in the cost price of the Shares. The Dutch participation exemption is generally applicable if such entities own at least 5% of our nominal paid-up share capital.

Qualifying Dutch resident pension funds are exempt from Dutch corporate income tax. Qualifying Dutch-resident investment funds (*fiscale beleggingsinstellingen*) are exempt from Dutch corporate income tax if they meet certain conditions with respect to their shareholder base and the annual distribution of dividends to their shareholders. Distributions on our Shares and capital gains realised upon the disposal on our Shares will be exempt from Dutch corporate income tax in the hands of shareholders who are qualifying Dutch-resident pension funds of qualifying Dutch resident investment funds.

#### *Non-Dutch Resident Holders*

Distributions on the Shares or capital gains realised upon the disposal of the Shares for a holder that is not resident, nor deemed to be resident of The Netherlands for Netherlands tax purposes (and, in the case of an individual holder, that has not opted to be taxed as a resident of The Netherlands) are not taxable in The Netherlands, provided that:

- such holder does not have an interest in an enterprise or a deemed enterprise that is carried out through a permanent establishment, a deemed permanent establishment (a statutorily defined term) or a permanent representative in The Netherlands to which enterprise, or to whom, the Shares are attributable or deemed to be attributable; or
- such holder is not entitled to a share in the profits of an enterprise that is effectively managed in The Netherlands to which the Shares are attributable, other than by way of securities or through an employment contract; or
- the activities of such holder qualify as income from 'miscellaneous activities' in The Netherlands, as defined under "Dutch resident individuals" second bullet point carried out in The Netherlands.

If the non-Dutch resident holder is taxable in The Netherlands pursuant to one of the three eventualities mentioned above, such holder will, in principle, be taxed in the same way as Dutch-resident taxpayers, as treated above.

If a tax treaty is in force between The Netherlands and the state of residence of the non-Dutch resident holder of the Shares and if such holder qualifies as a resident under that tax treaty, capital gains on the Shares will, in general, not be taxable in The Netherlands, except insofar as they are attributable to a permanent establishment in The Netherlands.

Non-Dutch resident Pension funds which are non-resident taxpayers for Dutch corporate income tax purposes, can qualify for the above mentioned corporate income tax exemption for Dutch-resident pension funds, provided that the conditions formulated by the Dutch State Secretary for Finance in the Decree of 26 January 2000, nr. DB99/3511 are met.

### **Dutch gift, estate and inheritance tax**

#### **Dutch Resident Holders**

Generally, gift and inheritance taxes will be due in The Netherlands in respect of the acquisition of our Shares by way of a gift by, or on death of, a holder who is resident or deemed to be resident of The Netherlands for the purposes of the Dutch gift and inheritance tax at the time of the gift by or on the death of the holder of the Shares. For purposes of Dutch gift and inheritance taxes, among others, a holder is deemed to be a resident of The Netherlands if he or she has been resident of The Netherlands at any time during the ten years preceding the date of the gift or his or her death. Additionally, an individual not holding the Dutch nationality will, among others, be deemed to be resident of The Netherlands for the purposes of Dutch gift and inheritance tax, at any time during the year preceding the date of the gift or his or her death. The same one-year rule may apply to entities that have transferred their seat of residence out of The Netherlands.

#### **Non-Dutch Resident Holders**

No Dutch gift or inheritance taxes will arise in respect of the acquisition of the Shares by way of a gift by, or on the death of, a holder who is neither resident nor deemed to be resident in The Netherlands, unless:

- such holder at the time of the gift has, or at the time of his or her death had, an enterprise or an interest in an enterprise that, in whole or in part, is or was carried on through a permanent establishment or a permanent representative in The Netherlands and to which enterprise or part of enterprise the Shares are or were attributable, or are or were deemed to be attributable; or
- such holder at the time of the gift is, or at the time of his or her death was entitled to a share in the profits of an enterprise effectively managed in The Netherlands, other than by way of the holding securities, or through an employment contract, to which enterprise the Shares are or were attributable, or are or were deemed to be attributable; or
- in case of a gift of Shares by an individual who at the date of the gift was neither resident nor deemed to be resident of The Netherlands, such individual dies within 180 days after the date of the gift, while at the time of his or her death being resident or deemed to be resident of The Netherlands.

#### **Dutch value added tax**

No Dutch Value-Added Tax will arise in respect of the acquisition, ownership, and disposal of the Shares.

#### **Other Dutch taxes and duties**

No Dutch registration tax, customs duty, transfer tax, stamp duty or any other similar documentary tax or duty will be payable by a holder of the Shares in respect of the subscription, issue, placement, allotment, holding or disposal of the Shares.

### **Taxation in Ukraine**

#### **General**

Tax laws, regulations and practices in Ukraine are not as clearly established as those 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.

#### **Ukrainian corporate profits tax**

A resident company, that is a company incorporated in Ukraine, is liable for taxation in Ukraine on its world-wide income. In contrast, a non-resident legal entity is liable for taxation in Ukraine only with respect to (i) income from its business carried out in Ukraine through a permanent establishment; or (ii) its "Ukrainian source income" in the form of, *inter alia*, dividend payments, interest payments, capital gains, etc., if its business carried on in Ukraine does not rise to the level of a permanent establishment. Taxable income is computed by means of deducting from the taxpayer's gross revenue, as adjusted by certain tax exempt receipts, taxpayer's business-related expenses and depreciation (amortisation) allowances. Ukrainian corporate income tax is imposed at the level of 25%. In Ukraine, retained earnings are exempt from taxation, whereas distributed profits are taxed at the distributing entity level at the rate of 25%, which is charged on, and in addition to, such distributed profits. However, the distributing entity may credit such tax levied on distributed profits against its corporate profits tax liability.

A resident company will be allowed to deduct for purposes of the corporate profits tax only 85% of its costs incurred in the form of service fees paid (a) for the benefit of, (b) through the mediation of, or (c) to or through the bank account of, a foreign service provider, if such provider will be deemed to be a resident of a tax haven jurisdiction. Jersey, Guernsey, Isle of Man, Andorra, Monaco, the British Virgin Islands, Cayman Islands, and The Netherlands Antilles are currently on the list of almost forty tax haven jurisdictions. On February 1, 2006, Cyprus has been removed from this list.

Additionally, the Ukrainian transfer pricing rules will apply if parties are deemed to be "related" for purposes of the applicable Ukrainian legislation. Parties are "related" if, *inter alia*, one party controls, directly or indirectly, shareholding interests representing more than 20% of the charter capital of the other party. In the relationship between related parties, all prices must be determined at "arm's length", that is, at the market rate. The applicable Ukrainian corporate profits tax legislation does not provide any definitive test for determining the market rate,

nor does it provide any "safe harbour" in the case of any deviation from such market rate. If prices would be deemed as having been established at rates different from market rates, the taxpayer may be assessed an additional tax liability computed by reference to the amount of the price deviation.

There is no concept of consolidated taxes and, therefore, each legal entity, a payer of corporate profits tax, is required to compute and pay its profits tax.

As the general rule, losses can be carried forward indefinitely whereas no loss carry-back is allowed. However, in 2006, losses, which have been reported on January 1, 2005 and which have not been extinguished during 2005, may not be reported in 2006 as a part of deductible expenses of a corporate profits taxpayer.

#### ***Ukrainian fixed agricultural tax***

Under certain conditions, a resident company which is a producer of agricultural products in Ukraine may elect to be treated as a payer of fixed agricultural tax, in which eventuality it will be exempt from Ukrainian corporate income tax and certain other taxes. In particular, an agricultural enterprise engaged in the production, processing, and sale of agricultural products may, in a given year, choose to be registered as a payer of fixed agricultural tax should its "proceeds from the sale of agricultural products of a payer's own production and items of such products processing" exceed 75% of all of its sale proceeds of a previous reported year. The payer of fixed agricultural tax is, in addition to corporate profits tax, exempt from land tax, vehicle owner's tax, municipal tax, duty for the state financed geological exploration, trade patent duty, and duty for special water consumption.

The tax liability of the payer of fixed agricultural tax is ascertained by reference to the total area of land, which is leased or owned by the payer, and is computed by means of applying a certain coefficient to the normative monetary value of such land.

Because the payer of fixed agricultural tax is exempt from corporate income tax, it should not, in principle, be subject to the aforementioned transfer pricing restrictions and deductibility limitations applicable to the operations with residents of tax haven jurisdictions. Nevertheless, the payer of fixed agricultural tax, as an issuer of corporate rights, will be liable for the 25% corporate profits tax on its distributed profits. Unlike a payer of corporate profits tax, the payer of fixed agricultural tax will not be allowed to credit such tax levied on distributed profits against its tax liability. Fixed agricultural tax is expected to be abolished as of 1 January 2010.

#### ***Ukrainian withholding tax***

As noted above a non-resident legal entity is liable for tax in Ukraine only with respect to its "Ukrainian source income", provided that its business carried on in Ukraine does not rise to the level of a permanent establishment. Such income is generally investment-type income, which is deemed to have its source in Ukraine. Ukrainian source income is subject to the 15% Ukrainian gross-based withholding tax. This withholding tax may be reduced, or entirely eliminated, by virtue of the operation of an applicable tax treaty on the avoidance of double taxation between Ukraine and the relevant jurisdiction. Currently, Ukraine has a network of more than 50 tax treaties.

The Issuer holds shares in the Operating Company via a special purpose vehicle based in Cyprus, Ancor Investments Limited. Ukraine and Cyprus do not have a bilateral tax treaty. Currently, however, Ukraine adheres to the provisions of the Convention between the Government of Cyprus and the Government of the USSR for the Avoidance of Double Taxation of Income and Property, dated October 29, 1982 (the "Tax Treaty"). By virtue of the operation of the Tax Treaty, Ancor Investments Limited, as a "resident" of Cyprus for the purposes of the Tax Treaty, *i.e.*, a "person liable to taxation in Cyprus", should, in principle, be exempt from the 15% Ukrainian withholding tax with respect to dividend payments, interest payments, and capital gains, provided, however, that such Ukrainian source income will not be attributable to a permanent establishment of Ancor Investments Limited in Ukraine. In order to claim the Tax Treaty relief, Ancor Investments Limited will be required to provide to the Ukrainian payer of the Ukrainian source income, on or prior to the payment date, with a residence certificate for the relevant fiscal year in the prescribed form, confirming the fact that the recipient of such income is a tax resident of Cyprus for purposes of the Tax Treaty.

The Tax Treaty may be repealed, or a new treaty, which is considered to be negotiated, may replace it. It is uncertain what tax rates such a new treaty will impose on dividend payments, interest payments, and capital gains, which will derive from its investments in Ukraine.

#### ***Ukrainian value added tax and customs duty***

The 20% Ukrainian Value-Added Tax is imposed on: (a) domestic sales of goods, works, and services, and (b) the importation of goods and concomitant services to Ukraine. Import VAT is assessed on, and in addition to, the customs value of the imported goods, inclusive of customs duties. Export of goods is subject to 0% VAT, which effectively means a VAT exemption for exporters with entitlement to claim input VAT offset under applicable conditions and procedures. A number of goods, works, and services are exempt from 20% VAT on domestic sales.

In 2006, an agricultural producer, which "proceeds from the supply of agricultural products of its own production and items of such products processing" have constituted 50% or more of all of its sale proceeds of 2005, may retain VAT collected on its supplies; such retained amounts may be used exclusively for financing the acquisition of "supplies of materials and machinery for production purposes".

Import customs duties are generally imposed at rates varying from 0% to as much as 50% on a wide range of imported goods. Under certain conditions, a reduced rate of, or the exemption from, import customs duty may apply, e.g., goods, which are imported into Ukraine as the contribution of a foreign investor to the charter capital of a Ukrainian company, are exempt from import customs duties.

#### **Ukrainian payroll-related taxes**

Under the applicable Ukrainian social insurance legislation, an employer is liable for making the mandatory state social insurance payments with respect to its employees for purposes of: (i) temporary disability, birth, and burial insurance, (ii) unemployment insurance, (iii) pension insurance, and (iv) industrial accident and professional disease disability insurance. In addition, an employee is liable for making the mandatory state social insurance payments for purposes of: (i) temporary disability, birth, and burial insurance, (ii) unemployment insurance, and (iii) pension insurance. The taxable base and taxable rates for making these payments are established to be:

- in respect of the employer's liability – the salary-related remuneration; the employer's overall tax liability may vary from 36.66% to max 49.6% of each of its employees' monthly salary-related remuneration, depending on the trauma risk level of the particular industry sector, in which the employer operates; and
- in respect of the employee's liability – the salary-related remuneration; the employee's overall tax liability may vary from 1.5% to 3.5% of his/her gross remuneration, depending on the actual amount of such remuneration and on whether the employee is a Ukrainian citizen or not.

The aforementioned taxable base is, however, capped by reference to the "maximum" taxable base. Any portion of the taxable base in excess of the "maximum" taxable base is exempt from taxation for the purposes of mandatory state social insurance.

Effective as of April 1, 2006, the liability of employers and employees with respect to mandatory state social insurance payments is capped by reference to the maximum taxable base of UAH 4,960 or an equivalent of approximately EUR 763 per employee per month.

#### **Ukrainian land tax**

Currently, the land tax is established at the level of 1% per annum of the "pecuniary valuation" of land. This tax is paid on a monthly basis at 1/12 of the annual tax.

The pecuniary valuation of land is carried out by the State Committee of Ukraine on Land Resources in accordance with the methodology adopted by the Cabinet of Ministers of Ukraine. This methodology accounts for various factors, including, but not limited to, a location of a particular parcel of land, a purpose for which the land is to be used etc. The pecuniary valuation of a particular parcel of land is carried out only once. For each of the following years, however, the original valuation is adjusted by a coefficient of indexation, which is established for the relevant year in accordance with the procedure adopted by the Cabinet of Ministers of Ukraine. The payer of fixed agricultural tax is exempt from land tax.

### **Taxation in Poland**

The information contained in this section is based also on the provisions of the Agreement between the Republic of Poland and The Netherlands on the avoidance of double taxation in respect of income and property taxes dated 13 February 2002 (the "Polish-Dutch Tax Treaty").

#### **Dutch taxation of Polish resident individuals**

##### *Taxation of capital gains*

Pursuant to Dutch individual income tax law, capital gains realised upon the disposal of the Shares for an individual holder who is resident of Poland will only be subject to Dutch individual income tax if:

- The shares should be allocated to an enterprise carried on by the holder in The Netherlands; or
- The shares of the Company qualify as a substantial interest in the Company and the substantial interest should not be allocated to an enterprise carried on by the holder outside Netherlands territory. A share interest of 5% or more in the Company qualifies as a substantial interest.

In the event the Polish resident carries on an enterprise in The Netherlands, to which its shares of the Company are to be allocated, capital gains on a disposal of these shares will be regarded as part of the profit of the enterprise and will thus be subject to Dutch individual income tax at progressive rates (52% at maximum). The percentage of shareholding is irrelevant in such a case.

In the event Polish resident individuals hold a substantial interest in our Shares, which is not to be allocated to an enterprise carried on by such holder outside The Netherlands, a capital gain on a disposal of the substantial interest will be subject to 25% Dutch individual income tax on the basis of domestic law. However, according to article 13 of the Polish-Dutch Tax Treaty, no taxation will occur with respect to capital gains on substantial interests, provided that the Polish resident holders have not been a tax-resident of The Netherlands in the course of a period of ten years prior to the disposal of the substantial interest in the Company.

*Taxation of dividends*

Pursuant to Dutch individual income tax law, dividend income received by a Polish resident individual in relation to a shareholding in the Company will only be subject to Dutch individual income tax if:

- The shares of the Company are to be allocated to an enterprise carried on by the Polish resident individual in The Netherlands; or
- The shares of the Company qualify as a substantial interest in the Company and the substantial interest should not be allocated to an enterprise carried on by the Polish resident individual.

In the event the Polish resident individual carries on an enterprise in The Netherlands, to which its shares of the Company are to be allocated, dividend income received in relation to the shareholding in the Company will be regarded as part of the profit of the enterprise and will thus be subject to Dutch individual income tax at progressive rates (52% at maximum). The Company is the dividend withholding agent and will deduct this tax from the gross amounts of dividends paid to its shareholders and it will transfer to the NDS a net amount after deduction of tax. Dutch dividend withholding tax paid can be credited against the income tax liability of the permanent establishment. A credit will be available for the Dutch dividend tax that has been withheld on the dividend.

In the event Polish resident individuals hold a substantial interest in the share capital of the company, which should not be allocated to an enterprise carried on by such holder outside The Netherlands, dividend income received in relation to the substantial interest will be subject to 25% Dutch individual income tax on the basis of domestic law. However, this rate will be reduced to 15% as a consequence of article 10 of the Polish-Dutch Tax Treaty. The Company is the dividend withholding agent and will deduct this tax from the gross amounts of dividends paid to its shareholders. As a result a net amount after deduction of tax will be transferred to the NDS. Dutch dividend withholding tax paid can be credited against joint tax liability.

**Dutch taxation of Polish resident non-individual entities***Taxation of capital gains*

Pursuant to Dutch corporate income tax law, capital gains realised by a Polish corporate entities are only subject to Dutch Corporate Income Tax as a result of the disposal of our Shares if:

- The Shares are to be allocated to a permanent establishment of the corporate investor in The Netherlands; or
- The Shares qualify as a substantial interest (5% or more) in the Company and the substantial interest should not be allocated to an enterprise carried on by the Polish resident entity.

In the event the Polish resident entity has a permanent establishment in The Netherlands, to which its holding in the Company should be allocated, any capital gain on a disposal of the Shares will be regarded as part of the profit of the permanent establishment and will thus be subject to Dutch corporate income tax. In the event the Polish resident entity (its permanent establishment in the Netherlands) has a shareholding in the Company of at least 5%, an exemption from corporate income tax may apply to the capital gain (participation exemption).

In the event the Polish resident entity has a substantial interest in the Company that cannot be allocated to an enterprise carried on by the Polish resident entity, a capital gain on a disposal of the substantial interest will be subject to Dutch corporate income tax at 25.5% of the first € 22,689 of profit and at 29.6% on any excess thereafter. Taxation may, however, be restricted as a consequence of article 13 of the Polish-Dutch Tax Treaty. Article 13 of the Polish-Dutch Tax Treaty stipulates that the right to tax such capital gain is exclusively reserved to the State of which the recipient of the gain is a tax-resident, *i.e.* Poland. It should therefore be examined whether a Polish resident entity has access to the Polish-Dutch Tax Treaty. Polish resident entities that are subject to domestic taxation should be able to gain access to the Polish-Dutch Tax Treaty and consequently, benefit from its provisions. On the other hand, Polish resident entities that are exempt from domestic taxation may not be able to benefit from the provisions of the Tax Treaty. A tax-exempt Polish resident entity may thus, in the event it holds a substantial interest in the Company that cannot be allocated to an enterprise, be subject to Dutch corporate income tax on a capital gain realised on a disposal of its substantial interest in the Company.

*Taxation of dividends*

Pursuant to Dutch corporate income tax law, dividend income received by a Polish resident entity in relation to a shareholding in the Company will only be subject to Dutch corporate income tax if:

- The shares of the Company are to be allocated to a permanent establishment of such Polish resident entity in The Netherlands; or
- The shares of the Company qualify as a substantial interest in the Company and the substantial interest should not be allocated to an enterprise carried on by the Polish resident entity.

In the event the Polish resident entity has a permanent establishment in The Netherlands, to which its shares of the Company should be allocated, dividend income received in relation to the shareholding in the Company will be regarded as part of the profit of the permanent establishment and will thus be subject to Dutch corporate income tax. In the event the Polish resident entity (its permanent establishment in the Netherlands) has a shareholding in the Company of at least 5%, an exemption from corporate income tax may apply to the dividend income (participation exemption). In the event of taxation on the dividend income, a credit will be available for the Dutch dividend tax that has been withheld on the dividend.

In the event the Polish resident entity has a substantial interest in the Company that cannot be allocated to an enterprise carried on by the Polish resident entity, dividend income received in relation to the shareholding in the Company will be subject to Dutch corporate income tax. Provided that the Polish corporate investor can apply for the benefits of the Polish-Dutch Tax Treaty, the dividend income will be taxed at a reduced rate of 5% or 15%, dependent on the size of the shareholding. A credit will be available for the Dutch dividend withholding tax that has been withheld on the dividend.

As of 1 January 2005, the provisions of the "updated" EU Parent Subsidiary Directive became effective. As a consequence, as of that date a dividend paid by the Company to a Polish corporate shareholder with a share interest in the Company of at least 20% is exempt from Dutch withholding tax, provided certain requirements are met. These requirements pertain among others to the legal form and taxation of the Polish corporate investor. As from 1 January 2007 the required minimum share interest will be 15%. On 1 January 2009 the required minimum share interest is reduced at 10%. The Directive will only apply in situations, in which shares of the Company that are held by a Polish corporate investor should not be allocated to a permanent establishment of the Polish corporate investor in the Netherlands. In the – highly unlikely – event that a corporate investor meets both (i) the conditions for Dutch substantial interest taxation on dividends and (ii) the requirements for the application of the EU Parent-Subsidiary Directive, the Directive does not only preclude the levy of Dutch dividend withholding tax, but also precludes the levy of Dutch corporate income tax on dividends arising from a substantial shareholding.

#### ***Dutch dividend withholding tax***

Pursuant to Dutch withholding tax law, dividends paid by the Company will be subject to 25% dividend withholding tax. This rate may be reduced by virtue of article 10 of the Polish-Dutch Tax Treaty.

#### ***Polish Resident Individuals***

Pursuant to article 10 of the Polish-Dutch Tax Treaty, dividends paid by the Company to Polish resident individuals, who do not carry on an enterprise in The Netherlands, to which their shares of the Company should be allocated, will be subject to 15% Dutch withholding tax, regardless the extent of shareholding in the Company. In the event a Polish resident individual carries on an enterprise in The Netherlands, to which his or her shares should be allocated, Dutch withholding tax will be due on the dividend of 25% (the domestic rate). Dividend withholding tax paid can be credited against Dutch individual income tax that may be due on the dividend.

#### ***Polish Resident Corporate Entities***

Pursuant to article 10 of the Polish-Dutch Tax Treaty, dividends paid to a Polish resident corporate entities with a minimum share interest in the Company of 10% will be subject to 5% dividend withholding tax, provided that the shares of the Company should not be allocated to a permanent establishment in The Netherlands. Dividends paid to Polish resident entities with a shareholding in the Company of less than 10% will be subject to 15% Dutch dividend withholding tax, provided that the shares of the Company should not be allocated to a permanent establishment in The Netherlands. It should be examined whether a Polish resident entity has access to the Polish-Dutch Tax Treaty and thus will be able to benefit from a reduced withholding tax rate.

In the event the Polish resident corporate entity has a permanent establishment in The Netherlands, to which its shares of the Company should be allocated, Dutch withholding tax will be due on the dividend at 25% (the domestic rate). However, based on Dutch withholding tax law, in the event the Polish resident entity (its permanent establishment in The Netherlands) has a shareholding in the Company of at least 5%, an exemption from Dutch withholding tax may apply to the dividends paid in respect of that shareholding.

As described above, dividend withholding tax paid can be credited against Dutch corporate income tax that may be due on the dividend.

As of 1 January 2005, the provisions of the "updated" EU Parent Subsidiary Directive became effective. As a consequence, as of that date a dividend paid by the Company to a Polish resident entity with a share interest in the Company of at least 20% is exempt from Dutch withholding tax, provided certain requirements are met. These requirements pertain among others to the legal form and taxation of the Polish corporate entity. As from 1 January 2007 the required minimum share interest will be 15%. On 1 January 2009 the required minimum share interest is reduced at 10%. The Directive will only apply in situations, in which shares of the Company that are held by a Polish resident entity should not be allocated to a permanent establishment of the Polish resident entity in The Netherlands.

#### ***Polish taxation of Polish resident individual***

Individuals having their place of residence in Poland are subject to the Polish Personal Income Tax on their worldwide profits, irrespective of the location of the source of income. Individuals who do not have a place of residence in Poland are subject to Polish Personal Income Tax only as regards the profits that they derive on the territory of Poland.

#### ***Taxation of capital gains***

Pursuant to Art. 30b.1 of the Polish Personal Income Tax Act, income tax on the disposal of shares in Poland is payable at the rate of 19% of income earned. Income earned on disposal of shares is the difference, in a given calendar year, between revenue earned on disposal of shares, *i.e.* value of shares understood as a price specified in a sale agreement, and costs incurred on an acquisition and a disposal of shares. If a price differs significantly from the market value of shares without a justified reason, a tax authority can adjust income to a market level. After the end of a given calendar year, taxpayers who earned income on disposal of shares are required to declare such income in an annual

tax return, and to calculate the amount of income tax due. These regulations do not apply if a disposal of shares is effected as part of a taxpayer's business activity; then, income is taxed as business income.

#### *Taxation of dividends*

Pursuant to Art. 30a.1.4 of the Polish Personal Income Tax Act, income earned on dividends and other similar income from sharing in the profits of a Dutch company is subject to income tax for an individual with unlimited tax liability. Such income is accumulated with other income and is taxed at the flat 19% personal income tax rate. Under Art. 30a.9 of the Polish Personal Income Tax Act, tax paid in the Netherlands on such income can be deducted from the Polish tax payable. However, the amount of Dutch tax deducted from Polish tax cannot exceed the amount of tax calculated at the 19% rate on income taxable in the Netherlands.

Income on dividends and the amounts of foreign tax to be deducted should be declared in an annual tax return be filed by 30 April of the calendar year following the year in which income was earned.

#### **Polish taxation of Polish resident corporate entities**

Legal entities, companies in organisation and other entities with no legal personality (with the exception of certain types of partnerships) that have their registered seats or their management in Poland, are subject to Polish Corporate Income Tax on their worldwide income irrespective of the country from which they were derived. These entities (including foreign partnerships that have no legal personality, if treated as a legal entity under the tax law of a given country and if they are subject to taxation in that country on their worldwide income) that do not have their registered seat or their management in Poland, are subject to Polish Corporate Income Tax only as regards profits that they derive on the territory of Poland.

#### *Corporate Income Tax on Disposal of Shares Applicable to Polish Tax Residents*

Income earned by Polish legal persons on disposal of shares is subject to corporate income tax in Poland in accordance with the general rules. Income earned on a disposal of shares is the difference between an amount earned through a disposal of shares, *i.e.* value of shares understood as a price specified in a sale agreement, and costs incurred on an acquisition and the disposal of the shares. If a price differs significantly from the market value of the shares without a justified reason, a tax authority can adjust the income to a market level. Income earned on disposal of shares increases a taxpayer's tax base. Pursuant to Art.19.1 of the Polish Corporate Income Tax Act, the corporate income tax on such income amounts to 19% of the tax base.

#### *Taxation of Dividends*

Under Art.20.1 of the Polish Corporate Income Tax Act, dividends and other similar income from sharing in the profits of a Dutch company earned by Polish tax residents is subject to corporate income tax. Such income is taxed at 19%. Under Art.20.1, tax paid in The Netherlands on such income can be deducted from the Polish tax payable. The amount of foreign tax deducted cannot exceed the Polish tax on this income calculated as a proportion of total tax payable.

Under Art.20.3 of the Polish Corporate Income Tax Act, if a Polish legal entity holds at least 20% (15% in 2007/2008 and 10% from 2009) of the shares of a Dutch company which is subject to tax on its worldwide income in an EU Member State other than Poland, a credit may also be claimed by the shareholder for tax paid by the Dutch company, up to a maximum of the Polish tax payable calculated proportionately. A credit can also be claimed for corporate income tax payable by the subsidiaries of the Dutch company being tax residents in an EU Member State other than Poland in which the Dutch company holds more than 20% (15% in 2007/2008 and 10% from 2009) of shares.

The income should be declared in the tax return for the period when the income is received. Any Polish tax is due by the due date for the return.

#### **Civil law transactions tax**

The sale of securities to brokerage houses and banks conducting brokerage activity, and the sale of securities through the intermediation of a brokerage house or a bank conducting brokerage activity, is exempt from civil law transactions tax in Poland.

## **INDEPENDENT AUDITORS**

KPMG Ukraine Limited, independent auditors, with their address at 11 Mykhaylivska Street Kyiv 01001, Ukraine, have audited the pro-forma consolidated financial statements of LLC Firm "Astarta-Kyiv" for each of the financial years ended 2003, 2004 and 2005.

KPMG Accountants NV, the Netherlands, independent auditors, with their address at Burgemeester Rijnderslaan 10, 1185MC Amstelveen, The Netherlands, have audited the pro-forma consolidated financial statements of the Issuer for each of the financial years ended 2003, 2004 and 2005. KPMG Netherlands have given, and have not withdrawn, their written consent to the inclusion of their report and the reference to themselves herein in the form and context in which they are included. The signatory of the independent auditors' report on the pro-forma consolidated financial statements for the years 2003, 2004 and 2005 of Astarta Holding N.V. is a member of Royal NIVRA (*het Koninklijk Nederlands Instituut van Registeraccountants*).

## GENERAL INFORMATION

### Prospectus

This Prospectus constitutes a prospectus for the purposes of Article 5.3 of the Prospectus Directive for the purpose of giving the information with regard to Astarta Holding N.V. and the Shares it intends to offer pursuant to this Prospectus which is necessary to enable prospective investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of Astarta Holding N.V. The Prospectus Directive has been implemented in The Netherlands as of 1 July 2005 in the Act on the Supervision of the Securities Trade 1995 (*Wet toezicht effectenverkeer 1995*), as amended, the Decree on the Supervision of the Securities Trade 1995 (*Besluit toezicht effectenverkeer 1995*) as amended, and the Exemption Regulation pursuant to the Act on the Supervision of the Securities Trade 1995 (*Vrijstellingsregeling Wet toezicht effectenverkeer 1995*), as amended.

This Prospectus document constitutes a prospectus in the form of a single document within the meaning of Article 3 of Prospectus Directive. This Prospectus has been filed with, and was approved on 21 July 2006 by the Netherlands Authority for the Financial Markets, which is the Dutch competent authority for the purpose of relevant implementing measures of the Prospectus Directive in The Netherlands. Under the Prospectus Directive and the Act on Public Offerings, this Prospectus, once approved by the competent authority of one member state of the EU ("home member state") may be used for making a public offering and admission of securities to listing on a regulated market in another member state of the EU ("host member state"), provided that the competent authority of the home member state provides the competent authority of the host member state with a certificate of approval of the Prospectus.

For the purposes of the public offering in Poland we will publish a Polish translation of this Prospectus, including translation of the summary of the Prospectus. The Issuer is responsible solely for the accuracy of the Polish translation of the summary of this Prospectus, or for omission of any information therein.

### The Company

Our Company was incorporated on June 9, 2006 as Astarta Holding N.V., a public limited liability company (*naamloze vennootschap*) under Dutch law by notarial deed dated June 9, 2006 and we operate under Dutch law. Our address is Koningslaan 17, 1075 AA, Amsterdam, The Netherlands. We are registered in the commercial register of the Chamber of Commerce and Industry for Amsterdam under number 34248891. The telephone number of our registered office is +31 020 6731090 and our fax number is +31 020 6730342.

Our objects are:

- to incorporate, participate in, conduct the management of and take any other financial interest in other companies and enterprises;
- to render administrative, technical, financial, economic or managerial services to companies, enterprises or other persons;
- to acquire, dispose of, manage and utilize real and personal property, things and rights;
- to borrow and lend moneys, stand surety, guarantee in any other manner, and bind itself jointly and severally or otherwise in addition to, or for others, the foregoing whether or not in collaboration with third parties and inclusive of the performance and promotion of all activities which directly or indirectly relate those objects, all this in the broadest sense of the words.

### Shares in Book Entry Form

Our Shares are bearer shares and will be in book entry form. The Shares will be registered with the NDS, the central securities depository of Poland. No individual share certificates will be issued.

### Corporate Resolutions

Our Articles of Association authorize the issue of up to 30,000,000 shares. Currently, 20,000,000 shares have been issued and are outstanding. Therefore, we may issue additional 10,000,000 Shares. The General Meeting of Shareholders, pursuant to its meeting held in Amsterdam on July 10, 2006, authorised the Board of Directors to issue a definite number of Shares, up to the current authorised share capital of EUR 300,000 for a definite period until July 9, 2007.

Upon the Company's incorporation on June 9, 2006 its issued and paid-up share capital was EUR 60,000 divided into 6,000,000 Shares with a par value of EUR 0.01 each, held by the Selling Shareholder in equal proportion. On July 10, 2006 the Board of Directors resolved to increase our share capital and issue 14,000,000 Shares with a par value of 0,01 each. These Shares were subscribed for in equal proportion by the Selling Shareholders against a contribution in kind of all shares held by the Selling Shareholders in Ancor Investments Limited.

In connection with the Offering, our Board of Directors will issue up to 6,700,000 New Shares, under exclusion of pre-emptive rights of the existing shareholders (*voorkeursrechten*, as contemplated by section 2:96a of the Dutch Civil Code and article 8 of the Articles of Association).

Sale of the Sale Shares does not require any approval by the Issuer.

### **Availability of Documents**

The following documents will be available free of charge at our specified office address during normal business hours from the date of this Prospectus for a period of one year:

- copies of our pro-forma consolidated financial statements for the years ending 31 December 2003, 2004 and 2005 and
- copies of corporate resolutions mentioned in the preceding section.

Moreover, the following documents will be available through our website [www.astartakiev.com](http://www.astartakiev.com):

- this Prospectus,
- our Articles of Association and
- statement of our compliance or non-compliance with the Corporate Governance Rules of the WSE.

## **FINANCIAL INFORMATION**

### **Astarta Holding N.V.**

Pro-forma consolidated financial statements

2003, 2004 and 2005

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*These pro-forma consolidated financial statements  
contain 59 pages*

**Pro-forma consolidated balance sheet as at 31 December**

*(in thousands of Ukrainian hryvnias)*

|   | Note | 2005           | 2004    | 2003    |
|---|------|----------------|---------|---------|
| <b>Assets</b>   |      |                |         |         |
| <b>Non-current assets</b>                             |      |                |         |         |
| Property, plant and equipment                         | 5    | 151,967        | 119,385 | 105,110 |
| Intangible assets                                     |      | 206            | 198     | 125     |
| Biological assets                                     | 6    | 14,730         | 12,294  | 8,681   |
| Investments in subsidiaries and associates            |      | 1,331          | 790     | 70      |
| Deferred tax asset                                    | 24   | 3,416          | –       | –       |
|   |      | <b>171,650</b> | 132,667 | 113,986 |
| <b>Current assets</b>                                 |      |                |         |         |
| Inventories   | 7    | 178,356        | 133,467 | 85,581  |
| Biological assets                                     | 6    | 11,069         | 6,973   | 5,191   |
| Trade accounts receivable                             | 8    | 46,979         | 39,603  | 18,001  |
| Other accounts receivable and prepayments             | 9    | 41,312         | 29,352  | 24,635  |
| Promissory notes at fair value through profit or loss |      | 3,082          | 2,834   | 973     |
| Cash and cash equivalents                             |      | 3,002          | 812     | 1,155   |
|   |      | <b>283,800</b> | 213,041 | 135,536 |
| <b>Total assets</b>                                   |      | <b>455,450</b> | 345,708 | 249,522 |

The pro-forma consolidated balance sheet is to be read in conjunction with the notes to and forming part of the pro-forma consolidated financial statements set out on pages F-17 to F-59.

**Pro-forma consolidated balance sheet as at 31 December**

(in thousands of Ukrainian hryvnias)

|   | Note | 2005           | 2004           | 2003           |
|---|------|----------------|----------------|----------------|
| <b>Equity and liabilities</b>           |      |                |                |                |
| <b>Equity</b>                           |      |                |                |                |
| Contributed capital                     | 10   | 358            | 21             | 19             |
| Additional paid-in capital              |      | 7,845          | 5,525          | 4,878          |
| Retained earnings                       |      | 173,432        | 125,901        | 105,432        |
| <b>Total equity</b>                     |      | <b>181,635</b> | <b>131,447</b> | <b>110,329</b> |
| <b>Non-current liabilities</b>          |      |                |                |                |
| Loans and borrowings                    | 12   | 60,230         | 36,816         | 23,889         |
| Deferred tax liabilities                | 24   | 10,323         | 2,796          | 4,341          |
|   |      | <b>70,553</b>  | <b>39,612</b>  | <b>28,230</b>  |
| <b>Current liabilities</b>              |      |                |                |                |
| Bank loans                              | 13   | 67,512         | 64,267         | 39,643         |
| Current portion of loans and borrowings | 12   | 3,483          | 27             | 806            |
| Trade accounts payable                  |      | 28,335         | 39,412         | 24,623         |
| Promissory notes issued                 |      | 2,029          | 806            | 1,479          |
| Minority interests                      | 11   | 52,129         | 43,126         | 28,351         |
| Other liabilities and accounts payable  | 14   | 49,774         | 27,011         | 16,061         |
|   |      | <b>203,262</b> | <b>174,649</b> | <b>110,963</b> |
| <b>Total equity and liabilities</b>     |      | <b>455,450</b> | <b>345,708</b> | <b>249,522</b> |

The pro-forma consolidated balance sheet is to be read in conjunction with the notes to and forming part of the pro-forma consolidated financial statements set out on pages F-17 to F-59.

**Pro-forma consolidated balance sheet as at 31 December**

*(in thousands of Euros)*

|   | Note | 2005          | 2004   | 2003   |
|---|------|---------------|--------|--------|
| <b>Assets</b>   |      |               |        |        |
| <b>Non-current assets</b>                             |      |               |        |        |
| Property, plant and equipment                         | 5    | 25,448        | 16,541 | 15,777 |
| Intangible assets                                     |      | 34            | 27     | 19     |
| Biological assets                                     | 6    | 2,467         | 1,703  | 1,303  |
| Investments in subsidiaries and associates            |      | 223           | 109    | 10     |
| Deferred tax asset                                    | 24   | 589           | –      | –      |
|   |      | <b>28,761</b> | 18,380 | 17,109 |
| <b>Current assets</b>                                 |      |               |        |        |
| Inventories   | 7    | 29,867        | 18,492 | 12,846 |
| Biological assets                                     | 6    | 1,854         | 966    | 779    |
| Trade accounts receivable                             | 8    | 7,867         | 5,487  | 2,702  |
| Other accounts receivable and prepayments             | 9    | 6,901         | 4,066  | 3,698  |
| Promissory notes at fair value through profit or loss |      | 516           | 393    | 146    |
| Cash and cash equivalents                             |      | 503           | 112    | 172    |
|   |      | <b>47,508</b> | 29,516 | 20,343 |
| <b>Total assets</b>                                   |      | <b>76,269</b> | 47,896 | 37,452 |

The pro-forma consolidated balance sheet is to be read in conjunction with the notes to and forming part of the pro-forma consolidated financial statements set out on pages F-17 to F-59.

**Pro-forma consolidated balance sheet as at 31 December**

(in thousands of Euros)

|   | Note | 2005          | 2004          | 2003          |
|---|------|---------------|---------------|---------------|
| <b>Equity and liabilities</b>           |      |               |               |               |
| <b>Equity</b>                           |      |               |               |               |
| Contributed capital                     | 10   | 60            | 3             | 3             |
| Additional paid-in capital              |      | 1,296         | 942           | 846           |
| Retained earnings                       |      | 29,358        | 21,920        | 18,825        |
| Currency translation adjustment         |      | (296)         | (4,656)       | (3,114)       |
| <b>Total equity</b>                     |      | <b>30,418</b> | <b>18,209</b> | <b>16,560</b> |
| <b>Non-current liabilities</b>          |      |               |               |               |
| Loans and borrowings                    | 12   | 10,086        | 5,101         | 3,586         |
| Deferred tax liabilities                | 24   | 1,729         | 387           | 652           |
|   |      | <b>11,815</b> | <b>5,488</b>  | <b>4,238</b>  |
| <b>Current liabilities</b>              |      |               |               |               |
| Bank loans                              | 13   | 11,305        | 8,904         | 5,950         |
| Current portion of loans and borrowings | 12   | 583           | 4             | 121           |
| Trade accounts payable                  |      | 4,745         | 5,461         | 3,696         |
| Promissory notes issued                 |      | 340           | 112           | 222           |
| Minority interests                      | 11   | 8,729         | 5,975         | 4,256         |
| Other liabilities and accounts payable  | 14   | 8,334         | 3,743         | 2,409         |
|   |      | <b>34,036</b> | <b>24,199</b> | <b>16,654</b> |
| <b>Total equity and liabilities</b>     |      | <b>76,269</b> | <b>47,896</b> | <b>37,452</b> |

The pro-forma consolidated balance sheet is to be read in conjunction with the notes to and forming part of the pro-forma consolidated financial statements set out on pages F-17 to F-59.

**Pro-forma consolidated income statement for the year ended 31 December**

*(in thousands of Ukrainian hryvnias)*

|  | Note | 2005             | 2004      | 2003     |
|--|------|------------------|-----------|----------|
| <b>Revenues</b>  | 16   | <b>330,868</b>   | 210,763   | 134,334  |
| Cost of revenues   | 17   | <b>(236,038)</b> | (159,058) | (89,284) |
| Gains arising from remeasurement of agricultural produce to fair value |      | <b>3,441</b>     | 6,869     | 3,573    |
| <b>Gross profit</b>  |      | <b>98,271</b>    | 58,574    | 48,623   |
| Other operating income   | 18   | <b>23,257</b>    | 17,610    | 14,967   |
| General and administrative expense                                     | 19   | <b>(25,717)</b>  | (21,351)  | (13,143) |
| Selling and distribution expense                                       | 20   | <b>(21,099)</b>  | (13,548)  | (14,415) |
| Other operating expense  | 21   | <b>(15,697)</b>  | (6,670)   | (2,621)  |
| <b>Profit from operations</b>  |      | <b>59,015</b>    | 34,615    | 33,411   |
| Net financial expense  | 22   | <b>(15,461)</b>  | (8,300)   | (1,706)  |
| Other income (expense)   | 23   | <b>(3,162)</b>   | 6,593     | (11,595) |
| Gain on acquisition of subsidiaries                                    | 4    | <b>18,819</b>    | –         | –        |
| <b>Profit before tax</b>   |      | <b>59,211</b>    | 32,908    | 20,110   |
| Income tax benefit (expense)   | 24   | <b>2,469</b>     | 1,966     | (1,054)  |
| <b>Net profit before minority interests</b>                            |      | <b>61,680</b>    | 34,874    | 19,056   |
| Minority interests   | 11   | <b>(9,598)</b>   | (7,756)   | (3,743)  |
| <b>Net profit attributable to equity holders of parent company</b>     |      | <b>52,082</b>    | 27,118    | 15,313   |

The pro-forma consolidated income statement is to be read in conjunction with the notes to and forming part of the pro-forma consolidated financial statements set out on pages F-17 to F-59.

**Pro-forma consolidated income statement for the year ended 31 December**

(in thousands of Euros)

|  | Note | 2005            | 2004     | 2003     |
|--|------|-----------------|----------|----------|
| <b>Revenues</b>  | 16   | <b>51,783</b>   | 31,888   | 22,291   |
| Cost of revenues   | 17   | <b>(36,942)</b> | (24,066) | (14,816) |
| Gains arising from remeasurement of agricultural produce to fair value |      | <b>539</b>      | 1,039    | 593      |
| <b>Gross profit</b>  |      | <b>15,380</b>   | 8,861    | 8,068    |
| Other operating income   | 18   | <b>3,640</b>    | 2,664    | 2,484    |
| General and administrative expense                                     | 19   | <b>(4,025)</b>  | (3,230)  | (2,181)  |
| Selling and distribution expense                                       | 20   | <b>(3,301)</b>  | (2,049)  | (2,391)  |
| Other operating expense  | 21   | <b>(2,457)</b>  | (1,010)  | (436)    |
| <b>Profit from operations</b>  |      | <b>9,237</b>    | 5,236    | 5,544    |
| Net financial expense  | 22   | <b>(2,420)</b>  | (1,256)  | (283)    |
| Other income (expense)   | 23   | <b>(495)</b>    | 997      | (1,924)  |
| Gain on acquisition of subsidiaries                                    | 4    | <b>2,945</b>    | –        | –        |
| <b>Profit before tax</b>   |      | <b>9,267</b>    | 4,977    | 3,337    |
| Income tax benefit (expense)   | 24   | <b>386</b>      | 297      | (175)    |
| <b>Net profit before minority interests</b>                            |      | <b>9,653</b>    | 5,274    | 3,162    |
| Minority interests   | 11   | <b>(1,502)</b>  | (1,173)  | (621)    |
| <b>Net profit attributable to equity holders of parent company</b>     |      | <b>8,151</b>    | 4,101    | 2,541    |

The pro-forma consolidated income statement is to be read in conjunction with the notes to and forming part of the pro-forma consolidated financial statements set out on pages F-17 to F-59.

**Pro-forma consolidated cash flow statement for the year ended 31 December**

*(in thousands of Ukrainian hryvnias)*

|  | 2005            | 2004     | 2003     |
|--|-----------------|----------|----------|
| <b>Operating activities</b>                                  |                 |          |          |
| <b>Profit before tax and minority interest</b>               | <b>59,211</b>   | 32,908   | 20,110   |
| <i>Adjustments for:</i>                                      |                 |          |          |
| Depreciation and amortization                                | 20,272          | 14,785   | 10,907   |
| Provision for doubtful debts                                 | 3,806           | 5,848    | 7,748    |
| Gain on acquisition of subsidiaries                          | <b>(18,819)</b> | –        | –        |
| Gain on sales of property, plant and equipment               | <b>(1,794)</b>  | (4,607)  | (3,957)  |
| Losses from associates                                       | 6               | 24       | 1,090    |
| Change in carrying value of inventories                      | <b>(361)</b>    | (6,235)  | (2,593)  |
| Change in fair value of biological assets                    | 402             | (6,812)  | (8,945)  |
| Gain on initial recognition of promissory notes issued       | –               | –        | (4,656)  |
| Interest expense   | <b>19,126</b>   | 11,433   | 5,528    |
| Increase in inventories                                      | <b>(35,886)</b> | (41,651) | (38,413) |
| (Increase) decrease in trade and other receivables           | <b>(15,041)</b> | (32,172) | 27,098   |
| (Increase) decrease in promissory notes received             | <b>(248)</b>    | (1,861)  | 16,884   |
| Decrease in biological assets                                | <b>3,526</b>    | 1,417    | 4,059    |
| (Decrease) increase in trade and other accounts payable      | <b>(1,226)</b>  | 23,944   | (51,388) |
| (Decrease) increase in promissory notes issued               | <b>692</b>      | (2,374)  | (14,985) |
| Income taxes paid  | <b>(338)</b>    | (148)    | –        |
| Interest paid  | <b>(16,523)</b> | (9,440)  | (4,636)  |
| <b>Cash flows provided by (used in) operating activities</b> | <b>16,805</b>   | (14,941) | (36,149) |
| <b>Investing activities</b>                                  |                 |          |          |
| Purchase of property, plant and equipment                    | <b>(41,827)</b> | (22,421) | (17,705) |
| Proceeds from sale of property, plant and equipment          | <b>6,282</b>    | 5,639    | 6,827    |
| Purchase of long-term investments                            | <b>(10,042)</b> | (743)    | –        |
| Proceeds from sale of biological assets                      | 251             | –        | –        |
| Purchase of biological assets                                | <b>(9)</b>      | –        | –        |
| Acquisition of subsidiaries net of cash acquired             | <b>(144)</b>    | –        | –        |
| <b>Cash flows used in investing activities</b>               | <b>(45,489)</b> | (17,525) | (10,878) |

The pro-forma consolidated cash flow statement is to be read in conjunction with the notes to and forming part of the pro-forma consolidated financial statements set out on pages F-17 to F-59.

**Pro-forma consolidated cash flow statement for the year ended 31 December**

(in thousands of Ukrainian hryvnias)

|  | 2005          | 2004          | 2003          |
|--|---------------|---------------|---------------|
| <b>Financing activities</b>                          |               |               |               |
| Proceeds from loans and borrowings                   | 42,221        | 18,523        | 15,650        |
| Principal payments on loans and borrowings           | (15,835)      | (7,239)       | (3,195)       |
| Proceeds from bank loans                             | 177,026       | 183,760       | 71,179        |
| Principal payments on bank loans                     | (174,615)     | (159,109)     | (35,982)      |
| Dividends paid                                       | –             | (3,814)       | (91)          |
| Contributions from participants                      | 2,077         | 2             | 12            |
| <b>Cash flows provided by financing activities</b>   | <b>30,874</b> | <b>32,123</b> | <b>47,573</b> |
| Net increase (decrease) in cash and cash equivalents | 2,190         | (343)         | 546           |
| Cash and cash equivalents as at 1 January            | 812           | 1,155         | 609           |
| <b>Cash and cash equivalents as at 31 December</b>   | <b>3,002</b>  | <b>812</b>    | <b>1,155</b>  |

The pro-forma consolidated cash flow statement is to be read in conjunction with the notes to and forming part of the pro-forma consolidated financial statements set out on pages F-17 to F-59.

**Pro-forma consolidated cash flow statement for the year ended 31 December**

*(in thousands of Euros)*

|  | 2005           | 2004    | 2003    |
|--|----------------|---------|---------|
| <b>Operating activities</b>                                  |                |         |         |
| <b>Profit before tax and minority interest</b>               | <b>9,267</b>   | 4,977   | 3,337   |
| <i>Adjustments for:</i>                                      |                |         |         |
| Depreciation and amortization                                | <b>3,174</b>   | 2,237   | 1,808   |
| Provision for doubtful debts                                 | <b>596</b>     | 885     | 1,286   |
| Gain on acquisition of subsidiaries                          | <b>(2,945)</b> | –       | –       |
| Gain on sales of property, plant and equipment               | <b>(281)</b>   | (697)   | (657)   |
| Losses from associates                                       | <b>1</b>       | 4       | 181     |
| Change in carrying value of inventories                      | <b>(56)</b>    | (943)   | (430)   |
| Change in fair value of biological assets                    | <b>63</b>      | (1,031) | (1,484) |
| Gain on initial recognition of promissory notes issued       | –              | –       | (773)   |
| Interest expense   | <b>2,993</b>   | 1,730   | 917     |
| Increase in inventories                                      | <b>(5,616)</b> | (6,302) | (6,374) |
| (Increase) decrease in trade and other receivables           | <b>(2,354)</b> | (4,868) | 4,497   |
| (Increase) decrease in promissory notes received             | <b>(39)</b>    | (282)   | 2,802   |
| Decrease in biological assets                                | <b>552</b>     | 214     | 674     |
| (Decrease) increase in trade and other accounts payable      | <b>(192)</b>   | 3,625   | (8,527) |
| (Decrease) increase in promissory notes issued               | <b>108</b>     | (359)   | (2,487) |
| Income taxes paid  | <b>(53)</b>    | (22)    | –       |
| Interest paid  | <b>(2,588)</b> | (1,429) | (769)   |
| <b>Cash flows provided by (used in) operating activities</b> | <b>2,630</b>   | (2,261) | (5,999) |
| <b>Investing activities</b>                                  |                |         |         |
| Purchase of property, plant and equipment                    | <b>(6,546)</b> | (3,393) | (2,938) |
| Proceeds from sale of property, plant and equipment          | <b>983</b>     | 853     | 1,133   |
| Purchase of long-term investments                            | <b>(1,571)</b> | (112)   | –       |
| Proceeds from sale of biological assets                      | <b>39</b>      | –       | –       |
| Purchase of biological assets                                | <b>(1)</b>     | –       | –       |
| Acquisition of subsidiaries net of cash acquired             | <b>(23)</b>    | –       | –       |
| <b>Cash flows used in investing activities</b>               | <b>(7,119)</b> | (2,652) | (1,805) |

The pro-forma consolidated cash flow statement is to be read in conjunction with the notes to and forming part of the pro-forma consolidated statements set out on pages F-17 to F-59.

**Pro-forma consolidated cash flow statement for the year ended 31 December**

(in thousands of Euros)

|  | 2005         | 2004         | 2003         |
|--|--------------|--------------|--------------|
| <b>Financing activities</b>                          |              |              |              |
| Proceeds from loans and borrowings                   | 6,608        | 2,803        | 2,597        |
| Principal payments on loans and borrowings           | (2,478)      | (1,095)      | (530)        |
| Proceeds from bank loans                             | 27,706       | 27,803       | 11,812       |
| Principal payments on bank loans                     | (27,329)     | (24,074)     | (5,972)      |
| Dividends paid                                       | –            | (577)        | (15)         |
| Contributions from participants                      | 325          | –            | 2            |
| <b>Cash flows provided by financing activities</b>   | <b>4,832</b> | <b>4,860</b> | <b>7,894</b> |
| Net increase (decrease) in cash and cash equivalents | 343          | (53)         | 90           |
| Cash and cash equivalents as at 1 January            | 112          | 172          | 110          |
| Currency translation difference                      | 48           | (7)          | (28)         |
| <b>Cash and cash equivalents as at 31 December</b>   | <b>503</b>   | <b>112</b>   | <b>172</b>   |

The pro-forma consolidated cash flow statement is to be read in conjunction with the notes to and forming part of the pro-forma consolidated statements set out on pages F-17 to F-59.

**Pro-forma consolidated statement of changes in equity**

*(in thousands of Ukrainian hryvnias)*

|  | Attributable to equity holders of parent company |                            |                   | Total   |
|--|--|----------------------------|-------------------|---------|
|  | Contributed capital                              | Additional paid-in capital | Retained earnings |         |
| <b>Pro-forma consolidated balance as at 1 January 2003</b>           | 7  | 2,401                      | 89,842            | 92,250  |
| Net profit   | –  | –                          | 15,313            | 15,313  |
| Gain on sale of share of subsidiary                                  | –  | –                          | 368               | 368     |
| Total recognised income and expenses                                 |  |                            |                   | 15,681  |
| Distribution of capital (note 0 (ii))                                | –  | –                          | (91)              | (91)    |
| Contributions by equity holders                                      | 12   | –                          | –                 | 12      |
| Gain from remeasurement of loans from equity holders to market terms | –  | 3,302                      | –                 | 3,302   |
| Deferred tax effect  | –  | (825)                      | –                 | (825)   |
| <b>Pro-forma consolidated balance as at 31 December 2003</b>         | 19   | 4,878                      | 105,432           | 110,329 |
| Net profit   | –  | –                          | 27,118            | 27,118  |
| Gains less losses on transactions with minority holders              | –  | –                          | (2,835)           | (2,835) |
| Total recognised income and expenses                                 |  |                            |                   | 24,283  |
| Distribution of capital (note 0 (ii))                                | –  | –                          | (3,814)           | (3,814) |
| Contributions by equity holders                                      | 2  | –                          | –                 | 2       |
| Gain from remeasurement of loans from equity holders to market terms | –  | 862                        | –                 | 862     |
| Deferred tax effect  | –  | (215)                      | –                 | (215)   |
| <b>Pro-forma consolidated balance as at 31 December 2004</b>         | 21   | 5,525                      | 125,901           | 131,447 |

The pro-forma consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the pro-forma consolidated financial statements set out on pages F-17 to F-59.

**Pro-forma consolidated statement of changes in equity**

(in thousands of Ukrainian hryvnias)

|  | Attributable to equity holders of parent company |                            |                   | Total          |
|--|--|----------------------------|-------------------|----------------|
|  | Contributed capital                              | Additional paid-in capital | Retained earnings |                |
| <b>Pro-forma consolidated balance as at 31 December 2004</b>         | 21   | 5,525                      | 125,901           | 131,447        |
| Net profit   | –  | –                          | 52,082            | 52,082         |
| Gains less losses on transactions with minority holders              | –  | –                          | 11,228            | 11,228         |
| Deferred tax arising on change in tax status of subsidiaries         | –  | –                          | (6,496)           | (6,496)        |
| Total recognised income and expenses                                 |  |                            |                   | 56,814         |
| Distribution of capital (note 0 (ii))                                | –  | (379)                      | (9,283)           | (9,662)        |
| Gain from remeasurement of loans from equity holders to market terms | –  | 829                        | –                 | 829            |
| Deferred tax effect  | –  | (207)                      | –                 | (207)          |
| Contributions by equity holders (note 10)                            | 337  | 2,077                      | –                 | 2,414          |
| <b>Pro-forma consolidated balance as at 31 December 2005</b>         | <b>358</b>                                       | <b>7,845</b>               | <b>173,432</b>    | <b>181,635</b> |

The pro-forma consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the pro-forma consolidated financial statements set out on pages F-17 to F-59.

**Pro-forma consolidated statement of changes in equity**

(in thousands of Euros)

|  | Attributable to equity holders of parent company |                            |                   |                                 | Total   |
|--|--|----------------------------|-------------------|---------------------------------|---------|
|  | Contributed capital                              | Additional paid-in capital | Retained earnings | Currency translation difference |         |
| <b>Pro-forma consolidated balance as at 1 January 2003</b>           | 1  | 435                        | 16,238            | –                               | 16,674  |
| Net profit   | –  | –                          | 2,541             | –                               | 2,541   |
| Gain on sale of share in subsidiary                                  | –  | –                          | 61                | –                               | 61      |
| Currency translation difference                                      | –  | –                          | –                 | (3,114)                         | (3,114) |
| Total recognised income and expenses                                 |  |                            |                   |                                 | (512)   |
| Distribution of capital (note 0 (ii))                                | –  | –                          | (15)              | –                               | (15)    |
| Contributions by equity holders                                      | 2  | –                          | –                 | –                               | 2       |
| Gain from remeasurement of loans from equity holders to market terms | –  | 548                        | –                 | –                               | 548     |
| Deferred tax effect of the above                                     | –  | (137)                      | –                 | –                               | (137)   |
| <b>Pro-forma consolidated balance as at 31 December 2003</b>         | 3  | 846                        | 18,825            | (3,114)                         | 16,560  |
| Net profit   | –  | –                          | 4,101             | –                               | 4,101   |
| Gains less losses on transactions with minority holders              | –  | –                          | (429)             | –                               | (429)   |
| Currency translation difference                                      | –  | –                          | –                 | (1,542)                         | (1,542) |
| Total recognised income and expenses                                 |  |                            |                   |                                 | 2,130   |
| Distribution of capital (note 0 (ii))                                | –  | –                          | (577)             | –                               | (577)   |
| Contributions from equity holders                                    | 1  | –                          | –                 | –                               | 1       |
| Gain from remeasurement of loans from equity holders to market terms | –  | 128                        | –                 | –                               | 128     |
| Deferred tax effect  | –  | (33)                       | –                 | –                               | (33)    |
| <b>Pro-forma consolidated balance as at 31 December 2004</b>         | 4  | 941                        | 21,920            | (4,656)                         | 18,209  |

The pro-forma consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the pro-forma consolidated financial statements set out on pages F-17 to F-59.

**Pro-forma consolidated statement of changes in equity**

(in thousands of Euros)

|  | Attributable to equity holders of parent company |                            |                   |                                 | Total         |
|--|--|----------------------------|-------------------|---------------------------------|---------------|
|  | Contributed capital                              | Additional paid-in capital | Retained earnings | Currency translation difference |               |
| <b>Pro-forma consolidated balance as at 31 December 2004</b>         | 4  | 941                        | 21,920            | (4,656)                         | 18,209        |
| Net profit   | –  | –                          | 8,151             | –                               | 8,151         |
| Gains less losses on transactions with minority holders              | –  | –                          | 1,757             | –                               | 1,757         |
| Deferred tax arising on change in tax status of subsidiaries         | –  | –                          | (1,017)           | –                               | (1,017)       |
| Currency translation difference                                      | –  | –                          | –                 | 4,360                           | 4,360         |
| Total recognised income and expenses                                 |  |                            |                   |                                 | 13,251        |
| Distribution of capital (note 0 (ii))                                | –  | (68)                       | (1,453)           | –                               | (1,521)       |
| Gain from remeasurement of loans from equity holders to market terms | –  | 130                        | –                 | –                               | 130           |
| Deferred tax effect  | –  | (33)                       | –                 | –                               | (33)          |
| Contributions by equity holders (note 10)                            | 56   | 326                        | –                 | –                               | 382           |
| <b>Pro-forma consolidated balance as at 31 December 2005</b>         | <b>60</b>  | <b>1,296</b>               | <b>29,358</b>     | <b>(296)</b>                    | <b>30,418</b> |

The pro-forma consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the pro-forma consolidated financial statements set out on pages F-17 to F-59.

## **1 Background**

### **(a) Organization and operations**

These pro-forma consolidated financial statements include several companies (the Companies) ultimately controlled by two individuals. During 2005 the Companies were restructured to form a consolidated group (the Group). The Companies include:

Firm "Astarta-Kyiv", LLC, including subsidiaries

"Pustoviytove", LLC, including subsidiaries

"Globino Canning Factory 'Globus'", LLC

After the restructuring, Firm "Astarta-Kyiv", LLC (Astarta-Kyiv) became the ultimate parent company. All of the Companies are incorporated in Ukraine. The operating headquarters of the Group are located at Pochayninska 38/44, Kyiv, Ukraine 04070.

Subsequent to 31 December 2005 the equity holders established a company in Cyprus and a holding company named Astarta Holding N.V. in the Netherlands. As a result of a series of transactions the Cypriot company became a wholly-owned subsidiary of Astarta Holding N.V., and Astarta-Kyiv became a wholly-owned subsidiary of the Cypriot company.

On 9 June 2006 Astarta Holding N.V. was incorporated under Dutch law with an issued and paid-up capital of EUR 60,000 divided into 6,000,000 shares of EUR 0.01 each. The 2005 pro-forma consolidated accounts have been prepared as if Astarta Holding N.V. already were the holding company of the Group as at 31 December 2005 and the year then ended. Astarta Holding N.V. is domiciled at Koningslaan 17, 1075 AC, Amsterdam.

Prior to 2005, the Companies did not constitute a legal group, however the Companies were under common ownership throughout 2004 and 2003. Accordingly, for the purposes of presenting historical financial information, the financial statements as at and for the years ended 31 December 2004 and 2003 are consolidated as if the Group existed during those periods in the same legal structure that is in place as at 31 December 2005.

Certain entities held by the common control shareholders have been excluded from the pro-forma consolidated financial statements because they do not relate to the Group's primary agriculture production and processing business and were sold to these common control shareholders in December 2005. See note (2)(c)(ii).

The principal operations of the Group are the agricultural production and processing of sugar at plants and croplands located in the Poltava and Vinnitsa regions of Ukraine. The business is vertically-integrated because sugar is produced at plants, in large proportion from own-cultivated sugar beet. The Group is also active in growing and selling various grain crops that result from the crop rotation necessary for sugar beet cultivation. The sugar production activities, including by-products and crop rotation related products, account for not less than 90% of the revenues of the Group. A cattle farming operation is an additional, non-core activity.

### **(b) Ukrainian business environment**

Ukraine has experienced political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in Ukraine involve risks that do not typically exist in other markets. These pro-forma consolidated financial statements reflect management's current assessment of the possible impact of the Ukrainian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment. The impact of such differences on the operations and the financial position may be significant.

## 2 Basis of preparation

### (a) Statement of compliance

The Companies maintain their accounting records in accordance with Ukrainian National Accounting Standards. These pro-forma consolidated financial statements are prepared as follows:

First, the financial statements of the Companies are prepared in accordance with Ukrainian National Accounting Standards and then adjusted as necessary to comply with the requirements of International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB.

Next, these financial statements are then consolidated in accordance with the basis of accounting set out in note 2(b) below.

The Group adopted the amended versions of IFRS that are effective for accounting periods beginning on 1 January 2005. The comparative figures as at 31 December 2004 and 2003 are adjusted to conform to changes in presentation of the pro-forma consolidated financial statements as at 31 December 2005 as required by the amended IFRSs.

### (b) Basis of consolidation and combination

Subsidiaries are those enterprises controlled separately by an entity. Control exists when Astarta Holding N.V. has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the pro-forma consolidated financial statements of Astarta Holding N.V. from the date that control effectively commences until the date that control effectively ceases.

Associates are those enterprises in which Astarta Holding N.V. has significant influence, but not control, over its financial and operating policies. The pro-forma consolidated financial statements include Astarta Holding N.V. share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When Astarta Holding N.V. share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that Astarta Holding N.V. has incurred obligations in respect of the associate.

As at 31 December 2005, Astarta Holding N.V. owns shares, directly and indirectly, in a number of subsidiaries and associates:

| Name                                       | Activity                          | 2005<br>% of ownership<br>by Astarta-Kyiv | 2004<br>% of ownership<br>by Consolidated<br>Group | 2003<br>% of ownership<br>by Consolidated<br>Group |
|--|-----------------------------------|---|--|--|
| <b>Subsidiaries:</b>                       |                                   |   |  |  |
| LLC "Agropromtsukor"                       | Sugar production                  | 100.00%                                   | 100.00%  | 100.00%  |
| LLC "APO "Tsukrovyk Poltavshchyny"         | Agricultural and Sugar production | 95.10%                                    | 83.36%   | 86.95%   |
| LLC "Torgovy dim"                          | Trade and sugar production        | 47.55%                                    | 41.68%   | 43.48%   |
| LLC "Agricultural Company "Dobrobut"       | Agricultural                      | 75.00%                                    | 75.00%   | 75.00%   |
| LLC "Agricultural Company "Ordanivka"      | Agricultural                      | 75.00%                                    | 75.00%   | 67.00%   |
| LLC "Agricultural Company "Stepove"        | Agricultural                      | 75.00%                                    | 75.00%   | 60.00%   |
| LLC "Agricultural Company "Troyitska"      | Agricultural                      | 75.00%                                    | 75.00%   | 75.00%   |
| LLC "Agricultural Company "Fydrivske"      | Agricultural                      | 75.00%                                    | 75.00%   | 75.00%   |
| LLC "Agricultural Company "Shyshatska"     | Agricultural                      | 75.00%                                    | 75.00%   | 75.00%   |
| LLC "Agricultural Company "Gogolevo"       | Agricultural                      | 67.00%                                    | 67.00%   | 67.00%   |
| LLC "Agricultural Company "Kovalivka"      | Agricultural                      | –   | 67.00%   | 67.00%   |
| LLC "Viytovetske"                          | Agricultural                      | 64.00%                                    | 64.00%   | 64.00%   |
| LLC "Agricultural Company "Pustoviytove"   | Agricultural                      | 78.00%                                    | 78.00%   | 78.00%   |
| LLC "Agricultural Company "Grynky"         | Agricultural                      | 58.50%                                    | 58.50%   | 58.50%   |
| LLC "Agricultural Company "Shevchenko"     | Agricultural                      | 46.80%                                    | 40.00%   | 40.00%   |
| LLC "Agricultural Company "Dovzhenko"      | Agricultural                      | 67.00%                                    | –  | –  |
| LLC "Agricultural Company "Zolota gora"    | Agricultural                      | 80.00%                                    | –  | –  |
| LLC "Agricultural Company "Kozatskiy stan" | Agricultural                      | 75.00%                                    | –  | –  |
| LLC "Agricultural Company "Musievske"      | Agricultural                      | 75.00%                                    | –  | –  |
| LLC "Zorya"                                | Agricultural                      | 75.00%                                    | –  | –  |
| LLC "Bohdan Khmelniyskiy"                  | Agricultural                      | 75.00%                                    | –  | –  |
| LLC "Nadiya"                               | Agricultural                      | 75.00%                                    | –  | –  |
| Globino canning factory "Globus"           | Agricultural                      | 100.00%                                   | 100.00%  | 100.00%  |
| LLC "Shishaki combined forage factory"     | Agricultural                      | 82.73%                                    | –  | –  |

| Name                                  | Activity     | 2005                           | 2004                                 | 2003                                 |
|---------------------------------------|--------------|--------------------------------|--------------------------------------|--------------------------------------|
|                                       |              | % of ownership by Astarta-Kyiv | % of ownership by Consolidated Group | % of ownership by Consolidated Group |
| <b>Associates:</b>                    |              |                                |                                      |                                      |
| LLC "Agricultural Company "Pokrovska" | Agricultural | 50.00%                         | 50.00%                               | 50.00%                               |
| OJSC "Shyshaky-Silgospkimiya"         | Agricultural | –                              | 48.20%                               | 48.20%                               |

All subsidiaries and associates are incorporated in Ukraine.

The pro-forma consolidated financial statements as at and for the years ended 31 December 2005, 2004 and 2003 are consolidated/consolidated on the basis that they represent the agricultural production and processing operations of companies jointly controlled by two individuals. The financial statements as at and for the years ended 31 December 2004 and 2003 are prepared by aggregating the financial statements of the companies listed above, even if at the time, Astarta-Kyiv did not have legal control over the companies. Adjustments are made to eliminate all significant transactions and balances between companies within the Group.

"APO Tsukrovyk Poltavshyny", LLC is a holding company of enterprises engaged in sugar production and related agricultural activities. As at 31 December 2003 it comprised two sugar plants and four agricultural businesses. By 31 December 2004 the holding had modified its structure and became a sugar production oriented entity that included three sugar plants and an administration unit.

### (c) Pro-forma adjustments

These pro-forma financial statements have been prepared for purposes of illustration in relation to this prospectus only and serve to inform the reader about the financial position and results of operations of the entities forming part of Astarta Holding N.V. since its inception as of and for the years ended 31 December 2003, 2004 and 2005.

Certain pro-forma adjustments are made to these financial statements. The pro-forma adjustments include:

- (i) Prior to 2005, the Companies did not constitute a legal group, however the Companies were under common ownership throughout 2004 and 2003. Accordingly, for the purposes of presenting historical financial information, the financial statement as at and for the years ended 31 December 2004 and 2003 are consolidated as if the Group existed during those periods in the same legal structure that was in place as at 31 December 2005.
- (ii) Certain subsidiaries and associates of Astarta-Kyiv are not consolidated or accounted for under the equity method in these pro-forma consolidated financial statements because they do not relate to the Group's primary agricultural production and processing business.

Astarta-Kyiv's subsidiaries and associates that are not consolidated or accounted for under the equity method as at 31 December are as follows:

| Name                  | Country of incorporation | Activity                     | 2005                                 | 2004                                 | 2003                                 |
|-----------------------|--------------------------|------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
|                       |                          |                              | % of ownership by Consolidated Group | % of ownership by Consolidated Group | % of ownership by Consolidated Group |
| OJSC "Astarta-Centre" | Ukraine                  | Real estate                  | –                                    | 71.02%                               | 52.08%                               |
| CJSC "KPD"            | Ukraine                  | Real estate                  | –                                    | 71.02%                               | –                                    |
| JSC "Canyon"          | Ukraine                  | Real estate and construction | –                                    | 35.51%                               | 25.62%                               |

These subsidiaries and associates were sold to related parties prior to the date of these pro-forma consolidated financial statements and are accounted for as if the sale occurred prior to 1 January 2003. Additional investments into these entities after 31 December 2002 are recorded as a distribution of capital.

- (iii) Astarta Holding N.V. and substantially all of its Ukrainian subsidiaries and associates are limited liability companies. Under Ukrainian law, a participant in a limited liability company may unilaterally withdraw his share in a company. In such case the company is obliged to pay the withdrawing participant's share of net assets of the company determined in accordance with National Accounting Standards. In order to comply with International Financial Reporting Standard IAS 32 *Financial Instruments: Disclosure and Presentation*, share capital, contributions by participants, other capital contributions and retained earnings are required to be presented as a liability, rather than as equity.

Minority interests in subsidiaries that are limited liability companies are presented as current liabilities.

### (d) Acquisition and disposal of minority interests

Any difference between the consideration paid to acquire a minority interest or any difference between the consideration received upon disposal of a minority interest and the carrying amount of that portion of the Group's interest in the subsidiary, is recognised as equity increases (or decreases) in the parent shareholder's interest, so long as the parent controls the subsidiary. The presentation of minority interest within equity supports the recognition of increases and decreases in ownership interests in subsidiaries without a change in control as

equity transactions in the pro-forma consolidated financial statements. Accordingly, any premiums or discounts on subsequent purchases of equity instruments from (or sales of equity instruments to) minority interests is recognised directly in the parent shareholders' equity.

#### **(e) Transactions eliminated on consolidation**

Intercompany balances and transactions, and any unrealised gains arising from intercompany transactions, are eliminated in preparing the pro-forma consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

#### **(f) Principles of combination**

When financial statements of individual companies that do not constitute a legal group are consolidated in one set of financial statements, their assets, liabilities, equity accounts as well as income and expenses are added together. Intercompany balances and transactions, and any unrealised gains arising from intercompany transactions, are eliminated as described in note 2(e).

#### **(g) Common control transactions**

The acquisition of controlling interests in entities that are under the control of the same controlling equity holders as the Group are accounted for as if the acquisition occurred at the beginning of the earliest comparative period presented, or, if later, at the date that common control was established; for this purpose comparative figures are restated. The assets and liabilities acquired are recognised at their previous book values as recorded in the individual IFRS financial statements of the acquired enterprise. The components of equity of the acquired enterprises are added to the same components within Group equity. Any cash paid for the acquisition is charged to equity.

The disposal of subsidiaries to entities that are under the control of the same controlling equity holders as the Group are accounted for by recognising the difference between the consideration received and the carrying amount of the net assets of the subsidiary, including minority interests and attributable goodwill or negative goodwill, in equity.

#### **(h) Basis of accounting**

The pro-forma consolidated financial statements are prepared on the fair value basis for property, plant and equipment, biological assets and agricultural produce and promissory notes at fair value through profit or loss. Property, plant and equipment is revalued to fair value as at 1 January 2003 based on an independent appraisal performed in November 2005. These fair values serve as the basis for deemed cost in accordance with IFRS 1. Biological assets are stated at their fair value less estimated point-of-sale costs, whereas agricultural produce is stated at its fair value less estimated point-of-sale costs at the point of harvest. Promissory notes at fair value through profit and loss are stated at fair value. All other assets and liabilities are carried at historical cost.

#### **(i) Functional and presentation currency**

The national currency of Ukraine is the Ukrainian hryvnia, and the functional currency for the purposes of these pro-forma consolidated financial statements is the Ukrainian hryvnia (UAH), rounded to the nearest thousand. Management has chosen to present these pro-forma consolidated financial statements in two presentation currencies, the Ukrainian hryvnia and the Euro, for the convenience of readers. For the purposes of presenting these pro-forma consolidated financial statements in Euros, assets and liabilities are translated from UAH to Euro using the closing rate at each balance sheet date, and income and expenses are translated at the average rate for each respective period.

#### **(j) Critical accounting estimates and judgments in applying accounting policies**

The preparation of the pro-forma consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates. The most significant estimates and assumptions are as follows:

Impairment of trade accounts receivable. Management estimates impairment by assessing the likelihood of the collection of trade accounts receivable based on an analysis of individual accounts. Factors taken into consideration when assessing individual accounts include an ageing analysis of trade accounts receivable in comparison with the credit terms provided to customers, the financial position and collection history with the customer.

Cost of inventories. Management estimates the necessity of write down of inventories to its net realizable value taking into consideration the prices at which inventories may be sold at the balance sheet date.

Post-employment and other long-term employee benefit obligations. Management performs a calculation of post-employment and other long-term employee benefit obligations using the projected unit credit method based on actuarial assumptions that represent management's best estimates of the variables that will determine the ultimate cost of providing post-employment and other long-term employee benefits. Post-employment and other long-term employee benefit obligations are not recognised in these pro-forma consolidated financial statements as the effect of recognising these obligations would not be material.

Fair value of biological assets. Due to the lack of an active market as defined by International Financial Reporting Standard IAS 41 *Agriculture*, the fair value of biological assets is estimated by present valuing the net cash flows expected to be generated from the assets discounted at a current market-determined pre-tax rate. Management uses the assistance of independent appraisers to estimate expected cash flows, and determines discount rates by reference to current market rates on deposits in Ukrainian hryvnia. The fair value is then reduced for estimated point-of-sale costs.

Fair value of agricultural produce. Management estimates the fair value of agricultural produce by reference to quoted prices in an active market, as defined by International Financial Reporting Standard IAS 41. In addition, point-of-sale costs at the point of harvest are estimated and deducted from the fair value. The fair value less point-of-sale costs becomes the carrying value of inventories at that date.

### 3 Significant accounting policies

The following significant accounting policies have been consistently applied in the preparation of the pro-forma consolidated financial statements.

#### (a) Changes in accounting policies

Certain new and amended IFRSs became effective on 1 January 2005. Listed below are these new or amended standards that are or in the future could be relevant to operations. The changes in accounting policies are applied retroactively unless otherwise stated.

IAS 1 *Presentation of Financial Statements* (revised 2003) requires expanded disclosures, including disclosure of critical accounting estimates and judgments in applying accounting policies.

IAS 2 *Inventories* clarifies scope of the standard and cost formulas. The standard also requires additional disclosure in respect of carrying amount of inventories carried at fair value less cost to sell and the amount of any write-down of inventories recognized as an expense in the period. The requirements to disclose the amount of inventories carried at net realizable value were removed.

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (revised 2003) provides further guidance on selection and application of accounting policies in absence of applicable standard or interpretation and defines the methods of accounting and disclosures of changes in accounting policies.

IAS 16 *Property, Plant and Equipment* (revised 2003) defines periodical revision of useful lives and residual values and provides further guidance on property, plant and equipment acquired as a result of non-monetary exchange. The standard also requires additional disclosures.

IAS 21 *The Effects of Changes in Foreign Exchange Rates* (revised 2003) provides new guidance on determination of functional and presentation currency.

IAS 24 *Related Party Disclosures* (revised 2003) extends the definition of related parties and requires expanded disclosures of related party transactions.

IAS 32 *Financial Instruments: Disclosure and Presentation* (revised 2004) requires increased disclosures of financial instruments.

IAS 36 *Impairment of Assets* (revised 2004) requires impairment tests of intangible assets not yet available for use and intangible assets with indefinite useful life to be performed at least annually. The revised IAS 36 is applied in accordance with transitional provisions to goodwill and intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004 and to all other assets prospectively from 1 January 2005.

IAS 39 *Financial Instruments: Recognition and Measurement* (revised 2003) changed the definition of "originated loans and receivables" to "loans and receivables". This category now comprises originated or purchased loans and receivables that are not quoted in an active market. Management amended its policies and may designate any financial instrument on initial recognition as one to be measured at fair value, with changes in fair value recognized in profit or loss. Subsequent reclassifications into or out of the "fair value through profit or loss" category are prohibited. The Group no longer recognizes gains and losses on available-for-sale financial assets in profit or loss but in equity. The Group now applies the guidance added to IAS 39 on how to determine fair values using valuation techniques and how to evaluate impairment in a group of loans, receivables or held-to-maturity investments which cannot yet be identified with any individual asset in the group.

#### (b) Foreign currency transactions

Transactions in foreign currencies are translated to hryvnias at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to hryvnias at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to hryvnias at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognized in the income statement.

The principal UAH exchange rates used in the preparation of the pro-forma consolidated financial statements as at 31 December are as follows:

| Currency  | 2005  | 2004  | 2003  |
|-----------|-------|-------|-------|
| US Dollar | 5.050 | 5.305 | 5.331 |
| Euro      | 5.972 | 7.217 | 6.662 |

As at the date of these pro-forma consolidated financial statements, 22 May 2006, the exchange rate is UAH 5.05 to USD 1.00 and UAH 6.447 to Euro 1.00.

### **(c) Property, plant and equipment**

#### **(i) Owned assets**

Items of property, plant and equipment acquired before 1 January 2003 are stated at deemed cost less accumulated depreciation and impairment losses. Deemed cost is based on the fair values of property, plant and equipment as at 1 January 2003 based on an independent appraisal performed in November 2005. Items of property, plant and equipment acquired on or after 1 January 2003 are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

#### **(ii) Leased assets**

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Property and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

#### **(iii) Subsequent expenditure**

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalized with the carrying amount of the component replaced being written off. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the income statement as an expense as incurred.

#### **(iv) Depreciation**

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use.

The estimated useful lives are as follows:

|                                |             |
|--------------------------------|-------------|
| Buildings                      | 20–50 years |
| Production equipment           | 10–20 years |
| Furniture and office equipment | 3–5 years   |
| Vehicles                       | 5–10 years  |

### **(d) Intangible assets**

Intangible assets, which are acquired by the Group and which have finite useful lives, represent mainly computer software and are stated at cost less accumulated amortisation and impairment losses.

### **(e) Biological assets**

The Group classifies cattle as biological assets. Biological assets are carried at their fair value less estimated point-of-sale costs, except for the case where the fair value cannot be measured reliably. If fair value cannot be measured reliably, biological assets are carried at cost less impairment. Point-of-sale costs include all costs that would be necessary to sell the assets, excluding costs necessary to get the assets to market.

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

### **(f) Agricultural produce**

The Group classifies crops as 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.

### **(g) Financial instruments**

#### **(i) Classification**

*Financial assets at fair value through profit or loss* are financial assets held for trading and those designed at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term, is a derivative, or if so designated by management.

*Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include trade accounts receivable and other receivables.

*Held-to-maturity assets* are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity.

*Available-for-sale assets* are non-derivative financial assets that are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity assets. Available-for-sale financial assets may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

*Financial liability* is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial instruments with another entity under conditions that are potentially unfavourable.

**(ii) Recognition**

The Group recognizes regular way purchases/sales of financial instruments on the settlement date. All other financial instruments are recognized when the Group becomes a party to the contractual provisions of the instrument.

**(iii) Measurement**

Financial instruments are measured initially at their fair value including transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent to initial recognition all financial assets at fair value through profit or loss and all available-for-sale instruments are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, loans and receivables and held-to-maturity assets are measured at amortized cost less impairment losses. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

**(iv) Fair value measurement principles**

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates using a discount rate representing a market rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

**(v) Gains and losses on subsequent measurement**

Gains and losses arising from a change in the fair value of financial assets at fair value through profit or loss are included in the determination of net profit.

Gains and losses arising from a change in the fair value of available-for-sale assets are recognized directly in equity. When available-for-sale assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognized in equity is included in determination of net profit. When a decline in fair value of available-for-sale assets has been recognized in equity and there is objective evidence that the assets are impaired, the loss recognized in equity is removed and recognized in the income statement, even though the assets have not been derecognized.

**(vi) Derecognition**

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. A financial liability is derecognized when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

**(h) Inventories**

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of raw materials at the agricultural and sugar production facilities is determined using the weighted average method including acquisition costs incurred, such as transportation.

Work in progress and finished goods are stated at cost. Cost includes the cost of raw materials, labour and manufacturing overheads allocated proportionately to the stage of completion of the inventory.

Investments into future crops represent seeds, fertilizers and land cultivation to prepare for the subsequent growing season.

**(i) Trade accounts receivable**

Trade accounts receivable are stated at their amortized cost less impairment losses.

**(j) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and deposits with an original maturity date of three months or less.

**(k) Impairment**

The carrying amounts of assets, other than inventories, biological assets, agricultural produce and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

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

**(i) Calculation of recoverable amount**

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

**(ii) Reversals of impairment**

An impairment loss in respect of a loan or receivable or debt instrument classified as available-for-sale is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. The reversals are recognised in the income statement.

In respect of other assets, an impairment loss is reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(l) Share capital and earnings per share**

Astarta-Kyiv, and substantially all of its subsidiaries, are limited liability companies. Under Ukrainian law payments by participants for ownership rights are not represented by shares, but are reflected as contributions by participants. Accordingly, it is impracticable to present earning per share information.

**(m) Loans and borrowings**

Loans and borrowings are recognized initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, loans and borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings.

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognized immediately in the income statement.

**(n) Trade accounts payable**

Trade accounts payable are stated at their amortized cost. Balances due in less than one year are not discounted.

**(o) Other accounts payable**

Other accounts payable are stated at their amortized cost. Balances due in less than one year are not discounted.

**(p) Income tax**

All the entities within the Group that are involved in agricultural business are exempt from income taxes in Ukraine until 31 December 2009. These companies are subject to a flat agricultural tax calculated as 0.15% in 2005 and 0.5% in 2004 and 2003 of the market value of land used. To qualify for the agricultural tax, the exempt entities must be involved in agricultural production activities and sales of agricultural production must not be less than 75 percent of the total sales for the entity. The agricultural tax is included in cost of revenue.

For other companies, income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. No deferred tax is recognised for companies within the Group that are involved in the agricultural business and that are exempt from income taxes until 31 December 2009 as management believes it is likely that this exemption will be extended as has historically been the case.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

#### **(q) Government subsidies**

The certain companies in the Group are entitled to receive government subsidies, primarily in two forms.

Value Added Tax (VAT) that the Group would otherwise be required to remit to the government can be retained and used for certain qualifying expenditures. Until qualifying expenditures are made, the VAT is recorded as deferred government subsidy and shown in other accounts payable in the balance sheet, while corresponding amounts of cash are maintained in restricted bank accounts. Once qualifying expenditures are made from the restricted bank accounts, the subsidy is recognized in other operating income.

Companies in the Group that are subject to the flat agricultural tax are also eligible for reimbursement by the government for a portion of interest incurred on borrowings by the entity. The amount of interest subsidy depends on the terms and purposes of financing obtained from banks. The interest subsidy falls within the range of 7–9% and 10–14% for loans received in foreign and local currency, respectively. Because the interest subsidy is payable only when the governmental budget allows, it is recorded on the cash basis, and is reflected in other operating income.

#### **(r) Revenues**

Revenues from the sale of goods are recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenues are recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

#### **(s) Non-monetary transactions**

The Group has a significant level of non-cash transactions as is common with many Ukrainian companies. These transactions involve tolling schemes and provision of inventories and agricultural services for sugar beets. Non-cash transactions consist of mutual settlements arising from the exchange of goods and services, and transactions that are settled by means of promissory notes. Approximately 11% of revenues and purchases in 2005 were received and paid for in the form of non-cash transactions (2004: 14%; 2003: 11%). Mutual settlement transactions are centrally managed. Prices are usually fixed in contracts with the mutual settlement transactions valued and recorded at the market prices for the goods involved in the transaction. Non-cash sales and purchases are accounted for on an accrual basis in the same manner as traditional cash transactions.

#### **(t) Expenses**

Expenses are accounted for on an accrual basis.

#### **(u) Operating lease payments**

Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognized in the income statement as an integral part of the total lease payments made.

#### **(v) Net financial expense**

Net financial expense comprise interest expense on borrowings, interest income on funds invested and dividend income, if any.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of net financing costs. The interest expense component of finance lease payments is recognized in the income statement using the effective interest rate method.

#### **(w) Employee benefits**

The Group is committed to reimburse employees for all expenses incurred in case of injuries at work. These amounts are expensed when they are incurred.

Furthermore, the Group makes contributions into the Ukrainian state pension fund based on each employee's wage. These amounts are expensed when they are incurred.

The Group is also obligated to make contributions to certain defined benefit plans. Neither the contributions or obligations are significant to these pro-forma consolidated financial statements.

**(x) Offsetting**

Financial assets and liabilities are offset and the net amount is reported in the pro-forma consolidated financial statements only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

**(y) New Standards and Interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective, and have not been applied in preparing these pro-forma consolidated financial statements. Of these pronouncements, the following will potentially have an impact on the consolidated financial statements:

*IFRS 7 Financial Instruments: Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Group's financial instruments.

Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of Astarta-Kyiv's capital.

Amendment to IAS 19 *Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures*, which is effective for annual periods beginning on or after 1 January 2006. The amendment includes an option for actuarial gains and losses to be recognized in full as they arise, outside of the income statement in a statement of recognized income and expense.

Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions*, which is effective for annual periods beginning on or after 1 January 2006. The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item if certain criteria are met.

Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – The Fair Value Option*, which is effective for annual periods beginning on or after 1 January 2006. The amendment restricts the designation of financial instruments as "at fair value through profit or loss".

Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 4 *Insurance Contracts – Financial Guarantee Contracts*, which is effective for annual periods beginning on or after 1 January 2006. The amendment requires guarantees that are not insurance contracts to be measured at fair value upon initial recognition. When the Group enters into financial guarantee contracts to guarantee the indebtedness of its customers, the Group believes these to be insurance arrangements, and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee. The Group does not expect the amendments to have any impact on the financial statements for the period commencing on 1 January 2006.

IFRIC 4 *Determining whether an Arrangement Contains a Lease*, which is effective for annual periods beginning on or after 1 January 2006. The Interpretation requires certain arrangements to be accounted for as a lease even if they are not in the legal form of a lease.

IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*, which is effective for annual periods beginning on or after 1 January 2006. The Interpretation deals with funds created for the purpose of settling decommissioning and similar expenses.

Management is currently studying what effect these new statements and amendments may have on the financial position and results of operations, however the effects are not expected to be significant.

#### 4 Acquisition of subsidiaries

During 2005 the Group acquired the following companies involved in agricultural activities:

| Name                                  | Country of incorporation | Activity     | Date of acquisition | % of ownership by Astarta-Kyiv as at 31 December 2005 |
|---------------------------------------|--------------------------|--------------|---------------------|---|
| LLC "Agricultural Company "Dovzhenko" | Ukraine                  | Agricultural | 10/01/2005          | 67.00%  |
| LLC "Agricultural Company "Musievske" | Ukraine                  | Agricultural | 19/09/2005          | 75.00%  |
| LLC "Zorya"                           | Ukraine                  | Agricultural | 14/10/2005          | 75.00%  |
| LLC "Bohdan Khmelnytskyi"             | Ukraine                  | Agricultural | 7/10/2005           | 75.00%  |
| LLC "Nadiya"                          | Ukraine                  | Agricultural | 21/10/2005          | 75.00%  |

The acquisition of these companies had the following effect on assets and liabilities as at the date they were acquired:

|  | Recognised fair value at acquisition |                         |
|--|--------------------------------------|-------------------------|
|  | (in thousands of Ukrainian hryvnias) | (in thousands of Euros) |
| <b>Non-current assets</b>  |                                      |                         |
| Property, plant and equipment  | 12,634                               | 1,977                   |
| Biological assets  | 6,454                                | 1,010                   |
| <b>Current assets</b>  |                                      |                         |
| Inventories  | 8,530                                | 1,335                   |
| Biological assets  | 4,248                                | 665                     |
| Trade accounts receivable  | 234                                  | 37                      |
| Other accounts receivable and prepayments                              | 8,025                                | 1,257                   |
| Cash and cash equivalents  | 127                                  | 19                      |
| <b>Non-current liabilities</b>   |                                      |                         |
| Long-term loans and borrowings   | (1,314)                              | (206)                   |
| <b>Current liabilities</b>   |                                      |                         |
| Bank loans   | (810)                                | (127)                   |
| Current portion of long-term loans and borrowings                      | (25)                                 | (4)                     |
| Trade accounts payable   | (1,390)                              | (218)                   |
| Other liabilities and accounts payable                                 | (9,995)                              | (1,564)                 |
| Minority interest acquired (note 11)                                   | (7,628)                              | (1,194)                 |
| <b>Net identifiable assets, liabilities and contingent liabilities</b> | <b>19,090</b>                        | <b>2,987</b>            |
| Excess of net assets acquired over consideration paid                  | 18,819                               | 2,945                   |
| Consideration paid   | 271                                  | 42                      |
| Cash acquired  | 127                                  | 19                      |
| <b>Net cash outflow</b>  | <b>144</b>                           | <b>23</b>               |

It is not practicable to determine the carrying amounts of the acquired companies' assets and liabilities in accordance with IFRS immediately prior to the date of acquisition because the acquired companies' financial statements were prepared only in accordance with Ukrainian National Accounting Standards, which are significantly different from IFRSs.

For the same reason it is not practicable to determine what would be the total revenue and net profit for the year ended 31 December 2005 had the acquisitions occurred on 1 January 2005.

The excess of net assets acquired over the consideration paid is recognized in the income statement as a gain on acquisition of subsidiaries. This gain arises because the fair value of the acquired non-monetary assets significantly exceeds the amount paid for those assets. This situation is due to the significant risks involved in agricultural business in Ukraine, the lack of financial resources in the acquired companies which prevented them from efficient use of their assets, and a lack of interested buyers.

## 5 Property, plant and equipment

In 2005 management commissioned Ukrainian consulting group "Binek" to independently appraise property, plant and equipment as at 1 January 2003 in order to determine its deemed cost for the purpose of the Group's first IFRS financial statements. The fair value was determined primarily by reference to depreciated replacement cost.

A summary of activity in property, plant equipment for the year ended 31 December 2005 is as follows:

*(in thousands of Ukrainian hryvnias)*

|  | Buildings and<br>construction | Machines<br>and<br>equipment | Vehicles      | Other fixed<br>assets | Construction<br>in progress | Total          |
|--|-------------------------------|------------------------------|---------------|-----------------------|-----------------------------|----------------|
| <b>Cost</b>                                |                               |                              |               |                       |                             |                |
| 1 January 2005                             | 76,841                        | 49,632                       | 16,942        | 6                     | 440                         | 143,861        |
| Additions                                  | –                             | –                            | –             | –                     | 41,909                      | 41,909         |
| Additions from acquisition of subsidiaries | 9,614                         | 2,039                        | 921           | 24                    | 36                          | 12,634         |
| Disposals                                  | (907)                         | (1,053)                      | (593)         | (14)                  | –                           | (2,567)        |
| Transfers                                  | 8,867                         | 25,898                       | 4,786         | 376                   | (39,927)                    | –              |
| <b>31 December 2005</b>                    | <b>94,415</b>                 | <b>76,516</b>                | <b>22,056</b> | <b>392</b>            | <b>2,458</b>                | <b>195,837</b> |
| <b>Accumulated Depreciation</b>            |                               |                              |               |                       |                             |                |
| 1 January 2005                             | 4,928                         | 13,943                       | 5,600         | 5                     | –                           | 24,476         |
| Depreciation charge                        | 2,956                         | 13,736                       | 3,525         | 55                    | –                           | 20,272         |
| Disposals                                  | (8)                           | (439)                        | (428)         | (3)                   | –                           | (878)          |
| <b>31 December 2005</b>                    | <b>7,876</b>                  | <b>27,240</b>                | <b>8,697</b>  | <b>57</b>             | <b>–</b>                    | <b>43,870</b>  |
| <b>Net book value 31 December 2005</b>     | <b>86,539</b>                 | <b>49,276</b>                | <b>13,359</b> | <b>335</b>            | <b>2,458</b>                | <b>151,967</b> |

As at 31 December 2005 property and equipment with a carrying amount of UAH 58,289 thousand is pledged to secure bank loans (notes 12 and 13).

A summary of activity in property, plant equipment for the year ended 31 December 2005 is as follows:

*(in thousands of Euros)*

|  | Buildings and<br>construction | Machines<br>and<br>equipment | Vehicles     | Other fixed<br>assets | Construction<br>in progress | Total         |
|--|-------------------------------|------------------------------|--------------|-----------------------|-----------------------------|---------------|
| <b>Cost</b>                                |                               |                              |              |                       |                             |               |
| 1 January 2005                             | 10,649                        | 6,875                        | 2,346        | 1                     | 61                          | 19,932        |
| Additions                                  | –                             | –                            | –            | –                     | 6,559                       | 6,559         |
| Additions from acquisition of subsidiaries | 1,505                         | 319                          | 144          | 4                     | 6                           | 1,978         |
| Disposals                                  | (142)                         | (165)                        | (93)         | (2)                   | –                           | (402)         |
| Transfers                                  | 1,388                         | 4,053                        | 749          | 59                    | (6,249)                     | –             |
| Currency translation difference            | 2,413                         | 1,729                        | 546          | 4                     | 36                          | 4,728         |
| <b>31 December 2005</b>                    | <b>15,813</b>                 | <b>12,811</b>                | <b>3,692</b> | <b>66</b>             | <b>413</b>                  | <b>32,795</b> |
| <b>Accumulated depreciation</b>            |                               |                              |              |                       |                             |               |
| 1 January 2005                             | 683                           | 1,934                        | 774          | –                     | –                           | 3,391         |
| Depreciation charge                        | 463                           | 2,150                        | 552          | 9                     | –                           | 3,174         |
| Disposals                                  | (1)                           | (69)                         | (67)         | –                     | –                           | (137)         |
| Currency translation difference            | 174                           | 547                          | 197          | 1                     | –                           | 919           |
| <b>31 December 2005</b>                    | <b>1,319</b>                  | <b>4,562</b>                 | <b>1,456</b> | <b>10</b>             | <b>–</b>                    | <b>7,347</b>  |
| <b>Net book value 31 December 2005</b>     | <b>14,494</b>                 | <b>8,249</b>                 | <b>2,236</b> | <b>56</b>             | <b>413</b>                  | <b>25,448</b> |

As at 31 December 2005, property and equipment with a carrying value of Euro 9,761 thousand is pledged to secure bank loans (notes 12 and 13).

A summary of activity in property, plant equipment for the year ended 31 December 2004 is as follows:

(in thousands of Ukrainian hryvnias)

|  | Buildings     | Machines and equipment | Vehicles      | Other fixed assets | Construction in progress | Total          |
|--|---------------|------------------------|---------------|--------------------|--------------------------|----------------|
| <b>Cost</b>                            |               |                        |               |                    |                          |                |
| 1 January 2004                         | 70,102        | 29,390                 | 16,263        | 19                 | 14                       | 115,788        |
| Additions                              | –             | –                      | –             | –                  | 30,092                   | 30,092         |
| Disposals                              | (260)         | (196)                  | (1,548)       | (15)               | –                        | (2,019)        |
| Transfers                              | 6,999         | 20,438                 | 2,227         | 2                  | (29,666)                 | –              |
| <b>31 December 2004</b>                | <b>76,841</b> | <b>49,632</b>          | <b>16,942</b> | <b>6</b>           | <b>440</b>               | <b>143,861</b> |
| <b>Accumulated depreciation</b>        |               |                        |               |                    |                          |                |
| 1 January 2004                         | 2,387         | 5,398                  | 2,880         | 13                 | –                        | 10,678         |
| Depreciation charge                    | 2,559         | 8,630                  | 3,587         | 9                  | –                        | 14,785         |
| Disposals                              | (18)          | (85)                   | (867)         | (17)               | –                        | (987)          |
| <b>31 December 2004</b>                | <b>4,928</b>  | <b>13,943</b>          | <b>5,600</b>  | <b>5</b>           | <b>–</b>                 | <b>24,476</b>  |
| <b>Net book value 31 December 2004</b> | <b>71,913</b> | <b>35,689</b>          | <b>11,342</b> | <b>1</b>           | <b>440</b>               | <b>119,385</b> |

As at 31 December 2004, property and equipment with a carrying value of UAH 10,046 thousand was pledged to secure bank loans (notes 12 and 13).

A summary of activity in property, plant equipment for the year ended 31 December 2004 is as follows:

(in thousands of Euros)

|  | Buildings     | Machines and equipment | Vehicles     | Other fixed assets | Construction in progress | Total         |
|--|---------------|------------------------|--------------|--------------------|--------------------------|---------------|
| <b>Cost</b>                            |               |                        |              |                    |                          |               |
| 1 January 2004                         | 10,523        | 4,411                  | 2,441        | 3                  | 2                        | 17,380        |
| Additions                              | –             | –                      | –            | –                  | 4,553                    | 4,553         |
| Disposals                              | (39)          | (30)                   | (234)        | (2)                | –                        | (305)         |
| Transfers                              | 1,059         | 3,092                  | 337          | –                  | (4,488)                  | –             |
| Currency translation difference        | (894)         | (598)                  | (198)        | –                  | (6)                      | (1,696)       |
| <b>31 December 2004</b>                | <b>10,649</b> | <b>6,875</b>           | <b>2,346</b> | <b>1</b>           | <b>61</b>                | <b>19,932</b> |
| <b>Accumulated depreciation</b>        |               |                        |              |                    |                          |               |
| 1 January 2004                         | 359           | 812                    | 430          | 2                  | –                        | 1,603         |
| Depreciation charge                    | 387           | 1,306                  | 543          | 1                  | –                        | 2,237         |
| Disposals                              | (3)           | (13)                   | (131)        | (3)                | –                        | (150)         |
| Currency translation difference        | (60)          | (171)                  | (68)         | –                  | –                        | (299)         |
| <b>31 December 2004</b>                | <b>683</b>    | <b>1,934</b>           | <b>774</b>   | <b>–</b>           | <b>–</b>                 | <b>3,391</b>  |
| <b>Net book value 31 December 2004</b> | <b>9,966</b>  | <b>4,941</b>           | <b>1,572</b> | <b>1</b>           | <b>61</b>                | <b>16,541</b> |

As at 31 December 2004, property and equipment with a carrying value of Euro 1,392 thousand was pledged to secure bank loans (notes 12 and 13).

A summary of activity in property, plant and equipment for the year ended 31 December 2003 is as follows:

*(in thousands of Ukrainian hryvnias)*

|  | Buildings | Machines<br>and<br>equipment | Vehicles | Other Fixed<br>Assets | Construction<br>in progress | Total   |
|--|-----------|------------------------------|----------|-----------------------|-----------------------------|---------|
| <b>Cost</b>                            |           |                              |          |                       |                             |         |
| <b>1 January 2003</b>                  | 66,595    | 15,901                       | 13,781   | 20                    | 24                          | 96,321  |
| Additions                              | 577       | 1,037                        | 212      | –                     | 20,740                      | 22,566  |
| Disposals                              | (88)      | (265)                        | (2,669)  | (1)                   | (76)                        | (3,099) |
| Transfers                              | 3,018     | 12,717                       | 4,939    | –                     | (20,674)                    | –       |
| <b>31 December 2003</b>                | 70,102    | 29,390                       | 16,263   | 19                    | 14                          | 115,788 |
| <b>Accumulated depreciation</b>        |           |                              |          |                       |                             |         |
| <b>1 January 2003</b>                  | –         | –                            | –        | –                     | –                           | –       |
| Depreciation charge                    | 2,387     | 5,412                        | 3,095    | 13                    | –                           | 10,907  |
| Disposals                              | –         | (14)                         | (215)    | –                     | –                           | (229)   |
| <b>31 December 2003</b>                | 2,387     | 5,398                        | 2,880    | 13                    | –                           | 10,678  |
| <b>Net book value 31 December 2003</b> | 67,715    | 23,992                       | 13,383   | 6                     | 14                          | 105,110 |

As at 31 December 2003, property and equipment with a carrying amount of UAH 2,470 thousand was pledged to secure bank loans (notes 12 and 13).

A summary of activity in property, plant equipment for the year ended 31 December 2003 is as follows:

*(in thousands of Euros)*

|  | Buildings | Machines<br>and<br>equipment | Vehicles | Other Fixed<br>Assets | Construction<br>in progress | Total   |
|--|-----------|------------------------------|----------|-----------------------|-----------------------------|---------|
| <b>Cost</b>                            |           |                              |          |                       |                             |         |
| <b>1 January 2003</b>                  | 12,036    | 2,874                        | 2,491    | 4                     | 4                           | 17,409  |
| Additions                              | 96        | 172                          | 35       | –                     | 3,442                       | 3,745   |
| Disposals                              | (15)      | (44)                         | (443)    | –                     | (13)                        | (515)   |
| Transfers                              | 501       | 2,110                        | 820      | –                     | (3,431)                     | –       |
| Currency translation difference        | (2,095)   | (701)                        | (462)    | (1)                   | –                           | (3,259) |
| <b>31 December 2003</b>                | 10,523    | 4,411                        | 2,441    | 3                     | 2                           | 17,380  |
| <b>Accumulated depreciation</b>        |           |                              |          |                       |                             |         |
| <b>1 January 2003</b>                  | –         | –                            | –        | –                     | –                           | –       |
| Depreciation charge                    | 396       | 898                          | 514      | –                     | –                           | 1,808   |
| Disposals                              | –         | (2)                          | (36)     | –                     | –                           | (38)    |
| Currency translation difference        | (37)      | (84)                         | (48)     | 2                     | –                           | (167)   |
| <b>31 December 2003</b>                | 359       | 812                          | 430      | 2                     | –                           | 1,603   |
| <b>Net book value 31 December 2003</b> | 10,164    | 3,599                        | 2,011    | 1                     | 2                           | 15,777  |

As of 31 December 2003, property and equipment with a carrying amount of Euro 371 thousand was pledged to secure bank loans (notes 12 and 13).

## 6 Biological assets

As at 31 December biological assets comprise the following groups:

(in thousands of Ukrainian hryvianas)

|                                | 2005   |        | 2004  |        | 2003  |        |
|--------------------------------|--------|--------|-------|--------|-------|--------|
|                                | Units  | Amount | Units | Amount | Units | Amount |
| Non-current biological assets: |        |        |       |        |       |        |
| Cattle                         | 3,807  | 14,496 | 2,839 | 12,219 | 2,014 | 8,546  |
| Other                          | 193    | 234    | 83    | 75     | 167   | 135    |
|                                | 4,000  | 14,730 | 2,922 | 12,294 | 2,181 | 8,681  |
| Current biological assets:     |        |        |       |        |       |        |
| Cattle                         | 7,179  | 10,692 | 4,529 | 6,863  | 4,159 | 5,041  |
| Other                          | 3,120  | 377    | 269   | 110    | 431   | 150    |
|                                | 10,299 | 11,069 | 4,798 | 6,973  | 4,590 | 5,191  |
|                                | 14,299 | 25,799 | 7,720 | 19,267 | 6,771 | 13,872 |

As at 31 December 2005 biological assets amounting to UAH 398 thousand are pledged to secure bank loans (2004: nil; 2003: nil) (notes 12 and 13).

(in thousands of Euros)

|                                | 2005   |        | 2004  |        | 2003  |        |
|--------------------------------|--------|--------|-------|--------|-------|--------|
|                                | Units  | Amount | Units | Amount | Units | Amount |
| Non-current biological assets: |        |        |       |        |       |        |
| Cattle                         | 3,807  | 2,427  | 2,839 | 1,693  | 2,014 | 1,283  |
| Other                          | 193    | 40     | 83    | 10     | 167   | 20     |
|                                | 4,000  | 2,467  | 2,922 | 1,703  | 2,181 | 1,303  |
| Current biological assets:     |        |        |       |        |       |        |
| Cattle                         | 7,179  | 1,790  | 4,529 | 951    | 4,159 | 757    |
| Other                          | 3,120  | 64     | 269   | 15     | 431   | 22     |
|                                | 10,299 | 1,854  | 4,798 | 966    | 4,590 | 779    |
|                                | 14,299 | 4,321  | 7,720 | 2,669  | 6,771 | 2,082  |

Non-current cattle are represented by dairy livestock with an average yearly lactation period of nine months. Current cattle comprise immature cattle and cattle intended for sale. As at 31 December 2005 biological assets amounting to Euro 67 thousand are pledged to secure bank loans (2004: nil; 2003: nil) (notes 12 and 13).

The following represents the changes during the year ended 31 December in the carrying amounts of non-current and current biological assets:

*(in thousands of Ukrainian hryvnias)*

|  | Non-current<br>biological assets | Current biological<br>assets | Total         |
|--|----------------------------------|------------------------------|---------------|
| <b>As at 1 January 2003</b>  | 5,194                            | 3,790                        | 8,984         |
| Purchases  | –                                | 266                          | 266           |
| Gain arising from changes in fair value attributable to physical changes and to changes in market prices | 3,487                            | 5,458                        | 8,945         |
| Sales  | –                                | (4,323)                      | (4,323)       |
| <b>As at 31 December 2003</b>  | 8,681                            | 5,191                        | 13,872        |
| Purchases  | –                                | 848                          | 848           |
| Gain arising from changes in fair value attributable to physical changes and to changes in market prices | 3,613                            | 3,199                        | 6,812         |
| Sales  | –                                | (2,265)                      | (2,265)       |
| <b>As at 31 December 2004</b>  | 12,294                           | 6,973                        | 19,267        |
| Purchases  | 9                                | 642                          | 651           |
| Additions from acquisition of subsidiaries   | 6,454                            | 4,248                        | 10,702        |
| Loss arising from changes in fair value attributable to physical changes and to changes in market prices | (3,776)                          | 3,374                        | (402)         |
| Sales  | (251)                            | (4,168)                      | (4,419)       |
| <b>As at 31 December 2005</b>  | <b>14,730</b>                    | <b>11,069</b>                | <b>25,799</b> |

*(in thousands of Euros)*

|  | Non-current<br>biological assets | Current biological<br>assets | Total        |
|--|----------------------------------|------------------------------|--------------|
| <b>As at 1 January 2003</b>  | 939                              | 685                          | 1,624        |
| Purchases  | –                                | 44                           | 44           |
| Gain arising from changes in fair value attributable to physical changes and to changes in market prices | 578                              | 906                          | 1,484        |
| Sales  | –                                | (717)                        | (717)        |
| Currency translation difference  | (214)                            | (139)                        | (353)        |
| <b>As at 31 December 2003</b>  | 1,303                            | 779                          | 2,082        |
| Purchases  | –                                | 129                          | 129          |
| Gain arising from changes in fair value attributable to physical changes and to changes in market prices | 546                              | 484                          | 1,030        |
| Sales  | –                                | (343)                        | (343)        |
| Currency translation difference  | (146)                            | (83)                         | (229)        |
| <b>As at 31 December 2004</b>  | 1,703                            | 966                          | 2,669        |
| Purchases  | 1                                | 101                          | 102          |
| Additions from acquisition of subsidiaries   | 1,010                            | 665                          | 1,675        |
| Gain arising from changes in fair value attributable to physical changes and to changes in market prices | (591)                            | 528                          | (63)         |
| Sales  | (39)                             | (652)                        | (691)        |
| Currency translation difference  | 383                              | 246                          | 629          |
| <b>As at 31 December 2005</b>  | <b>2,467</b>                     | <b>1,854</b>                 | <b>4,321</b> |

## 7 Inventories

Inventories as at 31 December are as follows:

|                                    | <i>(in thousands of Ukrainian hryvnias)</i> |             |             |
|------------------------------------|---|-------------|-------------|
|                                    | <b>2005</b>                                 | <b>2004</b> | <b>2003</b> |
| Finished goods:                    |   |             |             |
| sugar production                   | <b>89,561</b>                               | 59,859      | 46,319      |
| agricultural production            | <b>34,571</b>                               | 30,542      | 17,248      |
| Raw materials and consumables for: |   |             |             |
| sugar production                   | <b>12,251</b>                               | 16,630      | 6,050       |
| agricultural production            | <b>14,052</b>                               | 10,555      | 8,298       |
| Investments into future crops      | <b>27,921</b>                               | 15,881      | 7,666       |
| <b>Total</b>                       | <b>178,356</b>                              | 133,467     | 85,581      |

As at 31 December 2005, inventory with a carrying amount of UAH 5,183 thousand is pledged to secure bank loans (2004: UAH 94,439 thousand; 2003: UAH 8,265 thousand) (notes 12 and 13).

|                                    | <i>(in thousands of Euros)</i> |             |             |
|------------------------------------|--------------------------------|-------------|-------------|
|                                    | <b>2005</b>                    | <b>2004</b> | <b>2003</b> |
| Finished goods:                    |                                |             |             |
| sugar production                   | <b>14,998</b>                  | 8,294       | 6,952       |
| agricultural production            | <b>5,789</b>                   | 4,232       | 2,589       |
| Raw materials and consumables for: |                                |             |             |
| sugar production                   | <b>2,051</b>                   | 2,304       | 908         |
| agricultural production            | <b>2,353</b>                   | 1,462       | 1,246       |
| Investments into future crops      | <b>4,676</b>                   | 2,200       | 1,151       |
| <b>Total</b>                       | <b>29,867</b>                  | 18,492      | 12,846      |

As at 31 December 2005, inventory with a carrying amount of Euro 868 thousand is pledged to secure bank loans (2004: Euro 13,085 thousand; 2003: 2003 Euro 1,241 thousand) (notes 12 and 13).

## 8 Trade accounts receivable

Trade accounts receivable as at 31 December are as follows:

|   | <i>(in thousands of Ukrainian hryvnias)</i> |             |             |
|---|---|-------------|-------------|
|   | <b>2005</b>                                 | <b>2004</b> | <b>2003</b> |
| Trade accounts receivable               | <b>52,119</b>                               | 42,789      | 20,768      |
| Less provision for impairment (note 15) | <b>(5,140)</b>                              | (3,186)     | (2,767)     |
|   | <b>46,979</b>                               | 39,603      | 18,001      |

|   | <i>(in thousands of Euros)</i> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2005</b>                    | <b>2004</b> | <b>2003</b> |
| Trade accounts receivable               | <b>8,728</b>                   | 5,928       | 3,117       |
| Less provision for impairment (note 15) | <b>(861)</b>                   | (441)       | (415)       |
|   | <b>7,867</b>                   | 5,487       | 2,702       |

## 9 Other accounts receivable and prepayments

Other accounts receivable and prepayments as at 31 December are as follows:

|   | <i>(in thousands of Ukrainian hryvnias)</i> |             |             |
|---|---|-------------|-------------|
|   | <b>2005</b>                                 | <b>2004</b> | <b>2003</b> |
| Other accounts receivable               | <b>11,429</b>                               | 14,599      | 6,817       |
| Advances to suppliers                   | <b>9,474</b>                                | 6,525       | 8,466       |
| Receivable from government              | <b>9,423</b>                                | 2,022       | 7,197       |
| Miscellaneous                           | <b>14,866</b>                               | 10,382      | 5,032       |
| Less provision for impairment (note 15) | <b>(3,880)</b>                              | (4,176)     | (2,877)     |
|   | <b>41,312</b>                               | 29,352      | 24,635      |

|   | <i>(in thousands of Euros)</i> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2005</b>                    | <b>2004</b> | <b>2003</b> |
| Other accounts receivable               | <b>1,914</b>                   | 2,023       | 1,023       |
| Advances to suppliers                   | <b>1,587</b>                   | 904         | 1,271       |
| Receivable from government              | <b>1,578</b>                   | 280         | 1,080       |
| Miscellaneous                           | <b>2,472</b>                   | 1,438       | 756         |
| Less provision for impairment (note 15) | <b>(650)</b>                   | (579)       | (432)       |
|   | <b>6,901</b>                   | 4,066       | 3,698       |

Miscellaneous accounts receivable and prepayments mainly consist of amounts from sales of biological assets and other inventories.

## 10 Contributed capital

Contributed capital as at 31 December is as follows:

*(in thousands of Ukrainian hryvnias)*

|                             | 2005          |                | 2004        |                | 2003        |                |
|-----------------------------|---------------|----------------|-------------|----------------|-------------|----------------|
|                             | Amount        | %              | Amount      | %              | Amount      | %              |
| <b>Astarta Holding N.V.</b> |               |                |             |                |             |                |
| Ivanchyk V.P.               | 179.00        | 50.00%         | 10.5        | 50.00%         | 6.2         | 33.33%         |
| Korotkov V.M.               | 179.00        | 50.00%         | 10.5        | 50.00%         | 12.4        | 66.67%         |
|                             | <b>358.00</b> | <b>100.00%</b> | <b>21.0</b> | <b>100.00%</b> | <b>18.6</b> | <b>100.00%</b> |

During 2005 equity holders made payments of UAH 2,077 thousand for certain expenses for services incurred by the Group. Such contributions have been presented as additional paid-in capital.

*(in thousands of Euros)*

|                             | 2005         |                | 2004        |                | 2003        |                |
|-----------------------------|--------------|----------------|-------------|----------------|-------------|----------------|
|                             | Amount       | %              | Amount      | %              | Amount      | %              |
| <b>Astarta Holding N.V.</b> |              |                |             |                |             |                |
| Ivanchyk V.P.               | 30.00        | 50.00%         | 1.85        | 50.00%         | 1.12        | 33.33%         |
| Korotkov V.M.               | 30.00        | 50.00%         | 1.85        | 50.00%         | 2.24        | 66.67%         |
|                             | <b>60.00</b> | <b>100.00%</b> | <b>3.70</b> | <b>100.00%</b> | <b>3.36</b> | <b>100.00%</b> |

With respect to the paid-up capital for 2005, it should be noted that this is held by Messrs Ivanchyk and Korotkov through two companies domiciled under the laws of Cyprus.

During 2005 equity holders made payments of EUR 326 thousand for certain expenses for services incurred by the Group. Such contributions have been presented as additional paid-in capital.

## 11 Minority interests

The movements in minority interests for the year ended 31 December have been as follows:

|   | <i>(in thousands of Ukrainian hryvnias)</i> |             |             |
|---|---|-------------|-------------|
|   | <b>2005</b>                                 | <b>2004</b> | <b>2003</b> |
| Balance as at 1 January   | <b>43,126</b>                               | 28,351      | 19,308      |
| Share in profit   | <b>9,598</b>                                | 7,756       | 3,743       |
| Contributions by minority interests                               | <b>3,339</b>                                | 3,280       | 5,351       |
| Gain from remeasurement of loans from shareholders                | –   | 1,206       | 423         |
| Deferred tax effect of remeasurement of loans from shareholders   | –   | (302)       | (106)       |
| Gains less losses on transactions with minority holders           | <b>(11,228)</b>                             | 2,835       | (368)       |
| Deferred tax arising on change in tax status of certain companies | <b>(334)</b>                                | –           | –           |
| Minority interests acquired with new subsidiaries (note 4)        | <b>7,628</b>                                | –           | –           |
| Balance as at 31 December   | <b>52,129</b>                               | 43,126      | 28,351      |

|   | <i>(in thousands of Euros)</i> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2005</b>                    | <b>2004</b> | <b>2003</b> |
| Balance as at 1 January   | <b>5,975</b>                   | 4,256       | 3,490       |
| Share in profit   | <b>1,502</b>                   | 1,173       | 621         |
| Contributions by minority interests                               | <b>523</b>                     | 496         | 888         |
| Gain from remeasurement of loans from shareholders                | –                              | 182         | 70          |
| Deferred tax effect of remeasurement of loans from shareholders   | –                              | (46)        | (18)        |
| Gains less losses on transactions with minority holders           | <b>(1,757)</b>                 | 429         | (61)        |
| Deferred tax arising on change in tax status of certain companies | <b>(52)</b>                    | –           | –           |
| Minority interests acquired with new subsidiaries (note 4)        | <b>1,194</b>                   | –           | –           |
| Currency translation difference                                   | <b>1,344</b>                   | (515)       | (734)       |
| Balance as at 31 December   | <b>8,729</b>                   | 5,975       | 4,256       |

## 12 Loans and borrowings

This note provides information about the contractual terms of loans and borrowings. Refer to note 25 for more information about the Group's exposure to interest rate and foreign currency risk.

Loans and borrowings as at 31 December are as follows:

|                                 | <i>(in thousands of Ukrainian hryvnias)</i> |             |             |
|---------------------------------|---|-------------|-------------|
|                                 | <b>2005</b>                                 | <b>2004</b> | <b>2003</b> |
| <i>Non-current portion:</i>     |   |             |             |
| Borrowings from related parties | <b>16,950</b>                               | 26,953      | 23,009      |
| Bank loans                      | <b>28,280</b>                               | 9,863       | 880         |
| Bonds payable                   | <b>15,000</b>                               | –           | –           |
|                                 | <b>60,230</b>                               | 36,816      | 23,889      |
| <i>Current portion -</i>        |   |             |             |
| Bank loans                      | <b>3,483</b>                                | 27          | 806         |
|                                 | <b>63,713</b>                               | 36,843      | 24,695      |

|                                 | <i>(in thousands of Euros)</i> |             |             |
|---------------------------------|--------------------------------|-------------|-------------|
|                                 | <b>2005</b>                    | <b>2004</b> | <b>2003</b> |
| <i>Non-current portion:</i>     |                                |             |             |
| Borrowings from related parties | <b>2,838</b>                   | 3,734       | 3,454       |
| Bank loans                      | <b>4,736</b>                   | 1,367       | 132         |
| Bonds payable                   | <b>2,512</b>                   | –           | –           |
|                                 | <b>10,086</b>                  | 5,101       | 3,586       |
| <i>Current portion -</i>        |                                |             |             |
| Bank loans                      | <b>583</b>                     | 4           | 121         |
|                                 | <b>10,669</b>                  | 5,105       | 3,707       |

All non-bank borrowings, except bonds payable, are from related parties. See note 28.

Bonds payable include UAH denominated general obligation bonds issued by APO "Tsukrovyk Poltavshchyny" in August 2005. The face value of each bond is UAH 1,000 (Euro 167). The bonds pay fixed interest at 17% (starting February 2006, the interest rate can be modified at the discretion of APO "Tsukrovyk Poltavshchyny" but can not be below 2%) and are subject to redemption and further placement semi-annually beginning November 2005 until July 2008.

### Terms schedule

The terms for loans and borrowings as at 31 December are as follows:

(in thousands of Ukrainian hryvnias)

|   | Interest type | Effective interest rate | Nominal interest rate | 2005          | 2004   | 2003   |
|---|---------------|-------------------------|-----------------------|---------------|--------|--------|
| Loans from local banks received in UAH  | Fixed         | 17.0%                   | 17.0%                 | <b>16,967</b> | –      | –      |
| Loans from local banks received in UAH  | Fixed         | 18.0%                   | 18.0%                 | <b>13,832</b> | 9,790  | –      |
| Loans from local banks received in UAH  | Fixed         | 20.0%                   | 20.0%                 | <b>964</b>    | 38     | 53     |
| Loans from local banks received in UAH  | Fixed         | 22.0%                   | 22.0%                 | –             | 62     | 289    |
| Loans from local banks received in Euro   | Fixed         | 11.0%                   | 11.0%                 | –             | –      | 1,344  |
| Other long-term borrowings received from non-resident non-financial institutions in USD | Fixed         | 14.0%                   | 0.5%                  | <b>7,051</b>  | 8,322  | 1,479  |
| Other long-term borrowings received from non-resident non-financial institutions in USD | Fixed         | 14.0%                   | 1.0%                  | –             | 5,825  | 5,855  |
| Other long-term borrowings received from non-resident non-financial institutions in USD | Fixed         | 14.0%                   | 10.0%                 | <b>8,711</b>  | 12,414 | 15,282 |
| Other long-term borrowings received from non-resident non-financial institutions in USD | Fixed         | 16.0%                   | 10.0%                 | –             | 392    | 393    |
| Other long-term borrowings received from a local non-financial institution in UAH       | Fixed         | 18.0%                   | 0.0%                  | <b>1,188</b>  | –      | –      |
| Bonds payable   | Fixed         | 18.0%                   | 17.0%                 | <b>15,000</b> | –      | –      |
|   |               |                         |                       | <b>63,713</b> | 36,843 | 24,695 |

(in thousands of Euros)

|   | Interest type | Effective interest rate | Nominal interest rate | 2005          | 2004  | 2003  |
|---|---------------|-------------------------|-----------------------|---------------|-------|-------|
| Loans from local banks received in UAH  | Fixed         | 17.0%                   | 17.0%                 | <b>2,841</b>  | –     | –     |
| Loans from local banks received in UAH  | Fixed         | 18.0%                   | 18.0%                 | <b>2,316</b>  | 1,356 | –     |
| Loans from local banks received in UAH  | Fixed         | 20.0%                   | 20.0%                 | <b>161</b>    | 5     | 8     |
| Loans from local banks received in UAH  | Fixed         | 22.0%                   | 22.0%                 | –             | 9     | 43    |
| Loans from local banks received in Euro   | Fixed         | 11.0%                   | 11.0%                 | –             | –     | 202   |
| Other long-term borrowings received from non-resident non-financial institutions in USD | Fixed         | 14.0%                   | 0.5%                  | <b>1,181</b>  | 1,153 | 222   |
| Other long-term borrowings received from non-resident non-financial institutions in USD | Fixed         | 14.0%                   | 1.0%                  | –             | 807   | 879   |
| Other long-term borrowings received from non-resident non-financial institutions in USD | Fixed         | 14.0%                   | 10.0%                 | <b>1,459</b>  | 1,720 | 2,294 |
| Other long-term borrowings received from non-resident non-financial institutions in USD | Fixed         | 16.0%                   | 10.0%                 | –             | 55    | 59    |
| Other long-term borrowings received from a local non-financial institution in UAH       | Fixed         | 18.0%                   | 0%                    | <b>199</b>    | –     | –     |
| Bonds payable   | Fixed         | 18.0%                   | 17.0%                 | <b>2,512</b>  | –     | –     |
|   |               |                         |                       | <b>10,669</b> | 5,105 | 3,707 |

Bank loans are secured by inventories, biological assets and property and equipment.

### Repayment schedule

The repayment schedule for loans and borrowings as at 31 December is as follows:

*(in thousands of Ukrainian hryvnias)*

|                        | 2005          | 2004   | 2003   |
|------------------------|---------------|--------|--------|
| Less than one year     | 3,483         | 27     | 806    |
| From one to five years | 60,230        | 16,080 | 7,128  |
| More than five years   | –             | 20,736 | 16,761 |
|                        | <b>63,713</b> | 36,843 | 24,695 |

*(in thousands of Euros)*

|                        | 2005          | 2004  | 2003  |
|------------------------|---------------|-------|-------|
| Less than one year     | 583           | 4     | 121   |
| From one to five years | 10,086        | 2,228 | 1,070 |
| More than five years   | –             | 2,873 | 2,516 |
|                        | <b>10,669</b> | 5,105 | 3,707 |

### 13 Bank loans

Bank loans as at 31 December are as follows:

*(in thousands of Ukrainian hryvnias)*

|   | Interest type | Interest rates | 2005          | 2004   | 2003   |
|---|---------------|----------------|---------------|--------|--------|
| Loans from local banks received in UAH  | Fixed         | 17.0% – 18.0%  | –             | –      | 37,725 |
| Loans from local banks received in UAH  | Fixed         | 17.0% – 21.0%  | 67,413        | –      | –      |
| Loans from local banks received in UAH  | Fixed         | 18.0% – 19.0%  | –             | 63,753 | –      |
| Loans from local banks received in UAH  | Fixed         | 26.0%          | –             | 200    | –      |
| Bank overdraft in UAH                   | Fixed         | Up to 21.0%    | 99            | 314    | 103    |
| Loans from local banks received in Euro | Fixed         | 14.0%          | –             | –      | 1,708  |
| Loans from local banks received in USD  | Fixed         | 15.0%          | –             | –      | 107    |
|   |               |                | <b>67,512</b> | 64,267 | 39,643 |

*(in thousands of Euros)*

|   | Interest type | Interest rates | 2005          | 2004  | 2003  |
|---|---------------|----------------|---------------|-------|-------|
| Loans from local banks received in UAH  | Fixed         | 17.0% – 18.0%  | –             | –     | 5,663 |
| Loans from local banks received in UAH  | Fixed         | 17.0% – 21.0%  | 11,289        | –     | –     |
| Loans from local banks received in UAH  | Fixed         | 18.0% – 19.0%  | –             | 8,832 | –     |
| Loans from local banks received in UAH  | Fixed         | 26.0%          | –             | 28    | –     |
| Bank overdraft in UAH                   | Fixed         | Up to 21.0%    | 16            | 44    | 15    |
| Loans from local banks received in Euro | Fixed         | 14.0%          | –             | –     | 256   |
| Loans from local banks received in USD  | Fixed         | 15.0%          | –             | –     | 16    |
|   |               |                | <b>11,305</b> | 8,904 | 5,950 |

All bank loans are due within 12 months and are secured by inventories, biological assets and property and equipment.

## 14 Other liabilities and accounts payable

Other accounts payable as at 31 December are as follows:

|  | <i>(in thousands of Ukrainian hryvnias)</i> |               |               |
|--|---|---------------|---------------|
|  | <b>2005</b>                                 | <b>2004</b>   | <b>2003</b>   |
| VAT payable                                    | 15,913                                      | 695           | 678           |
| Advances received from customers               | 11,533                                      | 9,520         | 1,104         |
| Settlements with land and fixed assets lessors | 4,631                                       | 6,269         | 2,212         |
| Accounts payable to government                 | 3,275                                       | 2,432         | 2,531         |
| Salaries payable                               | 3,445                                       | 1,663         | 723           |
| Social insurance                               | 723   | 603           | 280           |
| Deferred government subsidy                    | 2,973                                       | 2,803         | 3,660         |
| Other  | 7,281                                       | 3,026         | 4,873         |
|  | <b>49,774</b>                               | <b>27,011</b> | <b>16,061</b> |

|  | <i>(in thousands of Euros)</i> |              |              |
|--|--------------------------------|--------------|--------------|
|  | <b>2005</b>                    | <b>2004</b>  | <b>2003</b>  |
| VAT payable                                    | 2,665                          | 96           | 102          |
| Advances received from customers               | 1,931                          | 1,319        | 166          |
| Settlements with land and fixed assets lessors | 776                            | 869          | 332          |
| Accounts payable to government                 | 548                            | 337          | 380          |
| Salaries payable                               | 577                            | 230          | 109          |
| Social insurance                               | 121                            | 84           | 42           |
| Deferred government subsidy                    | 498                            | 388          | 549          |
| Other  | 1,218                          | 420          | 729          |
|  | <b>8,334</b>                   | <b>3,743</b> | <b>2,409</b> |

## 15 Provisions for impairment of trade and other accounts receivable

Provisions for impairment of trade and other accounts receivable as at 31 December are as follows:

|                                    | <i>(in thousands of Ukrainian hryvnias)</i> |             |             |
|------------------------------------|---|-------------|-------------|
|                                    | <b>2005</b>                                 | <b>2004</b> | <b>2003</b> |
| Trade accounts receivable (note 8) | <b>5,140</b>                                | 3,186       | 2,767       |
| Other accounts receivable (note 9) | <b>3,880</b>                                | 4,176       | 2,877       |
|                                    | <b>9,020</b>                                | 7,362       | 5,644       |

|                                    | <i>(in thousands of Euros)</i> |             |             |
|------------------------------------|--------------------------------|-------------|-------------|
|                                    | <b>2005</b>                    | <b>2004</b> | <b>2003</b> |
| Trade accounts receivable (note 8) | <b>861</b>                     | 441         | 415         |
| Other accounts receivable (note 9) | <b>650</b>                     | 579         | 432         |
|                                    | <b>1,511</b>                   | 1,020       | 847         |

Changes in provisions for impairment of trade and other accounts receivable during the year ended 31 December are as follows:

|                                      | <i>(in thousands of Ukrainian hryvnias)</i> |             |             |
|--------------------------------------|---|-------------|-------------|
|                                      | <b>2005</b>                                 | <b>2004</b> | <b>2003</b> |
| Balance at 1 January                 | <b>7,362</b>                                | 5,644       | 6,610       |
| Charge in income statement (note 20) | <b>3,806</b>                                | 5,848       | 7,748       |
| Amounts written off                  | <b>(2,148)</b>                              | (4,130)     | (8,714)     |
| Balance as at 31 December            | <b>9,020</b>                                | 7,362       | 5,644       |

|                                      | <i>(in thousands of Euros)</i> |             |             |
|--------------------------------------|--------------------------------|-------------|-------------|
|                                      | <b>2005</b>                    | <b>2004</b> | <b>2003</b> |
| Balance at 1 January                 | <b>1,020</b>                   | 847         | 1,195       |
| Charge in income statement (note 20) | <b>596</b>                     | 885         | 1,286       |
| Amounts written off                  | <b>(336)</b>                   | (625)       | (1,446)     |
| Currency translation difference      | <b>231</b>                     | (87)        | (188)       |
| Balance as at 31 December            | <b>1,511</b>                   | 1,020       | 847         |

## 16 Revenues

Revenues for the year ended 31 December are as follows:

|                                      | <i>(in thousands of Ukrainian hryvnias)</i> |             |             |
|--------------------------------------|---|-------------|-------------|
|                                      | <b>2005</b>                                 | <b>2004</b> | <b>2003</b> |
| Sugar and related business:          |   |             |             |
| Sugar                                | <b>173,012</b>                              | 98,181      | 42,587      |
| Molasses                             | <b>11,994</b>                               | 5,575       | 4,924       |
| Pulp                                 | <b>5,574</b>                                | 1,935       | 1,382       |
| Crops                                | <b>51,278</b>                               | 49,995      | 46,922      |
| Services rendered under barter terms | <b>35,838</b>                               | 29,540      | 15,393      |
| Other sugar related business         | <b>26,011</b>                               | 15,291      | 9,466       |
| Total sugar and related business     | <b>303,707</b>                              | 200,517     | 120,674     |
| Cattle farming                       | <b>27,161</b>                               | 10,246      | 13,660      |
| <b>Total</b>                         | <b>330,868</b>                              | 210,763     | 134,334     |

For the year ended 31 December 2005 sales totalling UAH 35,838 thousand were settled through barter transactions, which does not result in a net cash inflow from operations (2004: UAH 29,540 thousand; 2003: UAH 15,393 thousand).

|                                      | <i>(in thousands of Euros)</i> |             |             |
|--------------------------------------|--------------------------------|-------------|-------------|
|                                      | <b>2005</b>                    | <b>2004</b> | <b>2003</b> |
| Sugar and related business:          |                                |             |             |
| Sugar                                | <b>27,077</b>                  | 14,855      | 7,067       |
| Molasses                             | <b>1,877</b>                   | 844         | 817         |
| Pulp                                 | <b>872</b>                     | 293         | 229         |
| Crops                                | <b>8,025</b>                   | 7,564       | 7,786       |
| Services rendered under barter terms | <b>5,609</b>                   | 4,469       | 2,554       |
| Other sugar related business         | <b>4,072</b>                   | 2,313       | 1,571       |
| Total sugar and related business     | <b>47,532</b>                  | 30,338      | 20,024      |
| Cattle farming                       | <b>4,251</b>                   | 1,550       | 2,267       |
| <b>Total</b>                         | <b>51,783</b>                  | 31,888      | 22,291      |

For the year ended 31 December 2005, sales totalling Euro 5,609 thousand were settled through barter transactions, which does not result in a net cash inflow from year operations (2004: Euro 4,469 thousand; 2003: Euro 2,554 thousand).

More than 90% of revenue is generated from sales to customers in Ukraine.

## 17 Cost of revenues

Cost of revenues for the year ended 31 December by product is as follows:

|                                      | <i>(in thousand of Ukrainian hryvnias)</i> |             |             |
|--------------------------------------|--|-------------|-------------|
|                                      | <b>2005</b>                                | <b>2004</b> | <b>2003</b> |
| Sugar and related business:          |  |             |             |
| Sugar                                | <b>124,414</b>                             | 73,908      | 30,731      |
| Molasses                             | <b>5,406</b>                               | 2,345       | 2,091       |
| Pulp                                 | <b>2,237</b>                               | 805         | 443         |
| Crops                                | <b>37,623</b>                              | 34,653      | 28,985      |
| Services rendered under barter terms | <b>33,261</b>                              | 28,340      | 14,578      |
| Other sugar related business         | <b>13,603</b>                              | 11,951      | 4,470       |
| Total sugar and related business     | <b>216,544</b>                             | 152,002     | 81,298      |
| Cattle farming                       | <b>19,494</b>                              | 7,056       | 7,986       |
| <b>Total</b>                         | <b>236,038</b>                             | 159,058     | 89,284      |

|                                      | <i>(in thousand of Euros)</i> |             |             |
|--------------------------------------|-------------------------------|-------------|-------------|
|                                      | <b>2005</b>                   | <b>2004</b> | <b>2003</b> |
| Sugar and related business:          |                               |             |             |
| Sugar                                | <b>19,472</b>                 | 11,183      | 5,099       |
| Molasses                             | <b>846</b>                    | 355         | 347         |
| Pulp                                 | <b>350</b>                    | 122         | 74          |
| Crops                                | <b>5,888</b>                  | 5,243       | 4,810       |
| Services rendered under barter terms | <b>5,206</b>                  | 4,287       | 2,419       |
| Other sugar related business         | <b>2,129</b>                  | 1,808       | 742         |
| Total sugar and related business     | <b>33,891</b>                 | 22,998      | 13,491      |
| Cattle farming                       | <b>3,051</b>                  | 1,068       | 1,325       |
| <b>Total</b>                         | <b>36,942</b>                 | 24,066      | 14,816      |

Cost of revenues for the year ended 31 December by nature of expense is as follows:

(in thousand of Ukrainian hryvnias)

|   | 2005           | 2004           | 2003          |
|---|----------------|----------------|---------------|
| Raw materials                           | 55,140         | 39,941         | 19,013        |
| Fuel and electricity                    | 38,110         | 26,421         | 13,861        |
| Fertilizers                             | 36,623         | 21,584         | 11,533        |
| Transportation                          | 30,335         | 21,141         | 11,297        |
| Other materials                         | 23,205         | 12,607         | 7,065         |
| Payroll and related charges             | 19,027         | 18,136         | 10,261        |
| Depreciation                            | 15,224         | 10,747         | 8,287         |
| Change in carrying value of inventories | 3,953          | 1,075          | 27            |
| Maintenance                             | 2,090          | 1,208          | 645           |
| Other                                   | 12,331         | 6,198          | 7,295         |
| <b>Total</b>                            | <b>236,038</b> | <b>159,058</b> | <b>89,284</b> |

(in thousand of Euros)

|   | 2005          | 2004          | 2003          |
|---|---------------|---------------|---------------|
| Raw materials                           | 8,630         | 6,043         | 3,155         |
| Fuel and electricity                    | 5,964         | 3,997         | 2,300         |
| Fertilizers                             | 5,732         | 3,266         | 1,914         |
| Transportation                          | 4,748         | 3,199         | 1,875         |
| Other materials                         | 3,632         | 1,907         | 1,172         |
| Payroll and related charges             | 2,978         | 2,744         | 1,703         |
| Depreciation                            | 2,383         | 1,626         | 1,375         |
| Change in carrying value of inventories | 619           | 163           | 4             |
| Maintenance                             | 327           | 183           | 107           |
| Other                                   | 1,929         | 938           | 1,211         |
| <b>Total</b>                            | <b>36,942</b> | <b>24,066</b> | <b>14,816</b> |

## 18 Other operating income

Other operating income for the year ended 31 December is as follows:

*(in thousands of Ukrainian hryvnias)*

|   | <b>2005</b>   | <b>2004</b> | <b>2003</b> |
|---|---------------|-------------|-------------|
| Government subsidies relating to VAT                          | <b>10,500</b> | 5,978       | 3,976       |
| Government subsidies relating to interest and financing costs | <b>4,382</b>  | 2,170       | 993         |
| Changes in fair value of biological assets                    | <b>6,487</b>  | 6,866       | 9,558       |
| Penalties   | –             | –           | 183         |
| Other   | <b>1,888</b>  | 2,596       | 257         |
|   | <b>23,257</b> | 17,610      | 14,967      |

*(in thousands of Euros)*

|   | <b>2005</b>  | <b>2004</b> | <b>2003</b> |
|---|--------------|-------------|-------------|
| Government subsidies relating to VAT                          | <b>1,643</b> | 904         | 660         |
| Government subsidies relating to interest and financing costs | <b>686</b>   | 328         | 165         |
| Changes in fair value of biological assets                    | <b>1,015</b> | 617         | 1,586       |
| Penalties   | –            | –           | 30          |
| Other   | <b>296</b>   | 815         | 43          |
|   | <b>3,640</b> | 2,664       | 2,484       |

## 19 General and administrative expense

General and administrative expense for the year ended 31 December is as follows:

|                            | <i>(in thousands of Ukrainian hryvnias)</i> |             |             |
|----------------------------|---|-------------|-------------|
|                            | <b>2005</b>                                 | <b>2004</b> | <b>2003</b> |
| Salary and related charges | <b>9,056</b>                                | 6,569       | 3,965       |
| Depreciation               | <b>5,048</b>                                | 4,038       | 2,620       |
| Professional services      | <b>2,990</b>                                | 1,793       | 567         |
| Materials                  | <b>1,734</b>                                | 1,372       | 854         |
| Transportation             | <b>931</b>                                  | 247         | 568         |
| Communication              | <b>958</b>                                  | 673         | 349         |
| Maintenance                | <b>892</b>                                  | 1,820       | 814         |
| Other                      | <b>4,108</b>                                | 4,839       | 3,406       |
|                            | <b>25,717</b>                               | 21,351      | 13,143      |

|                            | <i>(in thousands of Euros)</i> |             |             |
|----------------------------|--------------------------------|-------------|-------------|
|                            | <b>2005</b>                    | <b>2004</b> | <b>2003</b> |
| Salary and related charges | <b>1,417</b>                   | 994         | 658         |
| Depreciation               | <b>790</b>                     | 611         | 435         |
| Professional services      | <b>468</b>                     | 271         | 94          |
| Materials                  | <b>271</b>                     | 208         | 142         |
| Communication              | <b>150</b>                     | 102         | 58          |
| Transportation             | <b>146</b>                     | 37          | 94          |
| Maintenance                | <b>140</b>                     | 275         | 135         |
| Other                      | <b>643</b>                     | 732         | 565         |
|                            | <b>4,025</b>                   | 3,230       | 2,181       |

Other general and administrative expense mainly includes rental fees, canteen costs and other miscellaneous expenses.

## 20 Selling and distribution expense

Selling and distribution expense for the year ended 31 December is as follows:

|   | <i>(in thousands of Ukrainian hryvnias)</i> |             |             |
|---|---|-------------|-------------|
|   | <b>2005</b>                                 | <b>2004</b> | <b>2003</b> |
| Transportation  | <b>13,007</b>                               | 3,231       | 2,451       |
| Impairment provision on trade and other accounts receivable (note 15) | <b>3,806</b>                                | 5,848       | 7,748       |
| Salary and related charges  | <b>1,454</b>                                | 471         | 490         |
| Advertising   | <b>936</b>                                  | 1,829       | 2,322       |
| Commissions   | <b>821</b>                                  | 24          | 401         |
| Professional services   | <b>121</b>                                  | 808         | 159         |
| Other   | <b>954</b>                                  | 1,337       | 844         |
|   | <b>21,099</b>                               | 13,548      | 14,415      |

|   | <i>(in thousands of Euros)</i> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2005</b>                    | <b>2004</b> | <b>2003</b> |
| Transportation  | <b>2,036</b>                   | 489         | 407         |
| Impairment provision on trade and other accounts receivable (note 15) | <b>596</b>                     | 885         | 1,286       |
| Salary and related charges  | <b>228</b>                     | 71          | 81          |
| Advertising   | <b>146</b>                     | 277         | 385         |
| Commissions   | <b>128</b>                     | 4           | 67          |
| Professional services   | <b>19</b>                      | 122         | 26          |
| Other   | <b>148</b>                     | 201         | 139         |
|   | <b>3,301</b>                   | 2,049       | 2,391       |

## 21 Other operating expense

Other operating expense for the year ended 31 December is as follows:

|  | <i>(in thousands of Ukrainian hryvnias)</i> |             |             |
|--|---|-------------|-------------|
|  | <b>2005</b>                                 | <b>2004</b> | <b>2003</b> |
| Changes in fair value of biological assets | <b>6,889</b>                                | 54          | 613         |
| Charity                                    | <b>848</b>                                  | 1,251       | 1,080       |
| Other                                      | <b>7,960</b>                                | 5,365       | 928         |
|  | <b>15,697</b>                               | 6,670       | 2,621       |

|  | <i>(in thousands of Euros)</i> |             |             |
|--|--------------------------------|-------------|-------------|
|  | <b>2005</b>                    | <b>2004</b> | <b>2003</b> |
| Changes in fair value of biological assets | <b>1,078</b>                   | 8           | 102         |
| Charity                                    | <b>133</b>                     | 189         | 179         |
| Other                                      | <b>1,246</b>                   | 813         | 155         |
|  | <b>2,457</b>                   | 1,010       | 436         |

## 22 Net financial expense

Net financial expense for the year ended 31 December is as follows:

|                  | <i>(in thousands of Ukrainian hryvnias)</i> |             |             |
|------------------|---|-------------|-------------|
|                  | <b>2005</b>                                 | <b>2004</b> | <b>2003</b> |
| Interest expense | <b>19,126</b>                               | 11,433      | 5,528       |
| Financial income | <b>(3,665)</b>                              | (3,133)     | (3,822)     |
|                  | <b>15,461</b>                               | 8,300       | 1,706       |

|                  | <i>(in thousands of Euros)</i> |             |             |
|------------------|--------------------------------|-------------|-------------|
|                  | <b>2005</b>                    | <b>2004</b> | <b>2003</b> |
| Interest expense | <b>2,993</b>                   | 1,730       | 917         |
| Financial income | <b>(573)</b>                   | (474)       | (634)       |
|                  | <b>2,420</b>                   | 1,256       | 283         |

## 23 Other income (expense)

Other income (expense) for the years ended 31 December, 2005, 2004 and 2003, consists mainly of gain (loss) on disposal of fixed assets and non-recurring income and expenses.

## 24 Income tax (benefit) expense

Certain companies in the Group are subject to income taxes. The components of income tax expense (benefit) for these companies for the year ended 31 December are as follows:

|   | <i>(in thousands of Ukrainian hryvnias)</i> |             |             |
|---|---|-------------|-------------|
|   | <b>2005</b>                                 | <b>2004</b> | <b>2003</b> |
| Current                                   | <b>457</b>                                  | 96          | 7           |
| Deferred                                  | <b>(2,926)</b>                              | (2,062)     | 1,047       |
| <b>Total income tax expense (benefit)</b> | <b>(2,469)</b>                              | (1,966)     | 1,054       |

|   | <i>(in thousands of Euros)</i> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2005</b>                    | <b>2004</b> | <b>2003</b> |
| Current                                   | <b>72</b>                      | 15          | 1           |
| Deferred                                  | <b>(458)</b>                   | (312)       | 174         |
| <b>Total income tax expense (benefit)</b> | <b>(386)</b>                   | (297)       | 175         |

The corporate income tax rate is 25% in 2005 and 2004 and 30% in 2003.

The difference between the total expected income tax expense (benefit) computed by applying the statutory income tax rate to profit (loss) before tax and the reported tax expense (benefit) is as follows:

*(in thousands of Ukrainian hryvnias)*

|   | <b>Companies<br/>subject to income<br/>tax</b> | <b>Companies not<br/>subject to income<br/>tax</b> | <b>Total</b>   |
|---|--|--|----------------|
| <i>Year ended 31 December 2005</i>            |  |  |                |
| Profit (loss) before tax                      | (8,282)  | 67,493   | <b>59,211</b>  |
| Income tax benefit at statutory rate          | (2,071)  | –  | <b>(2,071)</b> |
| Change in the tax status of certain companies | (911)  | –  | <b>(911)</b>   |
| Non-deductible/non-taxable items              | 513  | –  | <b>513</b>     |
| Income tax benefit                            | (2,469)  | –  | <b>(2,469)</b> |

|                                      |         |        |         |
|--------------------------------------|---------|--------|---------|
| <i>Year ended 31 December 2004</i>   |         |        |         |
| Profit (loss) before tax             | (5,826) | 38,734 | 32,908  |
| Income tax benefit at statutory rate | (1,457) | –      | (1,457) |
| Non-deductible/non-taxable items     | (509)   | –      | (509)   |
| Income tax benefit                   | (1,966) | –      | (1,966) |

|   |       |        |        |
|---|-------|--------|--------|
| <i>Year ended 31 December 2003</i>                    |       |        |        |
| Profit (loss) before tax                              | (191) | 20,301 | 20,110 |
| Income tax benefit at statutory rate                  | (57)  | –      | (57)   |
| Effect of change in tax rate on deferred tax position | (868) | –      | (868)  |
| Non-deductible/non-taxable items                      | 1,979 | –      | 1,979  |
| Income tax expense                                    | 1,054 | –      | 1,054  |

*(in thousands of Euros)*

|   | <b>Companies<br/>subject to income<br/>tax</b> | <b>Companies not<br/>subject to income<br/>tax</b> | <b>Total</b> |
|---|--|--|--------------|
| <i>Year ended 31 December 2005</i>            |  |  |              |
| Profit (loss) before tax                      | (1,296)  | 10,563   | 9,267        |
| Income tax benefit at statutory rate          | (324)  | –  | (324)        |
| Change in the tax status of certain companies | (143)  | –  | (143)        |
| Non-deductible/non-taxable items              | 81   | –  | 81           |
| Income tax benefit                            | (386)  | –  | (386)        |

|                                      |       |       |       |
|--------------------------------------|-------|-------|-------|
| <i>Year ended 31 December 2004</i>   |       |       |       |
| Profit (loss) before tax             | (881) | 5,858 | 4,977 |
| Income tax benefit at statutory rate | (220) | –     | (220) |
| Non-deductible/non-taxable items     | (77)  | –     | (77)  |
| Income tax benefit                   | (297) | –     | (297) |

|   |       |       |       |
|---|-------|-------|-------|
| <i>Year ended 31 December 2003</i>                    |       |       |       |
| Profit (loss) before tax                              | (32)  | 3,369 | 3,337 |
| Income tax benefit at statutory rate                  | (9)   | –     | (9)   |
| Effect of change in tax rate on deferred tax position | (144) | –     | (144) |
| Non-deductible/non-taxable items                      | 328   | –     | 328   |
| Income tax expense                                    | 175   | –     | 175   |

Movements in temporary differences during the years ended 31 December are as follows:

(in thousands of Ukrainian hryvnias)

|                                | 1 January 2005 | Recognized<br>in income<br>statement | Recognized<br>in equity | Recognised<br>in minority<br>interest | 31 December<br>2005 |
|--------------------------------|----------------|--------------------------------------|-------------------------|---------------------------------------|---------------------|
| Property, plant and equipment  | (1,354)        | (265)                                | (6,799)                 | (350)                                 | <b>(8,768)</b>      |
| Inventories                    | (29)           | 1,274                                | 1,294                   | 67                                    | <b>2,606</b>        |
| Trade accounts receivable      | 355            | 1,036                                | (1,260)                 | (65)                                  | <b>66</b>           |
| Advances made                  | –              | (337)                                | 201                     | 10                                    | <b>(126)</b>        |
| Other accounts receivable      | 267            | (309)                                | –                       | –                                     | <b>(42)</b>         |
| Long-term loans and borrowings | (775)          | (209)                                | (207)                   | –                                     | <b>(1,191)</b>      |
| Bank loans                     | –              | (203)                                | –                       | –                                     | <b>(203)</b>        |
| Trade accounts payable         | 435            | (21)                                 | 68                      | 4                                     | <b>486</b>          |
| Promissory notes issued        | (2,197)        | (30)                                 | –                       | –                                     | <b>(2,227)</b>      |
| Other accounts payable         | 502            | 1,990                                | –                       | –                                     | <b>2,492</b>        |
| Net deferred tax liability     | (2,796)        | 2,926                                | (6,703)                 | (334)                                 | <b>(6,907)</b>      |

(in thousands of Ukrainian hryvnias)

|                                | 1 January 2004 | Recognized<br>in income<br>statement | Recognized<br>in equity | Recognised<br>in minority<br>interest | 31 December<br>2004 |
|--------------------------------|----------------|--------------------------------------|-------------------------|---------------------------------------|---------------------|
| Property, plant and equipment  | (1,556)        | 202                                  | –                       | –                                     | (1,354)             |
| Inventories                    | 152            | (181)                                | –                       | –                                     | (29)                |
| Trade accounts receivable      | 59             | 296                                  | –                       | –                                     | 355                 |
| Other accounts receivable      | (117)          | 384                                  | –                       | –                                     | 267                 |
| Long-term loans and borrowings | (2,299)        | 2,041                                | (215)                   | (302)                                 | (775)               |
| Bank loans                     | 1,339          | (1,339)                              | –                       | –                                     | –                   |
| Trade accounts payable         | 327            | 108                                  | –                       | –                                     | 435                 |
| Promissory notes issued        | (2,247)        | 50                                   | –                       | –                                     | (2,197)             |
| Other accounts payable         | 1              | 501                                  | –                       | –                                     | 502                 |
| Net deferred tax liability     | (4,341)        | 2,062                                | (215)                   | (302)                                 | (2,796)             |

(in thousands of Ukrainian hryvnias)

|                                | 1 January 2003 | Recognized<br>in income<br>statement | Recognized<br>in equity | Recognised<br>in minority<br>interests | 31 December<br>2003 |
|--------------------------------|----------------|--------------------------------------|-------------------------|--|---------------------|
| Property, plant and equipment  | (3,353)        | 1,797                                | –                       | –                                      | (1,556)             |
| Inventories                    | (42)           | 194                                  | –                       | –                                      | 152                 |
| Trade accounts receivable      | 135            | (76)                                 | –                       | –                                      | 59                  |
| Other accounts receivable      | 639            | (756)                                | –                       | –                                      | (117)               |
| Long-term loans and borrowings | (56)           | (1,312)                              | (825)                   | (106)                                  | (2,299)             |
| Bank loans                     | –              | 1,339                                | –                       | –                                      | 1,339               |
| Trade accounts payable         | 105            | 222                                  | –                       | –                                      | 327                 |
| Promissory notes issued        | –              | (2,247)                              | –                       | –                                      | (2,247)             |
| Other accounts payable         | 209            | (208)                                | –                       | –                                      | 1                   |
| Net deferred tax liability     | (2,363)        | (1,047)                              | (825)                   | (106)                                  | (4,341)             |

(in thousands of Euros)

|                                | 1 January<br>2005 | Recognized<br>in income<br>statement | Recognized<br>in equity | Recognised<br>in minority<br>interests | Currency<br>translation<br>difference | 31 December<br>2005 |
|--------------------------------|-------------------|--------------------------------------|-------------------------|--|---------------------------------------|---------------------|
| Property, plant and equipment  | (188)             | (42)                                 | (1,064)                 | (55)                                   | (119)                                 | <b>(1,468)</b>      |
| Inventories                    | (4)               | 199                                  | 203                     | 10                                     | 28                                    | <b>436</b>          |
| Trade accounts receivable      | 49                | 164                                  | (197)                   | (10)                                   | 22                                    | <b>28</b>           |
| Advances made                  | –                 | (53)                                 | 31                      | 2                                      | (1)                                   | <b>(21)</b>         |
| Other accounts receivable      | 37                | (48)                                 | –                       | –                                      | 4                                     | <b>(7)</b>          |
| Long-term loans and borrowings | (107)             | (32)                                 | (33)                    | –                                      | (27)                                  | <b>(199)</b>        |
| Bank loans                     | –                 | (32)                                 | –                       | –                                      | (2)                                   | <b>(34)</b>         |
| Trade accounts payable         | 60                | (4)                                  | 10                      | 1                                      | 14                                    | <b>81</b>           |
| Promissory notes issued        | (304)             | (5)                                  | –                       | –                                      | (64)                                  | <b>(373)</b>        |
| Other accounts payable         | 70                | 311                                  | –                       | –                                      | 36                                    | <b>417</b>          |
| Net deferred tax liability     | (387)             | 458                                  | (1,050)                 | (52)                                   | (109)                                 | <b>(1,140)</b>      |

(in thousands of Euros)

|                                | 1 January<br>2004 | Recognized<br>in income<br>statement | Recognized<br>in equity | Recognised<br>in minority<br>interests | Currency<br>translation<br>difference | 31 December<br>2004 |
|--------------------------------|-------------------|--------------------------------------|-------------------------|--|---------------------------------------|---------------------|
| Property, plant and equipment  | (234)             | 31                                   | –                       | –                                      | 15                                    | (188)               |
| Inventories                    | 23                | (28)                                 | –                       | –                                      | 1                                     | (4)                 |
| Trade accounts receivable      | 9                 | 45                                   | –                       | –                                      | (5)                                   | 49                  |
| Other accounts receivable      | (18)              | 59                                   | –                       | –                                      | (4)                                   | 37                  |
| Long-term loans and borrowings | (345)             | 308                                  | (33)                    | (46)                                   | 9                                     | (107)               |
| Bank loans                     | 201               | (203)                                | –                       | –                                      | 2                                     | –                   |
| Trade accounts payable         | 49                | 17                                   | –                       | –                                      | (6)                                   | 60                  |
| Promissory notes issued        | (337)             | 7                                    | –                       | –                                      | 26                                    | (304)               |
| Other accounts payable         | –                 | 76                                   | –                       | –                                      | (6)                                   | 70                  |
| Net deferred tax liability     | (652)             | 312                                  | (33)                    | (46)                                   | 32                                    | (387)               |

(in thousands of Euros)

|                                | 1 January<br>2003 | Recognized<br>in income<br>statement | Recognized<br>in equity | Recognised<br>in minority<br>interests | Currency<br>translation<br>difference | 31 December<br>2003 |
|--------------------------------|-------------------|--------------------------------------|-------------------------|--|---------------------------------------|---------------------|
| Property, plant and equipment  | (606)             | 298                                  | –                       | –                                      | 74                                    | (234)               |
| Inventories                    | (8)               | 33                                   | –                       | –                                      | (2)                                   | 23                  |
| Trade accounts receivable      | 24                | (12)                                 | –                       | –                                      | (3)                                   | 9                   |
| Other accounts receivable      | 116               | (126)                                | –                       | –                                      | (8)                                   | (18)                |
| Long-term loans and borrowings | (10)              | (218)                                | (137)                   | (18)                                   | 38                                    | (345)               |
| Bank loans                     | –                 | 222                                  | –                       | –                                      | (21)                                  | 201                 |
| Trade accounts payable         | 19                | 37                                   | –                       | –                                      | (7)                                   | 49                  |
| Promissory notes issued        | (1)               | (373)                                | –                       | –                                      | 37                                    | (337)               |
| Other accounts payable         | 38                | (35)                                 | –                       | –                                      | (3)                                   | –                   |
| Net deferred tax liability     | (428)             | (174)                                | (137)                   | (18)                                   | 105                                   | (652)               |

## 25 Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business.

### (a) Credit risk

As at 31 December 2004 and 2003, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

### (b) Interest rate risk

Changes in interest rates impact primarily borrowings by changing either their fair value (fixed rate debt) or future cash flows (variable rate debt). To minimize risks associated with interest rates, management obtains loans primarily at fixed rates. Such loans account for over 90% of the Group's total borrowings. The fixed rate levels are determined based on the market environment.

### (c) Foreign currency risk

The Group incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the measurement currencies of the entities. The currency giving rise to this risk is primarily the USD. Management does not hedge exposure to foreign currency risk.

During the period 2003 to 2005, the Ukrainian hryvnia remained stable against the US dollar. The average exchange rate to the US dollar in 2005 compared to 2004 increased by approximately 4.8 percent.

### (d) Fair values

Estimated fair values of the financial assets and liabilities have been determined using available market information and appropriate valuation methodologies. However, considerable judgment was required in interpreting market data to produce the estimated fair values. Accordingly, the estimates are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

The estimated fair values of financial assets and liabilities are determined using discounted cash flow and other appropriate valuation methodologies, at year-end, and are not indicative of the fair value of those instruments at the date these pro-forma consolidated financial statements are prepared or distributed. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Group's entire holdings of a particular financial instrument. Fair value estimates are based on judgments regarding future expected cash flows, current economic conditions, risk characteristics of various financial instruments and other factors.

Fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments. In addition, tax ramifications related to the realization of the unrealized gains and losses can have an effect on fair value estimates and have not been considered.

For all financial assets and liabilities, the carrying value is estimated to approximate the fair value as at 31 December 2005, 2004 and 2003.

## 26 Commitments

### (a) Social commitments

The Group makes contributions to mandatory and voluntary social programs. The Group's social assets, as well as local social programs, benefit the community at large and are not normally restricted to employees. The Group transferred certain social operations and assets to local authorities; however, management expects that the Group will continue to fund these social programs through the foreseeable future. These costs are recorded in the year they are incurred.

### (b) Operating leases

The Group leases a number of warehouse and factory facilities under operating leases. The leases typically run for an initial period of five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals.

The Group leases plough-land and acres of industrial land under non-cancellable lease agreements in its normal course of business.

Non-agricultural activities are located on plots of industrial land, totalling as at 31 December 2005, 1,651 hectares (2004: 840 hectares; 2003: 842 hectares). The monthly average rental payment for industrial land in 2005 equalled UAH 113 (Euro 18) per hectare (2004: UAH 41 per hectare (Euro 6); 2003: UAH 32 (Euro 5) per hectare).

Plough-land is leased from local authorities, individuals and legal entities. The total size of leased plough-land as at 31 December 2005 is 66,911 hectares (2004: 44,045 hectares; 2003: 35,739 hectares). The monthly average rental payment for plough-land leased from local authorities in 2005 approximated UAH 18 (Euro 3) per hectare; whereas for plough-land leased from individuals the average rental payment

was UAH 17 (Euro 3) per hectare (2004: UAH 10 (Euro 2) and UAH 14 (Euro 2) per hectare, respectively; 2003: UAH 11 (Euro 2) and UAH 12 (Euro 2) per hectare, respectively).

The maturity dates for lease agreements concluded with local authorities and individuals as at 31 December 2005 ranged from 2006 to 2015.

Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

*(in thousands of Ukrainian hryvnias)*

|                        | <b>2005</b>   | <b>2004</b> | <b>2003</b> |
|------------------------|---------------|-------------|-------------|
| <i>Industrial land</i> |               |             |             |
| Less than one year     | <b>384</b>    | 211         | 308         |
| From one to five years | <b>804</b>    | 843         | 585         |
| More than five years   | –             | 50          | –           |
|                        | <b>1,188</b>  | 1,104       | 893         |
| <i>Plough-land</i>     |               |             |             |
| Less than one year     | <b>10,779</b> | 5,040       | 7,850       |
| From one to five years | <b>26,491</b> | 13,861      | 19,325      |
| More than five years   | <b>3,746</b>  | 3,531       | 2,416       |
|                        | <b>41,016</b> | 22,432      | 29,591      |
|                        | <b>42,204</b> | 23,536      | 30,484      |

*(in thousands of Euros)*

|                        | <b>2005</b>  | <b>2004</b> | <b>2003</b> |
|------------------------|--------------|-------------|-------------|
| <i>Industrial land</i> |              |             |             |
| Less than one year     | <b>64</b>    | 29          | 46          |
| From one to five years | <b>134</b>   | 117         | 88          |
| More than five years   | –            | 7           | –           |
|                        | <b>198</b>   | 153         | 134         |
| <i>Plough-land</i>     |              |             |             |
| Less than one year     | <b>1,805</b> | 698         | 1,178       |
| From one to five years | <b>4,436</b> | 1,920       | 2,901       |
| More than five years   | <b>627</b>   | 490         | 363         |
|                        | <b>6,868</b> | 3,108       | 4,442       |
|                        | <b>7,066</b> | 3,261       | 4,576       |

## **27 Contingencies**

### **(a) Insurance**

The insurance industry in Ukraine is in a developing state and many forms of insurance, for example, environmental risk insurance, are not yet generally available. The Group has obtained insurance over its plant facilities. However, it does not have full coverage for certain financial risks such as business interruption, damage of third party property or environmental damage. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

### **(b) Litigation**

The Group is involved in various legal proceedings in the ordinary course of business. Management does not believe the result of any such actions will have a material effect on the financial condition or results of operations.

### **(c) Taxation contingencies**

The Group performs most of its operations in Ukraine and therefore within the jurisdiction of the Ukrainian tax authorities. The Ukrainian tax system can be characterized by numerous taxes and frequently changing legislation which may be applied retroactively, open to wide interpretation and in some cases are conflicting. Instances of inconsistent opinions between local, regional, and national tax authorities and the Ministry of Finance are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enacted by law to impose severe fines and penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. These facts create tax risks substantially more significant than typically found in countries with more developed systems.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions. Currently, there are no significant disputes with any tax authority. However, the interpretations of the relevant authorities could differ and the effect on these pro-forma consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant. No provisions for potential tax assessments have been made in these pro-forma consolidated financial statements.

### **(d) Financial guarantee contracts**

In 2005 the Group guaranteed repayment of interest free bonds amounting to UAH 12,042 thousand issued by the related party LLC "Astarta-Tsentr". As in accordance with the agreement dated 18 May 2005 concluded between LLC "Astarta-Tsentr" and one of the Group's subsidiary companies LLC "Troyitska", the latter pledged all of its assets to secure repayment of total nominal cost of the bonds issued.

## 28 Related party transactions

The Group performs transactions with related parties in the ordinary course of business. Related parties comprise the Group parent's associates, the shareholders, companies are under common control of the Group's controlling owners, key management personnel of the Group and their close family members, and companies that are controlled or significantly influenced by shareholders. Prices for related party transactions are determined on an ongoing basis. The terms of some related party transactions may differ from the market terms.

Balances and transactions with related parties, substantially all of which are with Companies under common control of the shareholders, as at 31 December and for the year then ended are shown at their carrying value and are as follows:

### (a) Revenues

Sales of goods and services to related parties for the year ended 31 December are as follows:

| <i>(in thousands of Ukrainian hryvnias)</i> |              |             |             |
|---|--------------|-------------|-------------|
|   | <b>2005</b>  | <b>2004</b> | <b>2003</b> |
| Revenues                                    | <b>8,128</b> | 8,146       | 3,573       |

| <i>(in thousands of Euros)</i> |              |             |             |
|--------------------------------|--------------|-------------|-------------|
|                                | <b>2005</b>  | <b>2004</b> | <b>2003</b> |
| Revenues                       | <b>1,272</b> | 1,233       | 593         |

### (b) Purchases

Purchases of goods and services from related parties for the year ended 31 December are as follows:

| <i>(in thousands of Ukrainian hryvnias)</i> |              |             |             |
|---|--------------|-------------|-------------|
|   | <b>2005</b>  | <b>2004</b> | <b>2003</b> |
| Purchases of goods and services             | <b>4,126</b> | 5,221       | 2,040       |

| <i>(in thousands of Euros)</i>  |             |             |             |
|---------------------------------|-------------|-------------|-------------|
|                                 | <b>2005</b> | <b>2004</b> | <b>2003</b> |
| Purchases of goods and services | <b>646</b>  | 790         | 339         |

### (c) Receivables

Receivables from related parties as at 31 December are as follows:

| <i>(in thousands of Ukrainian hryvnias)</i> |               |             |             |
|---|---------------|-------------|-------------|
|   | <b>2005</b>   | <b>2004</b> | <b>2003</b> |
| Accounts receivable – Trade                 | 13,324        | 6,103       | 1,583       |
| Advances made                               | 1,969         | 1,175       | 680         |
| Other receivables                           | 2,026         | 2,265       | 434         |
| Other                                       | 104           | –           | –           |
|   | <b>17,423</b> | 9,543       | 2,697       |

| <i>(in thousands of Euros)</i> |              |             |             |
|--------------------------------|--------------|-------------|-------------|
|                                | <b>2005</b>  | <b>2004</b> | <b>2003</b> |
| Accounts receivable – Trade    | 2,231        | 846         | 238         |
| Advances made                  | 330          | 163         | 102         |
| Other receivables              | 339          | 313         | 65          |
| Other                          | 18           | –           | –           |
|                                | <b>2,918</b> | 1,322       | 405         |

#### (d) Payables

Payables from related parties as at 31 December are as follows:

|                          | <i>(in thousands of Ukrainian hryvnias)</i> |              |             |
|--------------------------|---|--------------|-------------|
|                          | <b>2005</b>                                 | <b>2004</b>  | <b>2003</b> |
| Accounts payable – Trade | 10,311                                      | 3,782        | 44          |
| Advances received        | 822   | 180          | –           |
| Other payables           | 1,215                                       | 227          | –           |
| Other                    | –   | 57           | 166         |
|                          | <b>12,348</b>                               | <b>4,246</b> | <b>210</b>  |

|                          | <i>(in thousands of Euros)</i> |             |             |
|--------------------------|--------------------------------|-------------|-------------|
|                          | <b>2005</b>                    | <b>2004</b> | <b>2003</b> |
| Accounts payable – Trade | 1,727                          | 524         | 7           |
| Advances received        | 138                            | 25          | –           |
| Other payables           | 203                            | 31          | –           |
| Other                    | –                              | 8           | 25          |
|                          | <b>2,068</b>                   | <b>588</b>  | <b>32</b>   |

#### (e) Long-term borrowings

Long-term borrowings from related parties as at 31 December are as follows:

|              | <i>(in thousands of Ukrainian hryvnias)</i> |               |               |
|--------------|---|---------------|---------------|
|              | <b>2005</b>                                 | <b>2004</b>   | <b>2003</b>   |
| Non-resident | 15,911                                      | 26,953        | 23,009        |
| Local        | 1,188                                       | –             | –             |
|              | <b>17,099</b>                               | <b>26,953</b> | <b>23,009</b> |

|              | <i>(in thousands of Euros)</i> |              |              |
|--------------|--------------------------------|--------------|--------------|
|              | <b>2005</b>                    | <b>2004</b>  | <b>2003</b>  |
| Non-resident | 2,664                          | 3,734        | 3,454        |
| Local        | 199                            | –            | –            |
|              | <b>2,863</b>                   | <b>3,734</b> | <b>3,454</b> |

#### (f) Management remuneration

Remuneration of key management for the year ended 31 December is shown below. Key management are those having the authority and responsibility for planning, directing and controlling the activities of the Group.

|                                | <i>(in thousands of Ukrainian hryvnias)</i> |             |             |
|--------------------------------|---|-------------|-------------|
|                                | <b>2005</b>                                 | <b>2004</b> | <b>2003</b> |
| Salary and short term benefits | 577   | 483         | 247         |

|                                | <i>(in thousands of Euros)</i> |             |             |
|--------------------------------|--------------------------------|-------------|-------------|
|                                | <b>2005</b>                    | <b>2004</b> | <b>2003</b> |
| Salary and short term benefits | 90                             | 73          | 41          |

## 29 Events subsequent to the balance sheet date

(i) Subsequent to 31 December 2005 Astarta-Kyiv acquired additional interests in its subsidiaries from minority participants and made additional acquisitions. As a result, as at the date of these pro-forma consolidated financial statements, the ownership structure in subsidiaries is as follows:

| Name                                       | Activity                          | 22 May<br>2006<br>% of ownership<br>by Astarta-Kyiv | 31 December<br>2005<br>% of ownership<br>by Astarta-Kyiv |
|--|-----------------------------------|---|--|
| <b>Subsidiaries:</b>                       |                                   |   |  |
| LLC "Agropromtsukor"                       | Sugar production                  | 100.00%   | 100.00%  |
| LLC "APO "Tsukrovyk Poltavshchyny"         | Agricultural and Sugar production | 95.10%  | 95.10%   |
| LLC "Torgovy dim"                          | Trade and sugar production        | 47.55%  | 47.55%   |
| LLC "Agricultural Company "Dobrobot"       | Agricultural                      | 98.00%  | 75.00%   |
| LLC "Agricultural Company "Ordanivka"      | Agricultural                      | 98.00%  | 75.00%   |
| LLC "Agricultural Company "Stepove"        | Agricultural                      | 98.00%  | 75.00%   |
| LLC "Agricultural Company "Troyitska"      | Agricultural                      | 98.00%  | 75.00%   |
| LLC "Agricultural Company "Fydrivske"      | Agricultural                      | 98.00%  | 75.00%   |
| LLC "Agricultural Company "Shyshatska"     | Agricultural                      | 98.00%  | 75.00%   |
| LLC "Agricultural Company "Gogolevo"       | Agricultural                      | 97.00%  | 67.00%   |
| LLC "Agricultural Company "Kovalivka"      | Agricultural                      | –   | 67.00%   |
| LLC "Viytovetske"                          | Agricultural                      | 100.00%   | 64.00%   |
| LLC "Agricultural Company "Pustoviytove"   | Agricultural                      | 99.80%  | 78.00%   |
| LLC "Agricultural Company "Grynky"         | Agricultural                      | 98.00%  | 58.50%   |
| LLC "Agricultural Company "Shevchenko"     | Agricultural                      | 98.00%  | 46.80%   |
| LLC "Agricultural Company "Dovzhenko"      | Agricultural                      | 97.00%  | 67.00%   |
| LLC "Agricultural Company "Zolota gora"    | Agricultural                      | 98.00%  | 80.00%   |
| LLC "Agricultural Company "Kozatskiy stan" | Agricultural                      | 98.00%  | 75.00%   |
| LLC "Agricultural Company "Musievske"      | Agricultural                      | 75.00%  | 75.00%   |
| LLC "Zorya"                                | Agricultural                      | 75.00%  | 75.00%   |
| LLC "Bohdan Khmelnytskyi"                  | Agricultural                      | 75.00%  | 75.00%   |
| LLC "Nadiya"                               | Agricultural                      | 75.00%  | 75.00%   |
| Globino canning factory "Globus"           | Agricultural                      | 100.00%   | 100.00%  |
| LLC "Shishaki combined forage factory"     | Agricultural                      | 82.73%  | 82.73%   |
| LLC "Mriya"                                | Agricultural                      | 98.00%  | –  |

For the year ended 31 December 2005 net income attributable to equity holders of the parent company amounts to UAH 52,082 thousand (Euro 8,151 thousand), whereas minority interest, which is included in current liabilities, as at 31 December 2005 is UAH 52,129 thousand (Euro 8,729 thousand). If the changes in ownership described above, other than acquisition of LLC "Mriya", had occurred on 1 January 2005, or later if the acquisition of subsidiary occurred later, net income attributable to equity holders of parent company would have increased to UAH 63,165 thousand (Euro 9,886 thousand) (unaudited), and minority interest would have decreased to UAH 21,102 thousand (Euro 3,534 thousand) (unaudited).

Ivanchyk V.P.  
General Director

Laskov V.A.  
Finance Director

11 July 2006

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Management of Astarta Holding N.V.

### *Introduction*

We have audited the accompanying pro-forma financial statements of Astarta Holding N.V. (the Company) and its subsidiaries (the Group) for the years ended 31 December 2003, 2004 and 2005, as set out on pages F-3 through F-59, which comprise the pro-forma consolidated balance sheets, the pro-forma consolidated statements of income, the pro-forma consolidated cash flow statements, the pro-forma consolidated statements of changes in equity and the related notes. These financial statements have been prepared in accordance with International Financial Reporting Standards. The adjustments made to prepare these pro-forma financial statements have been set out in note 2(c). These pro-forma consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these pro-forma consolidated financial statements based on our audit.

### *Scope*

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the pro forma statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the pro-forma financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of these pro forma financial statements. We believe that our audit provides a reasonable basis for our opinion.

### *Matters affecting opinion*

We did not observe the counting of inventories and current biological assets stated at UAH 133.5 million (EUR 18.5 million) and UAH 7.0 million (EUR 1.0 million) as at 31 December 2004 and at UAH 85.6 million (EUR 12.8 million) and UAH 5.2 million (EUR 0.8 million) as at 31 December 2003, because we were engaged as auditors of the Group only after that date. It was impracticable to satisfy ourselves as to those inventory and current biological assets quantities by other audit procedures. Accordingly, we were unable to determine whether any adjustments might be necessary to cost of revenues, income tax expense (benefit) and net profit for the years ended 31 December 2003, 2004 and 2005.

### *Opinion*

In our opinion, except for the effect of such adjustments, if any, that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the preceding paragraph, for purposes of this prospectus the pro forma consolidated financial statements give a true and fair view of the financial position of the Company as of 31 December 2003, 31 December 2004 and 31 December 2005 and of the results of its operations, changes in its equity and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Amsterdam, 11 July 2006  
KPMG ACCOUNTANTS N.V.  
M.M.B. Blauwhoff RA

## Annex I

### DEFINITIONS

|   |  |
|---|--|
| Act on Public Offerings                 | The Polish Act of 29 July 2005 on Public Offerings and Conditions governing the Admission of Financial Instruments to Trading on Organized Markets, and on Listed Companies  |
| Act on Trading in Financial Instruments | The Polish Act of 29 July 2005 on Trading in Financial Instruments   |
| Admission                               | Admission of Shares to trading on the Warsaw Stock Exchange  |
| AFM                                     | The Netherlands Authority for the Financial Markets ( <i>Autoriteit Financiële Markten</i> )   |
| Agricultural Fund                       | The main state authority in Ukraine conducting interventions for purposes of stabilizing the prices, technically a part of the Ministry  |
| Allotment Date                          | The date on which the Offer Shares will be allocated to Investors  |
| AMC                                     | The Antimonopoly Committee of Ukraine  |
| Articles of Association                 | The Articles of Association of the Company   |
| Astarta                                 | Astarta Holding N.V., as well as its direct and indirect subsidiaries  |
| Board of Directors                      | The Board of Directors of the Company  |
| CIS                                     | The Commonwealth of Independent States   |
| CMU                                     | The Cabinet of Ministers of Ukraine  |
| Company                                 | Astarta Holding N.V. together with subsidiaries unless the context requires otherwise  |
| Allotment List                          | A list of Institutional Investors to whom the Offer Shares were allocated, prepared by the Issuer and the Selling Shareholders upon consultation with the Managers   |
| Corporate Governance Rules of the WSE   | Polish Principles of Corporate Governance contained in "Best Practices in Public Companies in 2005" approved by the WSE  |
| Current Report                          | information disclosed in a manner described in Art. 56 of the Act on Public Offerings  |
| Dutch Civil Code                        | the Dutch Civil Code ( <i>Burgerlijk Wetboek</i> )   |
| Dutch Corporate Governance Code         | A Dutch Corporate Governance Code ( <i>Tabaksblat Code</i> )   |
| Dutch Disclosure Act                    | The Disclosure of Major Holdings in Listed Companies Act 1996 ( <i>Wet melding zeggenschap in ter beurze genoteerde vennootschappen 1996</i> )   |
| Dutch Securities Act:                   | The Dutch Securities Act 1995 ( <i>Wet toezicht effectenverkeer 1995</i> ) as amended from time to time.   |
| EU                                      | The European Union   |
| EU Parent Subsidiary Directive          | Council Directive 90/435/EEC of 23 July 1990 on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States as amended by Directive 2003/123/EC of 22 December 2003 |

|                                   |   |
|-----------------------------------|---|
| EUR or €                          | The lawful currency of the European Economic and Monetary Union., of which The Netherlands is a member                              |
| FATF                              | The Financial Action Task Force on Money Laundering   |
| FSMA                              | The United Kingdom Financial Services and Markets Act 2000  |
| General Meeting of Shareholders   | The Issuer's General Meeting of Shareholders  |
| Global Coordinator and Bookrunner | ING Bank NV, London Branch  |
| Group                             | Astarta Holding N.V. together with its direct and indirect subsidiaries   |
| Hryvnia or UAH                    | The lawful currency of the Republic of Ukraine  |
| IFRS                              | International Financial Reporting Standards   |
| IMF                               | The International Monetary Fund   |
| Indirect Shareholders             | The ultimate beneficial owners of 100% of shares in Astarta Holding N.V., <i>i.e.</i> , Mr. Valery Korotkov and Mr. Viktor Ivanchyk |
| Institutional Investors           | Corporate entities and non-corporate entities, other than individuals, who intend to purchase Offer Shares in the Offering          |
| Institutional Investors Tranche   | Offer Shares intended for distribution to Institutional Investors   |
| ISO                               | International Sugar Organisation  |
| Issuer                            | Astarta Holding N.V.  |
| Land Code                         | The law of Ukraine – "The Land Code", dated 25 October 2001, as amended   |
| Land Lease Law                    | The Law of Ukraine "On the Lease of Land", dated 6 October 1998, as amended   |
| Law on Ownership                  | The Law of Ukraine "On Ownership", dated 7 February 1991, as amended  |
| Listing Agent                     | ING Securities S.A.   |
| Listing Date                      | First day of trading in Shares on the WSE   |
| LLC                               | Limited liability company under Ukrainian law   |
| Managers                          | Global Coordinator and Bookrunner, and Polish Manager   |
| Maximum Price                     | PLN 27.20, the maximum price at which the Offer Price will be set   |
| Ministry                          | The Ministry of Agriculture of Ukraine  |
| NBU                               | The National Bank of Ukraine  |
| NDS                               | The National Deposit of Securities, the central clearinghouse of listed securities in Poland  |
| New Shares                        | Up to 6,700,000 new ordinary shares of Astarta Holding N.V. of nominal value EUR 0.01 each offered in the Offering                  |

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|                                 |   |
|---------------------------------|---|
| Offer Price                     | The issue price of New Share and sale price of Sale Shares in the Offering, to be established through book building, not higher than the Maximum Price  |
| Offer Shares                    | New Shares and Sale Shares  |
| Offering                        | The offering of New Shares and Sale Shares, constituting in total a minority interest in the Issuer, by way of a public offering in Poland and private placement in certain jurisdictions outside Poland  |
| Operating Company               | LLC Firm "Astarta-Kyiv"   |
| Price Range                     | A price range, if any, for the Offering, announced by the Company and the Selling Shareholders upon consultation with the Managers, within which the Offer Price will be set. Top end of the Price Range will not be higher than the Maximum Price                                      |
| PAP                             | The Polish Press Agency   |
| PLN                             | The Polish zloty, the lawful currency of the Republic of Poland   |
| Polish Corporate Income Tax Act | Polish Corporate Income Tax Act of 15 February 1992 (Journal of Laws of 2000, No. 54 item 654, as amended)  |
| Polish Manager                  | ING Securities S.A.   |
| Polish Personal Income Tax Act  | Polish Personal Income Tax Act of 26 July 1991 (Journal of Laws of 2000 No. 14, item 176, as amended)   |
| Polish-Dutch Tax Treaty         | The Agreement between the Republic of Poland and The Netherlands on the avoidance of double taxation in respect of income and property taxes dated 13 February 2002   |
| Pre-Meeting                     | A preliminary meeting with the Issuer's shareholders to be held in Poland not more than 10 business days and not less than 1 business day prior to the date of each General Meeting   |
| Prospectus                      | This Prospectus constituting a prospectus in the meaning of the Prospectus Directive prepared in connection with the public offering of the Offer Shares and admission of the Shares to listing on the WSE  |
| Prospectus Directive            | Directive 2003/71/EC of the European Parliament and of the Council of the European Union of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC and any relevant implementing measures |
| PSEC                            | The Polish Securities and Exchange Commission ( <i>Komisja Papierow Wartosciowych i Gield</i> ), the capital market regulatory authority of the Republic of Poland  |
| Regulation S                    | The United States Regulation S promulgated under the United States Securities Act of 1933 governing offers and sales made outside the United States without registration under the US Securities Act  |
| Retail Investors                | Individuals who intend to purchase Offer Shares in the Offering   |
| Retail Investors Tranche        | Offer Shares intended for distribution to Retail Investors  |
| Sale Shares                     | Up to 900,000 existing ordinary shares of Astarta Holding N.V. of nominal value EUR 0.01 each, held by the Selling Shareholders and offered in the Offering   |

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|------------------------|---|
| Selling Shareholders   | Aluxes Holding Ltd., and Albacon Ventures Ltd., limited liability companies established under the laws of Cyprus, each holding, as of the date of the prospectus, 50% of shares in Astarta Holding N.V. |
| Settlement Date        | The date of settlement of the Offering in which Offer Shares are delivered to the Investors against payment of the Offer Price  |
| Shares                 | The ordinary shares of Astarta Holding N.V. with nominal value of EUR 0.01 each   |
| State Support Law      | The Law of Ukraine "On State Support of Agriculture of Ukraine", dated 24 June 2004, as amended   |
| Subscription Period    | The period in which Investors may place orders to purchase the Offer Shares   |
| Sugar Law              | The Law of Ukraine "On State Regulation of Production and Sale of Sugar", dated 17 June 1999  |
| Underwriting Agreement | The agreement in respect of the Offering to be entered between the Issuer, the Selling Shareholders and the Global Coordinator and Bookrunner   |
| US Securities Act      | the United States Securities Act of 1933, as amended  |
| USD or US\$            | US Dollar, the lawful currency of the United States of America  |
| WSE                    | The Warsaw Stock Exchange   |
| WSE Rules              | Rules and regulations of the Warsaw Stock Exchange  |
| WTO                    | The World Trade Organization  |

## Annex II

### ARTICLES OF ASSOCIATION

#### Definitions

##### Article 1

In these articles of association, the following terms shall mean:

- a. General Meeting: the body formed by the shareholders and other holders of voting rights;
- b. general meeting of shareholders: the meeting of shareholders and other persons with the right to attend and address the meeting;
- c. holders of depositary receipts: holders of registered depositary receipts issued with the cooperation of the company and those persons who, as a result of the creation of a usufruct or pledge on a share, have the rights specified in paragraph 2 of article 13;
- d. listed shares: shares in the capital of the company which are or shall be listed on a regulated stock exchange, or which are the subject of a public offering;
- e. regulated stock exchange: the securities exchange, as referred to in section 1, paragraph e, of the Securities Markets Supervision Act 1995 (*Wet toezicht effectenverkeer 1995*), which is subject to supervision by the government or by a public recognized authority or institution, located in any member state of the European Union.

#### Name and registered office

##### Article 2

1. The public company's name is **ASTARTA Holding N.V.**
2. The company has its registered office in Amsterdam.

#### Objects

##### Article 3

The company's objects are:

- a. to incorporate, participate in, conduct the management of and take any other financial interest in other companies and enterprises;
- b. to render administrative, technical, financial, economic or managerial services to companies, enterprises or other persons;
- c. to acquire, dispose of, manage and utilize real and personal property, things and rights;
- d. to borrow and lend moneys, stand surety, guarantee in any other manner, and bind itself jointly and severally or otherwise in addition to or for others,

the foregoing whether or not in collaboration with third parties and inclusive of the performance and promotion of all activities which directly or indirectly relate those objects, all this in the broadest sense of the words.

#### Duration

##### Article 4

The company has been formed for an indefinite period of time.

#### Capital and shares

##### Article 5

1. The company's authorized capital amounts to three hundred thousand euros (EUR 300,000) and is divided into thirty million (30,000,000) shares with a nominal value of one cent (EUR 0.01) each.
2. The shares shall be in registered form or in bearer form, as decided in the resolution on issue of shares, and shall be numbered consecutively from 1 onwards. The shares are non-divisible.
3. The company shall issue share certificates for bearer shares if at least the full amount due on such shares has been paid, except for the provisions of article 9 paragraph 2. The form of the certificates for bearer shares, the numbers thereof and the rights attached thereon are to be determined by the Board of Directors. The company may issue share certificates for registered shares.

4. A dividend sheet shall be attached to each share certificate, consisting of dividend coupons and a talon, all bearing the same number as the share certificate. Share certificates must be signed by an Executive Director A and an Executive Director B, either personally or by stamped facsimile.
5. At the written request of a shareholder, the Board of Directors may issue duplicates for share certificates, dividend coupons and/or talons that have been lost, stolen or destroyed, provided that the applicant can demonstrate his title to the lost documents to the satisfaction of the Board of Directors and, if the Board of Directors so requires, indemnify the company against any claims by third parties. All costs connected with the issue of duplicates shall be borne by the party whose documents were lost, stolen or destroyed. The issue of duplicates shall furthermore be subject to all such requirements as to be determined by the Board of Directors. The issue of duplicates shall render the original documents null and void. The duplicates issued by virtue of this paragraph must carry the word "duplicate".
6. If a share belongs to a joint interest, the persons entitled to it may exercise the rights ensuing from that share only through a person they appoint in writing.
7. Listed shares may be issued in the form of global notes and may be deposited with a central securities depository, if required by the laws or stock exchange regulations of the jurisdiction in which the stock exchange where the shares are listed is established. No separate certificates shall be issued to the shareholders concerned and the shareholders shall be identified in accordance with all relevant legal provisions, rules and regulations of the clearing and deposit system according to the laws of the jurisdiction governing the stock exchange on which the shares are or shall be listed. The resolution to deposit shares with a central securities depository shall be taken by the General Meeting.

#### Register of shareholders

##### Article 6

1. The company's Board of Directors shall keep a register in which the names and addresses of all holders of registered shares shall be recorded, specifying the date on which they acquired their shares, the date of acknowledgment by or service upon the company, as well as the amount paid up on each share.
2. If required for trading shares on a stock exchange or on a regulated over the counter market outside the Netherlands or if the Board of Directors resolves to do so in order to facilitate the trade of shares in one or more countries outside the Netherlands, the register may be kept entirely or partially outside the Netherlands.
3. The register shall also contain the names and addresses of those who have a usufruct (*vruchtgebruik*) or a pledge (*pandrecht*) on those shares, specifying the date on which they acquired such right, the date of acknowledgment by or service upon the company and what rights they have been granted attached to the shares under article 13.
4. The register shall also contain the names and addresses of the holders of registered depository receipts issued with the cooperation of the company.
5. With respect to registered shares, each shareholder, usufructuary and pledgee and each holder of registered depository receipts issued with the cooperation of the company shall be obliged to ensure that his address is known to the company.
6. The register shall be regularly updated. Each release from liability for payments not yet made shall be recorded in the register.
7. Upon request, the Board of Directors shall provide a shareholder, usufructuary or pledgee at no costs with an extract from the register relating to his right to a share.  
  
If the shares are encumbered with a right of usufruct or a right of pledge, the extract shall state in whom the rights referred to in article 13 are vested.
8. The Board of Directors shall keep the register at the company's registered office for inspection by the shareholders, and the usufructuaries and pledgees entitled to the rights specified in article 13. The details of partly paid shares entered in the register shall be available for the inspection by any person. Extracts or copies of these details may be supplied at no more than cost.
9. The register of holders of listed shares may be kept in accordance with laws or stock exchange regulations of the jurisdiction in which the stock exchange is established. In such case, the provisions of sections 1 to 8 of this article shall not apply and the shareholders shall be identified in accordance with all relevant legal provisions, rules and regulations of the clearing and deposit system according to the laws of the jurisdiction governing the stock exchange on which the shares are or shall be listed. The shareholder will be entitled to obtain a certificate confirming his shareholding, issued by a member of the proper clearing and deposit system, in accordance with the laws of the jurisdiction in which the stock exchange is established.

## Issue of shares

### Article 7

1. After its incorporation, further shares may only be issued by the company pursuant to a resolution of the General Meeting or by another company body authorized for that purpose by the General Meeting for a definite period of time not exceeding five years.  
The authorization must be accompanied by a stipulation as to the number of shares that may be issued. The authorization may each time be extended for a period of up to five years, but it may not be cancelled, unless the authorization provides otherwise.
2. Within eight days of adoption by the General Meeting (or the company body authorised thereto, as the case may be) of a resolution to issue shares (or to authorize a company body), the company shall deposit the full text thereof at the Trade Register where the company is registered.
3. Within eight days of each issue of shares, the company shall notify the Trade Register referred to in the preceding paragraph of this article of such issue, stating the number and class of shares.
4. The provisions of paragraph 1 up to and including paragraph 3 of this article shall apply accordingly to the granting of rights to subscribe for shares, but shall not apply to the issue of shares to someone who exercises a previously acquired right to subscribe for shares.
5. The issue of a registered share, not being a share as mentioned in article 2:86c Dutch Civil Code (*Burgerlijk Wetboek*), shall require a notarial deed, executed before a civil law notary authorized to practice in the Netherlands, and to which those involved are party.

## Terms and conditions of issue. Pre-emptive rights

### Article 8

1. If a resolution to issue shares is adopted, the issue price of the shares and the other conditions of the issue shall also be determined.
2. Each shareholder shall have a pre-emptive right with respect to any further share issue in proportion to the aggregate amount of his shares, except if shares are issued for a non-cash consideration or if shares are issued to employees of the company or/of a group company.
3. The company shall announce both the issue of shares which are subject to pre-emptive rights and the period of time during which such rights may be exercised in the Official Gazette (*Staatscourant*), in a Dutch and a Polish national daily newspaper and in accordance with the laws of any jurisdiction governing the stock exchange on which shares in the company's capital are listed.
4. Pre-emptive rights may be exercised within a period specified in the resolution to issue shares, which period shall be at least two weeks, but not more than four weeks of the day when the announcement in the Official Gazette (*Staatscourant*) was published or when the notification was sent to the shareholders.
5. Pre-emptive rights may be restricted or excluded by a resolution of the General Meeting. The reasons for such a proposal and the issue price of the shares must be given in writing in the proposal thereto. Pre-emptive rights may also be excluded or restricted by the company body referred to in Article 7, paragraph 1, if such company body is authorized by the resolution of the General Meeting for a fixed period, not exceeding five years, to restrict or exclude the pre-emptive rights.  
The designation may each time be extended for a period of up to five years. Unless determined otherwise, the designation cannot be cancelled.  
Upon termination of the authority of the company body to issue shares, its authority to restrict or exclude pre-emptive rights shall also terminate.
6. A resolution by the General Meeting to restrict or exclude pre-emptive rights as mentioned in the previous paragraph or to authorize a company body for that purpose shall require a majority of at least eighty per cent (80%) of the votes cast if less than one-half of the issued capital is represented at that general meeting of shareholders. Within eight days after adoption of the resolution, the company shall deposit the full text thereof at the Trade Register where the company is registered.
7. The provisions of paragraphs 2 up to and including 6 of this article shall also apply to the grant of rights to subscribe for shares. Shareholders shall have no pre-emptive rights in respect of shares issued to a person who exercises a previously-acquired right to subscribe for shares.
8. If, on the issue of shares, an announcement is made as to the amount to be issued and only a lesser amount can be placed, such lower amount shall be placed only if the conditions of issue explicitly provide therefore.

## Payment for shares

### Article 9

1. Upon the issue of each share, the nominal value must be fully paid up, and, in addition, if the share is subscribed at a higher amount, the difference between such amounts.
2. Persons who are professionally engaged in the placing of shares for their own account may be permitted, by agreement, to pay less than the nominal value for the shares subscribed by them, provided that no less than ninety-four per cent (94%) of such amount is paid in cash not later than on the subscription for the shares.
3. Upon the issuance of a share, excepting bearer shares, it may be stipulated that part of its nominal value, not exceeding three-quarters thereof, need not be paid until after such part is called up by the company.
4. Payment for shares shall be made in cash unless a non-cash contribution has been agreed. Payment in foreign currency may only be made with the company's approval. If payment is made in foreign currency, the obligation to pay is fulfilled to the extent of the sum for which the payment is freely convertible into Netherlands currency. The basis for determination shall be the rate of exchange on the day of payment.

The company may demand that payment is made at the rate of exchange on a fixed day within two months before the last day on which payment must be made, provided the share or depositary receipts will, upon issue, be quoted without delay on the price list of an exchange outside the Netherlands.

If payment is made in foreign currency, a banker's statement as referred to in article 2:93a paragraph 2 of the Dutch Civil Code (*Burgerlijk Wetboek*) shall be deposited at the trade register within two weeks.

## Own shares

### Article 10

1. The company may not subscribe for its own shares upon the issue thereof.
2. The acquisition by the company of its own partly-paid shares shall be null and void.
3. The company may only acquire its own fully-paid shares without payment of consideration or if:
  - a. the company's equity less the acquisition price is not less than the paid-up and called-up part of the capital increased by the reserves to be maintained pursuant to the law or these Articles;
  - b. the nominal amount of the shares which the company acquires, holds, holds as pledge or which are held by a subsidiary does not exceed one-tenth of the issued capital;
  - c. the authority to acquire such shares has been granted by the General Meeting. Such authority shall be valid for a period no longer than eighteen months. The General Meeting must state in the authorization the number of shares that may be acquired, the manner in which they may be acquired and the limits within which the price of the shares must be set.
4. Decisive for the validity of an acquisition referred to in paragraph 3(a) of this article shall be the value of the company's equity according to the most recently adopted balance sheet less the acquisition price of shares in the company's capital and any distributions to others from the profits or reserves which became payable by the company and its subsidiaries after the balance sheet date. If more than six months have elapsed since the expiration of any financial year without adoption of the annual accounts, an acquisition in accordance with paragraph 3 of this article shall not be permitted.
5. No authorization as mentioned in paragraph 3(c) is required, insofar as the company acquires its own shares, which are officially listed on an exchange, for the purpose of transferring the same to employees of the company or of a group company under a scheme applicable to such employees.
6. The paragraphs 2 up to and including 4 of this article shall not apply to shares acquired by the company under a universal title (*onder algemene titel*), without prejudice of the provisions in article 2:98 paragraph 3 and 4 Dutch Civil Code (*Burgerlijk Wetboek*).
7. The term "shares" as used in the preceding paragraphs of this article shall include depositary receipts for those shares.
8. The company may not with a view to any other party subscribing to or acquiring the company's shares or depositary receipts issued therefore, grant loans, provide security or any price guarantee, act as surety in any other manner, or bind itself jointly and severally or otherwise in addition to or on behalf of others. This prohibition shall also apply to its subsidiaries.

This prohibition shall not apply if shares or depositary receipts are subscribed for or acquired by employees of the company or of a group company.

9. Shares in the company's capital may, upon issue, not be subscribed for by or on behalf of any of its subsidiaries. The subsidiaries may acquire such shares or depositary receipts issued therefore and for their own account only insofar as the company is permitted to acquire own shares or depositary receipts issued therefore pursuant to paragraphs 2 up to and including 4.
10. Disposal of any own shares or depositary receipts issued therefore held by the company shall require a resolution of the Board of Directors.
11. At a shareholders' meeting, the company or any of its subsidiaries does/do not have a right to cast votes in respect of the shares they hold. Nor may votes be cast with respect to shares for which the company or any of its subsidiaries holds the depositary receipts. Usufructuaries and pledgees of shares owned by the company or its subsidiaries shall have voting rights if the usufruct or pledge was created upon the shares before the company or its subsidiaries became the owner of the shares. The company or any of its subsidiaries may not cast any votes with respect to shares on which they have a usufruct or pledge.
12. When determining the extent to which the shareholders vote, are present or represented, or to which the share capital is contributed or represented, no account shall be taken of shares in respect of which the law stipulates that no votes may be cast.

### Capital reduction

#### Article 11

1. The General Meeting may, with due observance of the relevant statutory provisions, resolve to reduce the issued capital, either by decreasing the nominal value of the shares, or by withdrawing shares. A decision regarding the withdrawal of shares may only concern shares which are kept by the company itself or of which it holds the depositary receipts.
2. For a resolution to reduce the capital, a majority of at least seventy-five per cent (75%) of the votes cast shall be required.
3. The convening notice calling a meeting of shareholders at which a motion for capital reduction shall be tabled, shall specify the purpose of the capital reduction as well as the method of reduction.
4. The resolution mentioned in paragraph 1 of this article shall be deposited at the Trade Register of the Chamber of Commerce of the locality where the company's registered office is situated. The deposit shall be announced in a Dutch and a Polish national daily newspaper and in accordance with the laws of any jurisdiction governing the stock exchange on which shares in the company's capital are listed.

### Transfer of shares

#### Article 12

1. Paragraphs 2 up to and including 4 shall only apply to the transfer of registered shares which are listed shares, or restricted rights thereto, or depositary receipts issued therefor.
2. The transfer of a registered share or the transfer – including the creation and relinquishment of – of a restricted right thereto shall require an instrument intended for such purpose and, save when the company itself is a party to such legal act, the written acknowledgement by the company of the transfer. The acknowledgement shall be made in the instrument or by a dated statement on the instrument or on a copy or extract thereof mentioning the acknowledgement signed as a true copy by the notary or the transferor, or in the manner referred to in paragraph 3. Service of such instrument of such copy or extract on the company shall be considered to have the same effect as an acknowledgement. In the case of a transfer of shares not paid up in full, the acknowledgement may be made only if the instrument has a recorded, or otherwise fixed date.
3. If a share certificate has been issued for a share, the surrender to the company of the share certificate shall also be required for such transfer. If the share certificate is surrendered to the company, the company may acknowledge the transfer by making an annotation on such share certificate as proof of the acknowledgement or by replacing the surrendered certificate by a new share certificate registered in the name of the transferee.
4. The provisions of paragraph 2 and 3 shall also apply to the allotment of registered shares or any restricted rights therein in the case of any division of any joint interest.
5. The transfer of registered shares or the transfer of – including the creation and relinquishment of – any restricted rights attaching to shares to which paragraph 1 does not apply requires a notarial deed, executed before a civil-law notary authorized to practice in the Netherlands, to which those involved are party.
6. The transfer of registered shares or the transfer of – including the creation and relinquishment of – any restricted rights attaching to shares as referred to in paragraph 5 of this article shall, by operation of law, also be valid vis-a-vis the company. The rights attaching to shares cannot be exercised until the company either acknowledges the juristic act or is served with the notarial deed in accordance with the relevant statutory provisions, except where the company is party to the juristic act.

7. The provisions of paragraph 5 and 6 shall also apply to the allotment of registered shares or any restricted rights therein in the case of any division of any joint interest.
8. Listed shares are transferred in accordance with the laws or stock exchange regulations of the jurisdiction in which the stock exchange is located, subject to any mandatory rules of the applicable law.

#### Usufruct, pledge, depositary receipts

##### Article 13

1. A usufruct (*vruchtgebruik*) may be created on shares. The usufructuary shall be entitled to the right to vote if this was so stipulated upon the creation of the usufruct.
2. The shareholder without voting rights and the usufructuary with voting rights, shall both have the rights granted by law to the holders of registered depositary receipts issued with the cooperation of the company. The usufructuary without voting rights shall also have such rights unless these are withheld from him upon the creation or transfer of the usufruct.
3. Any rights arising from the share to acquire other shares, shall vest in the shareholder on the understanding that he must compensate the usufructuary for the value thereof to the extent the usufructuary is entitled thereto pursuant to his right of usufruct.
4. A usufruct (*vruchtgebruik*) may be created on listed shares in accordance with the laws or stock exchange regulations of the jurisdiction in which the stock exchange is located, subject to any mandatory rules of the applicable law.
5. A pledge (*pandrecht*) may be created on shares, in which event the provisions of paragraphs 1 and 2 of this article apply mutatis mutandis.
6. A pledge may also be created without acknowledgement by or service on the company. In that case article 3:239 of the Dutch Civil Code (*Burgerlijk Wetboek*) shall apply accordingly, whereby the acknowledgement by or service on the company shall take the place of the notification referred to in paragraph 3 of that article.
7. The company may cooperate in the issue of depositary receipts for its shares.
8. Listed shares are pledged in accordance with the laws or stock exchange regulations of the jurisdiction in which the stock exchange is located, subject to any mandatory rules of the applicable law.

#### Board of Directors: appointment

##### Article 14

1. The company shall be administered by a Board of Directors, consisting of:
  - a. one or more Directors A, hereinafter referred to as the "Executive Directors A";
  - b. one or more Directors B, hereinafter referred to as the "Executive Directors B", and
  - c. one or more Directors C, hereinafter referred to as the "Non-Executive Directors".The Executive Directors A, the Executive Directors B and the Non-Executive Directors hereinafter jointly also referred to as: "Directors".
2. The General Meeting shall determine the number of Directors.
3. Only natural persons can be Non-Executive Directors. At least fifty per cent (50%) of the total number of the Non-Executive Directors should be independent from the company, the shareholders of the company and the other Directors. Such independent Non-Executive Director may therefore not be:
  - a. an officer, employee or agent of the company;
  - b. a director, officer, employee or agent of any affiliated company or enterprise;
  - c. a shareholder holding more than one per cent (1%) of all voting right in the company;
  - d. a director, officer, employee or agent of any shareholder holding more than one per cent (1%) of all voting right in the company.If the company has a shareholder holding shares carrying more than fifty per cent (50%) of all voting rights, then the Board of Directors should have at least two independent Non-Executive Directors.
4. The Directors shall be appointed by the General Meeting for a maximum period of four years, it being understood that this maximum period of appointment expires no later than at the end of the following general meeting of shareholders to be held in the fourth year after the year of appointment, unless the General Meeting resolves otherwise. Reappointment is possible on each occasion for a maximum period of four years as referred to in the previous paragraph, whereby the Non-Executive Directors may be reappointed with a maximum of three times.

Board of Directors: suspension and dismissal

Article 15

1. The General Meeting shall at all times have the power to suspend or dismiss each Director.
2. Any such suspension may be extended several times but the total term of the suspension may not exceed three months. The suspension shall expire on lapse of this period if no resolution has been adopted either to lift the suspension or to dismiss the Director.

Board of Directors: remuneration

Article 16

1. The company has a policy regarding the remuneration of the Board of Directors. The policy shall be adopted by the General Meeting. The policy contains at least the items as set forth in article 2:383c up to and including 2:383e Dutch Civil Code (*Burgerlijk Wetboek*).
2. If the company has installed a works council pursuant to law, the remuneration policy must be presented to the works council in writing and simultaneously with the presentation to the General Meeting.
3. The remuneration and the other terms and conditions of employment of each Director shall be determined by the General Meeting, with due observance of the remuneration policy mentioned in paragraph 1 and of paragraph 4.
4. Non-Executive Directors may not be granted shares and/or rights to shares by way of remuneration.

Board of Directors: duties, meetings, decision-making process, division of responsibilities

Article 17

1. Subject to the limitations imposed under these articles of association and with due observance of the law, the Board of Directors shall be charged with the company's management.
2. The Board of Directors may entrust the Executive Directors A with the operational management of the company and the business enterprise connected therewith. Furthermore, the Board of Directors may entrust the Executive Directors A with the preparation of the decision making process of the Board of Directors and the implementation of the decisions taken by the Board of Directors. The Executive Directors A shall determine which duties regarding the operational management of the company and the business enterprises connected therewith will be carried out by one or more Executive Directors B or by one or more other persons.
3. The Non-Executive Directors shall supervise the policy and the fulfilment of duties of the Executive Directors A and the Executive Directors B, and the general affairs of the company.
4. The Board of Directors shall appoint a chief executive officer out of the Executive Directors A.
5. The chairman of the Board of Directors shall always be a Non-Executive Director.
6. Timely the Executive Directors A and the Executive Directors B shall provide the Non-Executive Directors with all information which is required for the exercise of their duties.
7. The Board of Directors shall have at least two meetings each year, to be held where the company's registered office is situated, in Schiphol, the Netherlands, in Kyiv, Ukraine, in Warsaw, Poland, in London, the United Kingdom or any other place within the Netherlands agreed upon by all Directors. The Board of Directors shall meet as often as a Director requests a meeting.
8. The Board of Directors may also hold meetings and cast votes by way of a teleconference, provided that all Directors are participating in such teleconference, all Directors agreed to participate in the teleconference and they are capable of instant hearing, and speaking to, every Director during the teleconference. The result of the vote shall be recorded in writing and signed by at least two Directors.
9. An Executive Director may authorize another Executive Director to represent him at such meeting by means of a written proxy. Non-executive Directors cannot be represented in this manner.
10. Without prejudice to the provisions laid down in the company's articles of association, the Board of Directors may adopt rules and regulations setting out – inter alia – the procedure for meetings, the decision-making procedures it will follow, its own working methods and allocation of powers, subject to the approval of the General Meeting. These rules should be clear and generally available.
11. All resolutions of the Board of Directors shall be passed by an absolute majority of the votes cast, provided that the following resolutions shall only be passed by an absolute majority of the votes cast whereby the majority of the Non-Executive Directors votes in favour of the proposal in a voting in which all Non-Executive Directors are participating, regarding:
  - a. performances of any kind by the company and any entities associated with the company in favour of members of the Board of Directors;

- b. the consent to the execution by the company or a subsidiary of a key agreement with an entity associated with the company, a member of the Board of Directors, or with their associated entities; and
  - c. the appointment of an auditor to audit the company's financial statements, if the General Meeting has failed to do so.
12. Each Director shall have a single vote. If the vote is tied, the proposal shall be deemed to have been rejected.
  13. The Board of Directors shall also be empowered to take decisions outside the meeting if all Directors have stated in writing that they agree to the proposal concerned. The result of the vote shall be recorded in writing.

#### Board of Directors: representation

##### Article 18

1. The company shall be represented by the Board of Directors. The authority to represent the company shall also be vested in one Executive Director A and one Executive Director B acting jointly.
2. The Board of Directors shall be empowered to appoint officials with general or limited powers of representation. Each such official shall represent the company with due observance of the limitations imposed on his powers. The Board of Directors shall determine the titles of such officials.
3. In the event that a conflict of interest arises between the company and a Director, the Board of Directors will represent the company. The General Meeting is authorised to appoint one or more persons to represent the company at any time. If it does so, the representative authority contemplated in the first sentence of this paragraph will no longer apply. Without prejudice to the representative authority, in any case involving a conflict of interest the Board of Directors may act on behalf of the company only after obtaining prior permission from the General Meeting.

#### Board of Directors: approval of Board resolutions

##### Article 19

1. Subject to the other provisions of these Articles in this respect, the approval of the General Meeting – which approval shall be given with a majority of at least two-thirds (2/3) of the votes cast – shall be required for decisions by the Board of Directors leading to an important change in the company's or its business enterprise's entity or character, including in any case:
  - a. the transfer the business of the company or almost the entire business of the company to a third party;
  - b. the entering into or termination of any long-term co-operation of the company with another legal entity or company or as a fully liable partner in a limited or general partnership, if such co-operation or termination is of far-reaching significance to the company;
  - c. the acquisition or disposal by the company or by a subsidiary of the company of a participation in the capital of another company with a value of at least one third of the amount of the assets according to the balance sheet with explanatory notes, or in case the company prepares a consolidated balance sheet, according to the consolidated balance sheet with explanatory notes, forming part of the most recently adopted annual accounts of the company.
2. The absence of approval as meant in this article does not affect the representative authority of the Board of Directors or the Directors.

#### Board of Directors: absence or inability to act

##### Article 20

If a Director is absent or unable to act, the remaining Director(s) shall be temporarily charged with the entire management of the company. If the sole Director is or all Directors are absent or unable to act, a person appointed by the General Meeting yearly shall be temporarily charged with the management of the company.

#### Financial year, drawing up annual accounts

##### Article 21

1. The company's financial year shall correspond with the calendar year.
2. Within five months of the end of the company's financial year, the Board of Directors shall draw up the annual accounts unless, in special circumstances, an extension of this term by not more than six months is approved by the General Meeting.
3. The annual accounts shall be signed by each of the Directors; if the signature of one or more of them is missing, the annual accounts are valid but, this fact and the reason therefore shall be stated.

## Auditor

### Article 22

1. The Company shall instruct an auditor to examine the annual financial statements.
2. The General Meeting shall be authorized to issue such instructions. If the General Meeting fails to do so, the instructions may be issued by the Board of Directors, in the manner described in article 17 paragraph 10. The selection of an auditor shall not be restricted by any recommendation. The instructions may be cancelled by the General Meeting or the issuing body at all times.
3. The auditor shall report his findings to the Board of Directors.
4. The auditor shall lay down the results of his investigation in a statement on the accuracy and completeness of the annual financial statements.

## Presentation to the shareholders, availability of the Annual Financial Statements

### Article 23

1. The annual financial statements shall be deposited at the company's offices for inspection by the shareholders and holders of depositary receipts for the company's shares within the time period referred to in article 21 paragraph 2. The Board of Directors shall also submit the annual report within that same period.
2. The Company shall ensure that the annual accounts, the annual report and the data to be appended pursuant to article 2:392 paragraph 1 of the Dutch Civil Code (*Burgerlijk Wetboek*) are present at the company's offices from such time as the convocation for the annual meeting is sent. Shareholders and holders of depositary receipts for shares may inspect those documents there and obtain copies free of charge.
3. In case of bearer shares or bearer depositary receipts or if the company has bearer debt instruments outstanding, the documents, insofar as the same must be published after adoption, may also be inspected by any third party who may obtain a copy thereof at no more than cost. This right shall lapse as soon as the said documents have been deposited with the Trade Register.
4. The General Meeting shall adopt the annual accounts. The General Meeting may not adopt the annual accounts if it has not had access to the auditor's opinion referred to in article 22 paragraph 4, unless under the additional data a lawful ground has been stated for the absence of the auditor's report.
5. A resolution to adopt the annual financial statements shall not at the same time grant discharge to a Director. The General Meeting may resolve to grant full or partial discharge to one or more Directors.

## Publication

### Article 24

1. The company shall be required to publish its annual accounts within eight days of their adoption. Publication shall be accomplished by depositing the Netherlands text of the accounts, or if no Netherlands text has been drawn up, a French, German or an English version, at the trade register in the town where the company is registered. The date of adoption must be indicated on the accounts so deposited.
2. If the annual accounts are not adopted within two months after the end of the requisite term in conformity with the statutory requirements, the Board of Directors shall immediately publish the annual accounts in the manner prescribed in paragraph 1; the annual accounts must state that they have not yet been adopted.
3. A copy of the annual report and the additional data required to be added under article 2:392 of the Dutch Civil Code (*Burgerlijk Wetboek*) shall also be published, along with and in the same manner and language as the annual accounts. This shall, except for the information referred to in article 2:392 paragraph 1 under (a), (c), (f) and (g) of the Dutch Civil Code (*Burgerlijk Wetboek*), not apply if the documents are deposited at the company's registered office for public inspection and full or partial copies shall be supplied upon request at cost; the company shall file this fact with the trade register.

## Profits

### Article 25

1. The profits shall be at the disposal of the general meeting.
2. The company can only make profit distributions to the extent its equity exceeds the paid and called up part of the capital increased with the reserves which must be maintained pursuant to the law.
3. Dividend payments may be made only after adoption of the annual accounts which show that such payments are permitted. Dividends shall be payable immediately after they have been declared, unless the General Meeting should fix a different date when adopting

the relevant resolution. Shareholders' claims vis-a-vis the company in respect of the payment of a dividend shall lapse after a period of five years from the point at which they are made payable.

4. With due observance of the provisions of paragraph 2 and provided that the requirements of paragraph 2 are fulfilled as evidenced by the interim balance sheet as mentioned in article 2:105, paragraph 4 Dutch Civil Code (*Burgerlijk Wetboek*), the General Meeting may adopt a resolution to distribute an interim dividend or to make distributions from a reserve which need not be maintained by law.

Within eight days of the day the payment was announced, the company must deposit such interim balance sheet with the Trade Register where the company is registered.

If the General Meeting adopts a resolution to that effect, distributions may be made otherwise than in cash.

#### General Meeting of Shareholders

##### Article 26

1. Within six months of the end of the company's financial year the annual general meeting shall be held.
2. The agenda of that meeting shall, among other matters, contain the following items:
  - a. the annual report;
  - b. adoption of the annual accounts;
  - c. granting of discharge to the Directors;
  - d. adoption of the profit appropriation;
  - e. proposal to distribute dividends;
  - f. filling of any vacancies;
  - g. the appointment of the person referred to in article 20;
  - h. any other motions of the Board of Directors, or as the shareholders and/or depository receipts holders may file and notify with due observance of the provisions of article 29 paragraph 5.
3. The company shall have by-laws with respect to general meetings of shareholders containing additional regulations to the provisions laid down in these articles of association.

#### Other general meetings

##### Article 27

1. Within three months after the Board of Directors has considered it plausible that the equity of the company has decreased to an amount equal to or less than half of the paid and called up part of the capital, a general meeting shall be held to discuss the measures to be taken, if necessary.
2. Without prejudice of the provisions of article 26 paragraph 1 and the preceding paragraph general meetings shall be held as often as the Board of Directors, or shareholders and depository receipt holders together representing at least one-tenth of the issued capital deem necessary.

#### Pre-meeting

##### Article 28

1. The Board of Directors shall hold a pre-meeting in Poland, prior to each general meeting of shareholders (the "Pre-meeting").
2. The Pre-meeting shall be held on or before the business day prior to the day of the general meeting of shareholders.
3. All subjects on the agenda of the general meeting of shareholders shall be conducted in the Pre-meeting. In the Pre-meeting, shareholders may authorise the company's Directors in writing – on their behalf – to attend the general meeting of shareholders, to speak therein and to exercise the right to vote in accordance with the instructions of the granted power of attorney.
4. A Pre-meeting shall be called by the the Board of Directors on or before the tenth day prior to day of the Pre-meeting, which convocation may be combined with the convocation to the general meeting of shareholders as mentioned in article 29.
5. In the convocation of the Pre-meeting, the business to be transacted shall be mentioned as well as manner in which the shareholders shall have to be registered and may exercise their rights as mentioned in this article.
6. All convocations to Pre-meetings shall take place in accordance with the rules and regulations of the securities laws concerned.

7. Unless the contents of all documents which have to be deposited for inspection by the shareholders are included in the convocation to the Pre-meeting, these documents shall be available without costs at:
  - a) the company's offices in the Netherlands; and
  - b) the company's website.
8. Each shareholder may attend the Pre-meetings, speak therein and exercise its voting rights. The persons referred to in article 34, paragraphs 1 up to and including 3, may also attend the Pre-meeting.
9. If registered shares are concerned, the Board of Directors has to be notified in writing of the intention to attend the Pre-meeting. The Board of Directors has to receive this notification on or before the day prior to the Pre-meeting.
10. Holders of bearer shares and depositary receipts therefore will receive receipts when they file the documents evidencing their rights; on presentation of such receipts they will be allowed to attend the Pre-meeting.

Holders of listed shares shall have to present a receipt issued by a member of the clearing and deposit system in accordance with the legal provisions of the jurisdiction in which the stock exchange is established.
11. Shareholders – and other persons who may attend the Pre-meeting pursuant to this article – may be represented by a person authorised thereto in writing, provided that the Board of Directors have received a copy of such power of attorney on or before the day prior to the Pre-meeting.
12. Every person entitled to exercise voting rights attending the Pre-meeting has to sign the attendance list. The chairman of the Pre-meeting may decide that the attendance list has to be signed by other persons attending the Pre-meeting.
13. The chairman shall decide with respect to the admission of other persons to the Pre-meeting.
14. The provisions of article 32 up to and including article 35 shall also be applicable.

#### Convocation, agenda

##### Article 29

1. General meetings shall be called by the Board of Directors or by the shareholders and depositary receipt holders as mentioned in article 27 paragraph 2.

The shareholders and depositary receipts holders as mentioned in article 27 paragraph 2 are only authorized to call the general meeting themselves if it is evidenced that they have requested the Board of Directors to call a general meeting of shareholders in writing, exactly stating the matters to be discussed, and the Board of Directors has not taken the necessary steps so that the general meeting of shareholders could be held within six weeks after the request.
2. Convocation shall take place not later than on the fifteenth day prior to the day of the meeting.
3. The convening notice shall state the business to be transacted or inform the shareholders and the depositary receipt holders that they can inspect a document containing information as to the business to be transacted at the company's registered office. Items that have not been specified in the convening notice may be announced with due observance of the requirements of this article.
4. Any communications which must be addressed to the General Meeting pursuant to the law or these Articles may be made by including them either in the convening notice or in the document that has been deposited for inspection at the company's registered office, provided this has been stated in the convening notice.
5. Shareholders and/or depositary receipt holders, severally or jointly representing at least one hundredth (1/100) of the company's issued capital, may request the Board of Directors in writing to place one or more items on the agenda for adoption in the up coming general meeting of shareholders, provided that the Board of Directors received the request at least three weeks before the date of the general meeting of shareholders and provided that this is not in conflict with any of the company's significant interests.
6. Unless bearer shares or bearer depositary receipts have been issued, all convocations for the general meetings of shareholders and all notifications to shareholders and depositary receipt holders shall be given by letters to the addresses according to the register of shareholders and the register of depositary receipt holders. However, as long as any shares in the company are listed shares, the convocations and all notifications will be made by way of an announcement in a Dutch and a Polish national daily newspaper and in accordance with the laws of the jurisdiction in which the stock exchange is established, as well as by means of any additional publication as the Board of Directors deems necessary.
7. The notice shall also state when and where the holders of bearer shares and depositary receipts therefore must file the documents evidencing their rights. They may not, however, be obliged to file such documents earlier than on the seventh day before the day of the meeting.

Announcements and notifications

Article 30

If bearer shares or bearer depositary receipts have been issued, or if any shares in the company are listed shares, all convocations for the general meetings of shareholders and all notifications to shareholders and depositary receipt holders whether with respect to distributions or other issues, shall be announced in a Dutch and a Polish national daily newspaper and in accordance with the laws of any jurisdiction governing the stock exchange on which shares in the company's capital are listed, as well as by means of any additional publications as the Board of Directors deems necessary, without prejudice to the provisions in article 8 paragraph 3.

Place of the meetings

Article 31

All meetings shall be held in the place where the company's registered office is situated, in Schiphol or any other place within the Netherlands agreed upon by the Board of Directors. In a meeting held elsewhere, valid resolutions can only be taken if the entire issued capital is represented.

Chairman

Article 32

General meetings of shareholders shall be chaired by the chairman of the Board of Directors, or if he is not present, the meeting shall appoint a chairman itself.

Minutes

Article 33

1. Minutes shall be taken of the business transacted at any shareholders' meeting in a manner to be determined by the chairman of the meeting, which minutes shall be confirmed and signed by the chairman and a person assigned by the shareholders at the beginning of their meeting.
2. If a notarial report is drawn up of the business transacted at a meeting of shareholders, the co-signing thereof by the chairman of the meeting shall suffice.

Rights exercisable during a meeting, admission

Article 34

1. Every person entitled to vote and every usufructuary and pledgee having voting rights shall be authorized to attend the general meeting of shareholders, address the meeting and exercise their voting rights.
2. If the voting rights attached to a share are vested in the usufructuary or pledgee instead of the shareholder, also the shareholder shall be authorized to attend the general meeting of shareholders and to address the meeting.
3. Furthermore, depositary receipt holders shall be authorized to attend and address the general meeting of shareholders. Depositary receipt holders may demand a unclausured power of attorney to vote of the administration office.
4. The holders of bearer shares and depositary receipts therefore will receive receipts when they file the documents evidencing their rights; on presentation of such receipts they will be allowed to attend the general meeting of shareholders. The holders of listed shares shall have to present a receipt issued by a member of the clearing and deposit system in accordance with the legal provisions of the jurisdiction in which the stock exchange is established.
5. Every share shall give the right to cast one vote.
6. Every person entitled to vote or his representative must sign the attendance list.
7. The rights referred to in the previous paragraphs may be exercised by a person acting upon a written power of attorney. A power of attorney shall mean any power of attorney transmitted via standard means of communication and received in written form.
8. The Directors shall have an advisory vote at the general meeting of shareholders.
9. The company's external auditor shall also have the right to attend the general meeting of shareholders and to address the general meeting of shareholders. The shareholders have the right to ask questions to the external auditor with respect to his findings on the annual accounts.
10. The Board of Directors may allow admission to the general meeting of shareholders of persons other than those referred to in this article.

## Vote-taking

### Article 35

1. All resolutions shall be passed with an absolute majority of the votes validly cast, unless a qualified majority is required by law or these Articles.
2. If, when voting on persons, no absolute majority of votes is obtained by any person, a second free ballot shall be held. If no absolute majority should be obtained in this case either, further ballots shall be held either until one person has obtained an absolute majority of the votes or, in the case of a vote on two persons, the vote is tied. Any further ballots as referred to (excluding the second, free ballot) shall involve a vote between the persons voted on in the previous round, excluding, however, the person who received the fewest votes in the said round. If more than one person received the fewest votes during the previous round, a drawing of lots shall decide which of these persons will not be allowed to go on to the next round. If, in the case of a vote between two persons, the vote should be tied, a drawing of lots shall decide the matter.
3. If the vote is tied on an issue other than the appointment of persons, the proposal shall be deemed to have been rejected.
4. All votes shall be taken orally, unless the chairperson decides, or a party entitled to vote requests, that a vote be taken using written ballots. Any such vote shall be taken using closed, unsigned ballot papers.
5. Abstentions and invalid votes shall be regarded as votes not having been cast. Voting by acclamation shall be permitted if none of the parties entitled to vote attending the meeting object.
6. The opinion of the chairperson expressed at a meeting with regard to the outcome of a vote shall be decisive. The same applies to the contents of any resolution adopted, insofar as the vote was taken on a proposal not recorded in writing. If the accuracy of the said opinion should be contested immediately after it was expressed, however, another vote will be taken if such should be requested by a majority of those parties entitled to vote attending the meeting or, if the original vote was not taken by means of polling or using ballots, by any party attending and entitled to vote. Such new vote shall cancel the legal consequences of the original vote.

## Decision-making outside a meeting

### Article 36

1. The General Meeting may also pass resolutions in a manner other than by holding a meeting, provided all shareholders have declared in writing that they are in favour of the relevant motion. In writing shall mean any message transmitted via standard means of communication and received in written form.
2. The provisions in paragraph 1 of this article shall not apply if any bearer shares or depositary receipts are issued.

## Amendment to the articles of association and dissolution

### Article 37

1. If a motion to amend the articles of association or to dissolve the company is to be submitted to the general meeting, the convening notice must state this fact. At the same time, if the motion is for an amendment to the articles of association, a copy of the motion containing a verbatim text of the proposed amendment must be deposited at the company's office for inspection by the shareholders and depositary receipt holders until the meeting has been held.
2. A resolution on amendment of the articles of association shall be passed by a majority of seventy five per cent (75%) of votes validly cast.
3. An amendment to the Articles shall be null and void unless it is recorded in a notarial deed. If the authorized capital is changed, this deed shall state what part thereof was issued on the day on which the resolution to amend the Articles was passed.

## Liquidation

### Article 38

1. If the company is dissolved, its liquidation shall be carried out by the Board of Directors, unless the General Meeting decides otherwise.
2. A resolution on liquidation of the company shall be passed by a majority of seventy five per cent (75%) of votes validly cast.
3. The resolution to dissolve the company shall also contain a provision as to the remuneration for the liquidators.
4. The shareholders shall be entitled to the balance of the assets after the liquidation has been completed, in proportion to their individual shareholding.
5. The provisions of these Articles shall, insofar as possible, continue to be in force during the liquidation.
6. After completion of the liquidation, the books and records of the dissolved company shall, for a period of seven years, rest with the person to be appointed for that purpose by the General Meeting.

## Annex III

### GLOSSARY OF INDUSTRY TERMINOLOGY

|  |   |
|--|---|
| Beet receiving station:                      | a place where sugar beets are received by the sugar plant from the agricultural producers. It may contain a laboratory to check the beets quality and scales to check the weight of the beets   |
| Beet sugar:                                  | white sugar produced from sugar beets. Sugar Beets are washed and sliced before undergoing a diffusion process to extract the juice. Lime (Calcium Hydroxide) is added to the juice, which is then heated and filtered in order to remove impurities. The juice is then evaporated, to concentrate the sugar and several crystallization processes follow to extract as much sugars as possible. Centrifugal machines then separate the sugar and syrup, and the white sugar is dried   |
| Chemical fertilizers:                        | chemicals usually added to soil to increase its productivity  |
| Crop rotation requirements:                  | scientifically based rotation of crops in time and area, based on the perspective farm development plan and efficient structure of sown areas   |
| Daily processing capacity (of sugar plants): | the capacity of a sugar plant to process certain amount (thousands of tonnes) of sugar beets in 24 hours. Processing capacity is usually used to describe the capacity of sugar plants, not production capacity, due to the difference in beet quality and sugar content in it  |
| Marketing year:                              | a period starting from September 1 of the current year when production of sugar from the new yield of sugar beet starts and ending with the August 31 of the next year. The sugar is usually produced from September to December and then being sold until the next marketing year starts   |
| Minimum prices:                              | the prices for certain agricultural and food products established by the Government of Ukraine in order to support domestic agricultural producers. Such products currently include sugar beet, sugar, and grains. The prices are fixed for the period of a marketing year and are mandatory for all market participants  |
| Ministry for Agricultural Policy of Ukraine: | the key Ukrainian government body to develop and implement the government policy, <i>inter alia</i> , at the sugar market   |
| Molasses:                                    | is a by-product of the sugar industry. It is a liquid mass from which no more sugar may be extracted by conventional means. About 75% of the world's molasses comes from sugar cane and the majority of the remainder comes from sugar beet. The most important constituent of molasses is sugar, being predominantly sucrose with some glucose and fructose. Animal feed is the main market worldwide for molasses, accounting approximately 51 percent of the total consumption of this product. Molasses may be fed to livestock in several ways such as molassed meal, molasses blocks, and in the liquid form and this product is the source of non-protein nitrogen, vitamins and minerals. Molasses is also used as a raw material for production of ethanol, food acids and yeast |
| Quota A:                                     | the maximum amount of sugar that may be produced and supplied to the internal market of Ukraine during a marketing year. This quota is established by the Government of Ukraine   |
| Quota B:                                     | the maximum amount of sugar that may be produced and supplied outside Ukraine under international treaties and may be used, if necessary, to refill quota A. This quota is established for a marketing year by the Government of Ukraine  |

|   |   |
|---|---|
| Quota C:                                | includes those amounts of sugar, which were produced above quotas A and B and which may be sold only outside Ukraine  |
| Plant protection agents                 | chemicals usually added to soil to protect crops from pests and weeds   |
| Raw cane sugar:                         | a raw material for production of white sugar. It is extracted by crushing sugar cane stems ( <i>Saccharum officinarum</i> ) to receive juice. Lime is added to the juice, which is then heated and filtered in order to remove impurities. The juice is then evaporated, to concentrate the sugar and several crystallization processes follow to extract as much sugars as possible. Centrifugal machines then separate the sugar and syrup. White sugar is produced by refining of raw cane sugar |
| Sugar beet<br>( <i>Beta vulgaris</i> ): | a biennial agricultural crop with sugar content. It is grown for its swollen root and harvested at the end of the first year unless being grown for seed. About one third of world's sugar is manufactured from the sugar beet roots  |
| Sugar beet pulp:                        | a by-product of the sugar refining process, namely depleted sugar beet chips. It consists mostly of pectin and cellulose, as well as protein and remains of sugar. Sugar beet pulp is available in either wet, dehydrated or overpressed (granulated) form. An excellent nutritional value makes sugar beet pulp one of the preferred components of bovine feed (bovines are the only domestic animals capable of digesting cellulose)  |
| Sugar plant:                            | a refinery where beet sugar is produced and raw cane sugar is refined to produce white sugar  |
| Ukrtsukor:                              | National Association of Sugar Producers of Ukraine "Ukrtsukor" – the association of Ukrainian sugar producers   |

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